

Company No. 301932 – A

**THE ROYAL BANK OF SCOTLAND BERHAD**  
(Company No. 301932 - A)  
(Incorporated in Malaysia)

**REPORT OF THE DIRECTORS  
AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**  
(In Ringgit Malaysia)

These Audited Financial Statements of the Bank with Unqualified Auditors' Report for the financial year ended 31 December 2015 were tabled at the Annual General Meeting/Adjourned Annual General Meeting held on \_\_\_\_\_

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Company No. 301932 – A

**THE ROYAL BANK OF SCOTLAND BERHAD**  
(Incorporated in Malaysia)

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**THE ROYAL BANK OF SCOTLAND BERHAD**  
(Incorporated in Malaysia)

**REPORT OF THE DIRECTORS**

The Directors have pleasure in submitting their report together with the audited financial statements of The Royal Bank of Scotland Berhad (the “Bank”) and its subsidiary (collectively referred as the “Group”) for the financial year ended 31 December 2015.

**PRINCIPAL ACTIVITIES**

The principal activities of the Bank are banking and related financial services. The principal activities of the subsidiary are disclosed in Note 11 to the financial statements. There have been no significant changes in the nature of the principal activities of the Bank and of its subsidiary during the financial year.

**RESULTS OF OPERATIONS**

The results of operations of the Group and of the Bank for the financial year are as follows:

	<b>Group/Bank RM'000</b>
Profit before taxation	34,924
Tax expense	<u>(8,587)</u>
Profit for the year	<u><u>26,337</u></u>

The results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, except as disclosed in the financial statements.

**DIVIDENDS**

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

The Directors do not recommend the payment of any final dividend for the current financial year.

**RESERVES AND PROVISIONS**

There were no material transfers to or from reserves or provisions during the financial year except as disclosed in the financial statements.

## **ISSUE OF SHARES AND DEBENTURES**

There were no changes in the authorised, issued and paid-up capital of the Bank during the financial year.

There were no debentures issued during the financial year.

## **SHARE OPTIONS**

No options have been granted by the Bank to any parties during the financial year to take up unissued shares of the Bank.

No shares have been issued during the financial year by virtue of the exercise of any option to take up unissued shares of the Bank. As of the end of the financial year, there were no unissued shares of the Bank under options.

## **DIRECTORS**

The names of the Directors of the Bank in office since the date of the last report are:

Tan Sri Asmat bin Kamaludin

Andrew Mark Sill

Jonathan William Addis

John Peter Shelley (appointed on 27 November 2015)

Stefan Masuhr (appointed on 27 November 2015)

Peter Andrew Akwaboah (resigned on 25 November 2015)

Choo Tuck Wai (resigned on 31 December 2015)

In accordance with Article 90A of the Bank's Articles of Association, Mr. Jonathan William Addis retires by rotation at the forthcoming Annual General Meeting of the Bank and, being eligible, offers himself for re-election.

Tan Sri Asmat Bin Kamaludin, being over seventy years of age, retires at the forthcoming Annual General Meeting of the Bank in accordance with Section 129(6) of the Companies Act, 1965, and, being eligible for re-appointment, offers himself for re-appointment and to hold office until the conclusion of the next Annual General Meeting of the Bank.

## DIRECTORS' INTERESTS

The shareholdings in the holding company of those who were Directors at the end of the financial year, as recorded in the Register of Directors' shareholdings kept by the Bank under Section 134 of the Companies Act, 1965, are as follows:

	No. of ordinary shares of £1.00 each			Balance as of 31.12.2015
	Balance as of 1.1.2015/ date of appointment	Awarded	Sold	
<b>Shares in the holding company, The Royal Bank of Scotland Group plc</b>				
Andrew Mark Sill	28,787	6,575	-	35,362
Jonathan William Addis	4,000	-	-	4,000
John Peter Shelley	96,473	85,090	43,274	138,289

In addition, the following Director is deemed to have interest in shares in the Bank by virtue of awards granted:

	No. of units			Awards held as of 31.12.2015
	Awards held as of 1.1.2015/ date of appointment	Granted	Vested	
<b>John Peter Shelley</b>				
Long-Term Incentive Plan ("LTIP) Awards*	32,280	-	-	32,280
Executive Options*	54,609	-	-	54,609

\* RBS Group provides certain employees in senior roles with long-term incentive awards. Details of the awards are presented in RBS Group's audited financial statements.

By virtue of their interest in the shares of the holding company, the abovementioned Directors are also deemed to have an interest in the shares of the Bank to the extent that the holding company has an interest.

Except for the above, none of the other Directors in office at the end of the financial year, according to the register required to be kept under Section 134 of the Companies Act, 1965, held shares or had beneficial interest in the shares of the Bank or its related corporations during or at the beginning and end of the financial year.

## **DIRECTORS' BENEFITS**

Since the end of the previous financial year, none of the Directors of the Bank has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by the Directors as disclosed in Note 26 to the financial statements, or the fixed salary of a full-time employee of the Bank) 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 arrangement subsisted to which the Bank was a party whereby the Directors of the Bank might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

## **COMPLIANCE WITH BANK NEGARA MALAYSIA'S EXPECTATIONS ON FINANCIAL REPORTING**

In the preparation of the financial statements, the Directors have taken reasonable steps to ensure that Bank Negara Malaysia's expectations on financial reporting have been complied with as set out in the Guidelines/Policy Documents on Financial Reporting for Banking Institutions and the Guidelines on Classification and Impairment Provisions for Loans/Financing.

## **NON-PERFORMING DEBTS AND FINANCING**

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and financing and the making of allowances for non-performing debts and financing and had satisfied themselves that all known non-performing debts and financing had been written off and that adequate allowance had been made for non-performing debts and financing.

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

## **CURRENT ASSETS**

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that current assets, other than debts and financing, which were unlikely to realise their book values in the ordinary course of business, have been written down to their estimated realisable values.

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 Group and of the Bank misleading.

## **VALUATION METHODS**

At the date of this report, the Directors are not aware of any circumstances which have arisen that render adherence to the existing methods of valuation of assets or liabilities in the financial statements of the Group and of the Bank misleading or inappropriate.

## **CONTINGENT AND OTHER LIABILITIES**

At the date of this report, there does not exist:

- (i) any charge on the assets of the Group or of the Bank which has arisen since the end of the financial year and secures the liabilities of any other person; or
- (ii) any contingent liability in respect of the Group or of the Bank that has arisen since the end of the financial year, other than those incurred in the normal course of business.

No contingent or other liability of the Group and 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 Group and of the Bank to meet their obligations as and when they fall due other than as disclosed in Note 34 to the financial statements.

## **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 Group and of the Bank, that would render any amount stated in the financial statements of the Group and of the Bank misleading.

## **ITEMS OF AN UNUSUAL NATURE**

In the opinion of the Directors:

- (i) the results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.
- (ii) 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 which is likely to affect substantially the results of the operations of the Group and of the Bank for the current financial year in which this report is made.

## **BUSINESS REVIEW 2015**

In February 2015, The Royal Bank of Scotland Group Plc (“RBS Group”) announced plans to shrink its global footprint back to the United Kingdom, Ireland and selected countries in Western Europe. This has resulted the exit of the majority of RBS Group’s offices around the world, including Malaysia, via either closure or sale. Since the announcement, the Bank in Malaysia has ceased marketing activities to new customers although it continues to serve existing customers.

With ceasing of marketing activities, as well as repayments by existing customers, the Bank’s loans, advances and financing decreased in 2015 compared to the previous year. The cash management business during the year demonstrated resilience as illustrated by healthy levels of cash deposits from customers at year-end, which were at 96% of the previous year’s balance; however as a result of the exit announcement, selected clients who need a global cash management system have started to seek alternative arrangements with other banks.

The Bank continued to de-risk its business throughout the financial year 2015. This is illustrated by the Risk Weighted Assets decreasing from RM3.8b to RM2.1b, a 44% drop. Consequently, the Risk Weighted Capital Ratio increased from 18.8% to 36.9%.

## **BUSINESS PLAN AND OUTLOOK FOR 2016**

The global economy is expected to remain volatile in 2016. While the US economy is showing signs of growth, significant headwinds remain to make the journey to full global economic recovery a rocky road; these include China’s economic challenges, geo-political factors which continue to exert downward pressure on oil prices, central banks resorting to extreme measures such as negative interest rates, etc. Such factors will keep markets uncertain and volatile this year.

On the local front, the Malaysian Government’s revenue from oil and gas continued to drop and the amended budget for 2016 was revised to account for the falling oil prices. Such amendments have included additional measures to encourage domestic consumer spending by a voluntary reduction in the employee’s portion of Employees Provident Fund contribution, as well as pushing the Government-linked companies to play a bigger role in the economy. Inflation is expected to stay in the range of 2 - 3%, while 2016 GDP growth is expected to remain stable at 4 - 4.5%.

Malaysia’s banking sector will be challenging in 2016 with moderate economic prospects and higher amount of uncertainties in the economy. With the Bank’s strong Risk Weighted Capital Ratio, it is well positioned to navigate through any economic turbulence.

The Bank continues to operate as a going concern and continues to support its existing customers.

The shareholder of the Bank initiated a sales process in 2015 and this process is currently ongoing.



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## **RATING BY AGENCY**

The Bank is not rated by any external rating agency during the financial year.

## **HOLDING COMPANIES**

The Bank's immediate holding company is RBS AA Holdings (U.K.) Limited ("RBS AA Holdings") and the ultimate holding consolidating parent of the Bank, The Royal Bank of Scotland Group Plc ("RBS Group"), is controlled by the UK Government. The UK Government is therefore a related party of the Bank.

Given the reach of the UK Government and their controlled bodies and the volume and diversity of transactions with them, the disclosure of transactions with these related parties is impractical. Hence, for purposes of the financial statements of the Group and of the Bank, related companies refer to members of RBS Group's group of companies.

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**AUDITORS**

The auditors, Messrs. Deloitte & Touche, have indicated their willingness to continue in office.

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



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**TAN SRI ASMAT BIN KAMALUDIN**



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**ANDREW MARK SILL**

Kuala Lumpur  
24 March 2016

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**THE ROYAL BANK OF SCOTLAND BERHAD**  
(Incorporated in Malaysia)

**STATEMENT BY DIRECTORS**  
**PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965**

We, **TAN SRI ASMAT BIN KAMALUDIN** and **ANDREW MARK SILL**, being two of the Directors of **THE ROYAL BANK OF SCOTLAND BERHAD**, do hereby state that in the opinion of the Directors, the financial statements set out on pages 13 to 126 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2015 and of the financial performance and cash flows of the Group and of the Bank for the year then ended.

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



**TAN SRI ASMAT BIN KAMALUDIN**



**ANDREW MARK SILL**

Kuala Lumpur  
24 March 2016

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

I, **KOK WENG KHEONG**, being the Officer primarily responsible for the financial management of **THE ROYAL BANK OF SCOTLAND BERHAD**, do solemnly and sincerely declare that the accompanying financial statements set out on pages 13 to 126 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



**KOK WENG KHEONG**

Subscribed and solemnly declared by the abovenamed **KOK WENG KHEONG** at ~~KUALA LUMPUR~~ in the Federal Territory on the 24th day of March, 2016.

**Petaling Jaya, Selangor**

Before me,

**COMMISSIONER FOR OATHS**



No. 69A, Jalan SS21/37  
Damansara Utama (Up Town)  
9 47400 Petaling Jaya, Selangor D.E

**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF  
THE ROYAL BANK OF SCOTLAND BERHAD**  
(Incorporated in Malaysia)

**Report on the Financial Statements**

We have audited the financial statements of **THE ROYAL BANK OF SCOTLAND BERHAD**, which comprise the statements of financial position of the Group and of the Bank as of 31 December 2015 and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 13 to 126.

*Directors' Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

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

(Forward)

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

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

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2015 and of their financial performance and 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.

### *Emphasis of Matter*

We draw attention to Note 38 to the financial statements which indicates that even though the Bank has ceased its marketing activities to new customers, the Bank continues to operate as a going concern and continues to serve its existing customers. Furthermore, the shareholder of the Bank has initiated a divesting process which as of the date of the financial statements was authorised for issuance, was still in process. Our opinion is not modified in respect of this matter.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that:

- (a) in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and by the subsidiary companies, have been properly kept in accordance with the provisions of the Act;
- (b) we are satisfied that the accounts of the subsidiary companies that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group, and we have received satisfactory information and explanations as required by us for those purposes; and
- (c) the auditors' reports on the accounts of the subsidiary companies did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

(Forward)

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**Other Matters**

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

*Deloitte & Touche*  
**DELOITTE & TOUCHE**  
**AF 0834**  
**Chartered Accountants**

  
**SITI HAJAR OSMAN**  
**Partner - 3061/04/17 (J)**  
**Chartered Accountant**

24 March 2016

**THE ROYAL BANK OF SCOTLAND BERHAD**  
(Incorporated in Malaysia)

**STATEMENTS OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2015**

		<b>Group</b>	
	<b>Note</b>	<b>2015</b>	<b>2014</b>
		<b>RM'000</b>	<b>RM'000</b>
<b>ASSETS</b>			
Cash and short-term funds	5	2,136,446	1,682,256
Securities available-for-sale	6	240,465	385,332
Loans, advances and financing	7	414,350	731,157
Derivative financial assets	8	531,672	689,173
Statutory deposits with Bank Negara Malaysia	9	1,337	4,741
Other assets	10	63,615	49,710
Investment in associated company	12	1,300	1,300
Property, plant and equipment	13	5,367	9,121
Intangible assets	14	1,127	666
Deferred tax assets	15	11,876	19,170
		<u>3,407,555</u>	<u>3,572,626</u>
<b>TOTAL ASSETS</b>			
<b>LIABILITIES AND SHAREHOLDER'S FUNDS</b>			
Deposits from customers	16	1,165,590	1,215,387
Deposits and placements from banks and other financial institutions	17	329,488	705,952
Derivative financial liabilities	8	1,086,749	837,976
Other liabilities	18	55,002	70,295
Subordinated debt capital	19	-	-
		<u>2,636,829</u>	<u>2,829,610</u>
<b>TOTAL LIABILITIES</b>			
Share capital	20	343,000	343,000
Reserves	21	427,726	400,016
		<u>770,726</u>	<u>743,016</u>
<b>SHAREHOLDER'S FUNDS</b>			
<b>TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS</b>			
		<u>3,407,555</u>	<u>3,572,626</u>
<b>COMMITMENTS AND CONTINGENCIES</b>			
	34	<u>18,461,580</u>	<u>31,758,198</u>

(Forward)

**THE ROYAL BANK OF SCOTLAND BERHAD**  
(Incorporated in Malaysia)

**STATEMENTS OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2015**

	Note	Bank 2015 RM'000	2014 RM'000
<b>ASSETS</b>			
Cash and short-term funds	5	2,136,446	1,682,256
Securities available-for-sale	6	240,465	385,332
Loans, advances and financing	7	414,350	731,157
Derivative financial assets	8	531,672	689,173
Statutory deposits with Bank Negara Malaysia	9	1,337	4,741
Other assets	10	63,615	49,710
Investment in subsidiary companies	11	10	20
Investment in associated company	12	1,300	1,300
Property, plant and equipment	13	5,367	9,121
Intangible assets	14	1,127	666
Deferred tax assets	15	11,876	19,170
<b>TOTAL ASSETS</b>		<u>3,407,565</u>	<u>3,572,646</u>
<b>LIABILITIES AND SHAREHOLDER'S FUNDS</b>			
Deposits from customers	16	1,165,600	1,215,407
Deposits and placements from banks and other financial institutions	17	329,488	705,952
Derivative financial liabilities	8	1,086,749	837,976
Other liabilities	18	55,002	70,295
Subordinated debt capital	19	-	-
<b>TOTAL LIABILITIES</b>		<u>2,636,839</u>	<u>2,829,630</u>
Share capital	20	343,000	343,000
Reserves	21	427,726	400,016
<b>SHAREHOLDER'S FUNDS</b>		<u>770,726</u>	<u>743,016</u>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS</b>		<u>3,407,565</u>	<u>3,572,646</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	34	<u>18,461,580</u>	<u>31,758,198</u>

The accompanying Notes form an integral part of the financial statements.



**THE ROYAL BANK OF SCOTLAND BERHAD**  
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**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Note	Group		Bank	
		2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Operating revenue	22	<u>80,178</u>	<u>82,524</u>	<u>80,178</u>	<u>82,776</u>
Interest income	23	80,552	56,662	80,552	56,662
Interest expense	24	<u>(9,407)</u>	<u>(10,203)</u>	<u>(9,407)</u>	<u>(10,203)</u>
Net interest income		71,145	46,459	71,145	46,459
Other operating income	25	12,953	25,862	12,953	26,114
Other operating expenses	26	(36,783)	(45,785)	(36,783)	(46,668)
Write back for impairment on loans, advances and financing	27	936	1,082	936	1,082
Share of loss of associated company		-	(683)	-	-
Provision for non-strategic derivative trades	28	<u>(13,327)</u>	<u>-</u>	<u>(13,327)</u>	<u>-</u>
<b>Profit before tax</b>		34,924	26,935	34,924	26,987
Tax expense	29	<u>(8,587)</u>	<u>(9,954)</u>	<u>(8,587)</u>	<u>(9,954)</u>
<b>Profit for the year attributable to equity holder of the Bank</b>		<u>26,337</u>	<u>16,981</u>	<u>26,337</u>	<u>17,033</u>
<b>Other comprehensive income:</b> <i>Items that may be reclassified subsequently to profit or loss:</i>					
Net gain/(loss) on securities available-for-sale		<u>1,373</u>	<u>(147)</u>	<u>1,373</u>	<u>(147)</u>
		<u>1,373</u>	<u>(147)</u>	<u>1,373</u>	<u>(147)</u>
<b>Total comprehensive income for the year</b>		<u>27,710</u>	<u>16,834</u>	<u>27,710</u>	<u>16,886</u>
<b>Earnings per share (sen)</b>	30	<u>7.68</u>	<u>6.22</u>	<u>7.68</u>	<u>6.24</u>

The accompanying Notes form an integral part of the financial statements.

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**THE ROYAL BANK OF SCOTLAND BERHAD**  
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**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2015**

Group	Non-distributable Reserves					Distributable Reserve Retained earnings RM'000	Total RM'000
	Share capital RM'000	Share premium RM'000	Statutory reserves RM'000	Unrealised reserves RM'000	Regulatory reserves RM'000		
At 1 January 2014	203,000	76,182	163,742	(809)	-	144,067	586,182
Issuance of ordinary shares (Note 20)	140,000	-	-	-	-	-	140,000
Profit for the year	-	-	-	-	-	16,981	16,981
Transfer to statutory reserves	-	-	8,517	-	-	(8,517)	-
Transfer to regulatory reserves	-	-	-	-	4,237	(4,237)	-
Net loss on securities available-for-sale	-	-	-	(196)	-	-	(196)
Deferred tax (Note 15)	-	-	-	49	-	-	49
Other comprehensive loss	-	-	-	(147)	-	-	(147)
At 31 December 2014	<u>343,000</u>	<u>76,182</u>	<u>172,259</u>	<u>(956)</u>	<u>4,237</u>	<u>148,294</u>	<u>743,016</u>

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**Group**

	Share capital RM'000	Non-distributable Reserves				Regulatory reserves RM'000	Distributable Reserve Retained earnings RM'000	Total RM'000
		Share premium RM'000	Statutory reserves RM'000	Unrealised reserves RM'000				
At 1 January 2015	343,000	76,182	172,259	(956)	4,237	148,294	743,016	
Profit for the year	-	-	-	-	-	26,337	26,337	
Transfer to statutory reserves	-	-	6,584	-	-	(6,584)	-	
Transfer from regulatory reserves	-	-	-	-	(3,084)	3,084	-	
Net gain on securities available-for-sale	-	-	-	1,823	-	-	1,823	
Deferred tax (Note 15)	-	-	-	(450)	-	-	(450)	
Other comprehensive income	-	-	-	1,373	-	-	1,373	
At 31 December 2015	<u>343,000</u>	<u>76,182</u>	<u>178,843</u>	<u>417</u>	<u>1,153</u>	<u>171,131</u>	<u>770,726</u>	

The accompanying Notes form an integral part of the financial statements.

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**THE ROYAL BANK OF SCOTLAND BERHAD**  
(Incorporated in Malaysia)

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2015**

Bank	Non-distributable Reserves					Distributable Reserve Retained earnings RM'000	Total RM'000
	Share capital RM'000	Share premium RM'000	Statutory reserves RM'000	Unrealised reserves RM'000	Regulatory reserves RM'000		
At 1 January 2014	203,000	76,182	163,742	(809)	-	144,015	586,130
Issuance of ordinary shares (Note 20)	140,000	-	-	-	-	-	140,000
Profit for the year	-	-	-	-	-	17,033	17,033
Transfer to statutory reserves	-	-	8,517	-	-	(8,517)	-
Transfer to regulatory reserves	-	-	-	-	4,237	(4,237)	-
Net loss on securities available-for-sale	-	-	-	(196)	-	-	(196)
Deferred tax (Note 15)	-	-	-	49	-	-	49
Other comprehensive loss	-	-	-	(147)	-	-	(147)
At 31 December 2014	<u>343,000</u>	<u>76,182</u>	<u>172,259</u>	<u>(956)</u>	<u>4,237</u>	<u>148,294</u>	<u>743,016</u>

(Forward)

Company No. 301932 - A

**Bank**

	Share capital RM'000	← Non-distributable Reserves →			Regulatory reserves RM'000	Distributable Reserve Retained earnings RM'000	Total RM'000
		Share premium RM'000	Statutory reserves RM'000	Unrealised reserves RM'000			
At 1 January 2015	343,000	76,182	172,259	(956)	4,237	148,294	743,016
Profit for the year	-	-	-	-	-	26,337	26,337
Transfer to statutory reserves	-	-	6,584	-	-	(6,584)	-
Transfer from regulatory reserves	-	-	-	-	(3,084)	3,084	-
Net gain on securities available-for-sale	-	-	-	1,823	-	-	1,823
Deferred tax (Note 15)	-	-	-	(450)	-	-	(450)
Other comprehensive income	-	-	-	1,373	-	-	1,373
At 31 December 2015	<u>343,000</u>	<u>76,182</u>	<u>178,843</u>	<u>417</u>	<u>1,153</u>	<u>171,131</u>	<u>770,726</u>

The accompanying Notes form an integral part of the financial statements.

**THE ROYAL BANK OF SCOTLAND BERHAD**  
(Incorporated in Malaysia)

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

	<b>Group</b>		<b>Bank</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>CASH FLOWS FROM/(USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Profit before tax	34,924	26,935	34,924	26,987
Adjustments for:				
Unrealised loss on derivatives trading	89,204	18,836	89,204	18,836
Unrealised foreign exchange (gain)/loss	(85,745)	7,322	(85,745)	7,322
Depreciation of property, plant and equipment	2,621	3,509	2,621	3,509
Amortisation of premium less accretion of discount	1,482	1,865	1,482	1,865
Write back for impairment on loans, advances and financing	(936)	(1,082)	(936)	(1,082)
Share of loss of associated company	-	683	-	-
Impairment loss of investment in associate company	-	517	-	1,400
Amortisation of intangible assets	394	249	394	249
Subordinated debt capital effective interest rate adjustment	-	(7,904)	-	(7,904)
Amortisation of cost and premium relating to subordinated debt capital	-	(649)	-	(649)
Gain from sale of securities available-for-sale	-	(43)	-	(43)
Net gain on disposal of property, plant and equipment	(15,362)	-	(15,362)	-
Provision for non-strategic derivative trades	13,327	-	13,327	-
Dividends income	(138)	(125)	(138)	(377)
Property, plant and equipment written off	19	-	19	-
Intangible asset written off	1	-	1	-
	<hr/>	<hr/>	<hr/>	<hr/>
Operating Profit Before Working Capital Changes	39,791	50,113	39,791	50,113

(Forward)

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
(Increase)/Decrease in:				
Loans, advances and financing	317,743	(376,917)	317,743.	(376,917)
Statutory deposits with Bank				
Negara Malaysia	3,404	5,855	3,404	5,855
Cash collateral pledged for derivative transactions	(382,036)	(106,424)	(382,036)	(106,424)
Derivative financial assets	154,042	(101,928)	154,042	(101,928)
Other assets	(15,905)	(16,496)	(15,905)	(16,496)
Increase/(Decrease) in:				
Deposits from customers	(49,797)	12,455	(49,807)	12,455
Deposits and placements from banks and other financial institutions	(376,464)	464,042	(376,464)	464,042
Derivative financial liabilities	235,446	98,304	235,446	98,304
Other liabilities	(16,178)	(99,127)	(16,178)	(99,127)
Cash Used In Operations	(89,954)	(70,123)	(89,964)	(70,123)
Income taxes refunded	2,000	15,810	2,000	15,810
Income taxes paid	(858)	(4,976)	(858)	(4,976)
Net Cash Used In Operating Activities	(88,812)	(59,289)	(88,822)	(59,289)
<b>CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>				
Proceeds from securities available-for-sale upon maturity	335,750	250,000	335,750	250,000
Net (purchase)/sale of securities available-for-sale	(190,542)	36,829	(190,542)	36,829
Purchase of property, plant and equipment	(1,235)	(1,119)	(1,235)	(1,119)
Purchase of intangible assets	(1,149)	-	(1,149)	-
Dividends received	138	377	138	377
Proceeds from disposal of property, plant and equipment	18,004	-	18,004	-
Dissolution of dormant subsidiary	-	-	10	-
Net Cash From Investing Activities	160,966	286,087	160,976	286,087

(Forward)

	<b>Group</b>		<b>Bank</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>CASH FLOWS FROM/(USED IN)</b>				
<b>FINANCING ACTIVITIES</b>				
Proceeds from share issuance	-	140,000	-	140,000
Redemption of subordinated debt capital	-	(200,000)	-	(200,000)
	<u>-</u>	<u>(200,000)</u>	<u>-</u>	<u>(200,000)</u>
Net Cash Used In Financing Activities	<u>-</u>	<u>(60,000)</u>	<u>-</u>	<u>(60,000)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	72,154	166,798	72,154	166,798
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<u>1,530,832</u>	<u>1,364,034</u>	<u>1,530,832</u>	<u>1,364,034</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<u>1,602,986</u>	<u>1,530,832</u>	<u>1,602,986</u>	<u>1,530,832</u>
Cash and cash equivalents comprise the following:				
Cash and short-term funds (Note 5)	2,136,446	1,682,256	2,136,446	1,682,256
Cash collateral pledged (Note 5)	(533,460)	(151,424)	(533,460)	(151,424)
	<u>1,602,986</u>	<u>1,530,832</u>	<u>1,602,986</u>	<u>1,530,832</u>

The accompanying Notes form an integral part of the financial statements.



**THE ROYAL BANK OF SCOTLAND BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS**

**1. CORPORATE INFORMATION**

The principal activities of the Bank are banking and related financial services. The principal activities of the subsidiary are disclosed in Note 11. There have been no significant changes in the nature of the principal activities of the Bank and of its subsidiary during the financial year.

The Bank is a limited liability company, incorporated and domiciled in Malaysia. The registered office and the principal place of business of the Bank is located at Level 9, Menara Maxis, Kuala Lumpur City Centre, 50088 Kuala Lumpur.

The Bank's immediate holding company is RBS AA Holdings (U.K.) Limited ("RBS AA Holdings") and the ultimate holding consolidating parent of the Bank, The Royal Bank of Scotland Group Plc ("RBS Group"), is controlled by the UK Government. The UK Government therefore is a related party of the Bank.

Given the reach of the UK Government and their controlled bodies and the volume and diversity of transactions with them, the disclosure of transactions with these related parties is impractical. Hence, for purposes of the financial statements of the Group and the Bank, related companies refer to members of The Royal Bank of Scotland Group plc's group of companies.

The consolidated financial statements of the Bank for the year ended 31 December 2015 comprise the Bank and its subsidiary (collectively referred as the "Group" and individually referred as the "Group entities") and the Group's interest in associates. The financial statements of the Bank as at and for the year ended 31 December 2015 do not include other entities.

The financial statements of the Group and of the Bank were authorised by the Board of Directors for issuance in accordance with a resolution of the Directors on 24 March 2016.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

### Statement of Compliance

The financial statements of the Group and the Bank have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRSs”), International Financial Reporting Standards and the provisions of the Companies Act, 1965 in Malaysia.

The financial statements are presented in Ringgit Malaysia (“RM”) and are rounded to the nearest thousand (“000”), unless otherwise stated.

### 2.1 Adoption of New and Revised MFRSs and Bank Negara Malaysia (“BNM”) Guidelines

In the current period, the Group and the Bank have adopted revised Standards issued by the Malaysian Accounting Standards Board (“MASB”) that are relevant to their operations and effective for annual periods beginning on or after 1 January 2015 as follows:

Amendments to Defined Benefit Plans - Employee Contributions  
MFRS 119

Annual Improvements to MFRSs 2010 - 2012 Cycle

Annual Improvements to MFRSs 2011 - 2013 Cycle

The adoption of new and revised MFRSs has had no material impact on the disclosures in the Group’s and the Bank’s financial statements.

### BNM Guidelines

On 4 February 2014, BNM issued a letter requiring banking institutions to maintain, in aggregate, collective impairment provisions and regulatory reserves of no less than 1.2% of total outstanding loans/financing, net of individual impairment provisions, pursuant to paragraph 13 of the BNM’s Policy Document on Classification and Impairment Provisions for Loans/Financing. The regulatory reserves are maintained in addition to the impairment provisions required under the MFRS 139 *Financial Instruments: Recognition and Measurement*, and it will be set aside from the retained earnings to a separate reserve within equity as an additional credit risk absorbent. Banking institutions are required to comply with this requirement by 31 December 2015. The Group and the Bank have early adopted this requirement for the financial year ended 31 December 2014. During the financial year ended 31 December 2015, the Group and the Bank have transferred RM1.153 million to their retained earnings from regulatory reserves in accordance with BNM’s requirements. The regulatory reserves do not qualify as common equity Tier I (“CET I”) capital and Tier I capital under BNM’s Capital Adequacy Framework (Capital Components).

## 2.2 New and Revised Standards and Amendments in issue but not yet effective

At the date of authorisation for issue of these financial statements, the relevant new and revised Standards and Amendments which were in issue but not yet effective and not adopted early by the Group and the Bank are as listed below:

MFRS 9	Financial Instruments <sup>2</sup>
MFRS 15	Revenue from Contracts from Customers <sup>2</sup>
Amendments to:	
MFRS 9 and MFRS 7	Mandatory Effective Date of MFRS 9 <sup>4</sup>
MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
MFRS 10, MFRS 12 and MFRS 128	Investment Entities: Applying the Consolidation Exception <sup>1</sup>
MFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>1</sup>
MFRS 101	Disclosure Initiative <sup>1</sup>
MFRS 116 and MFRS 138	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>1</sup>
MFRS 127	Equity Method in Separate Financial Statements <sup>1</sup>
Annual Improvements to MFRSs 2012 - 2014 Cycle	

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2016
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2018
- <sup>3</sup> Effective date deferred to a date to be determined and announced, with earlier application still permitted
- <sup>4</sup> Issued by MASB in March 2012 with an immediate effective date upon issuance. The amendments defer the mandatory effective date of MFRS 9 from 1 January 2013 to 1 January 2015 with modified the relief from restating comparative periods and the associated disclosures in MFRS 7. The aforementioned date was removed with the issuance of MFRS 9 Financial Instruments (Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139)

The Directors anticipate that the abovementioned Standards and Amendments will be adopted in the annual financial statements of the Group and the Bank when they become effective and that the adoption of these Standards, and Amendments will have no material impact on the financial statements of the Group and of the Bank in the period of initial application.

## **MFRS 9 Financial Instruments**

MFRS 9 (IFRS issued by IASB in July 2014) introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

Key requirements of MFRS 9:

- all recognised financial assets that are within the scope of MFRS 139 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at fair values at the end of subsequent accounting periods. In addition, under MFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of equity instruments (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, MFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under MFRS 139, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.
- in relation to the impairment of financial assets, MFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under MFRS 139. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

(Forward)

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in MFRS 139. Under MFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an “economic relationship”. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The Directors are currently assessing the impact of adoption of MFRS 9 and have not made any accounting policy decision. Thus, the impact of adopting the new MFRS 9 on the Group’s and the Bank’s annual financial statements cannot be determined now until the process is complete.

### **MFRS 15 Revenue from Contracts with Customers**

In May 2014, MFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contract with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 *Revenue*, MFRS 111 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition.

- Step 1: Identify the contracts with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under MFRS 15, an entity recognised revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more perspective guidance has been added in MFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by MFRS 15.

The Directors of the Group and of the Bank do not anticipate that the application of MFRS 15 in the future have a material impact on the amounts reported and disclosures made in the Group’s and the Bank’s financial statements.

### **Amendments to MFRS 11 Accounting for Acquisition of Interests in Joint Operations**

The amendments to MFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in MFRS 3 *Business Combinations*. Specially, the amendments state that the relevant principles on accounting for business combination in MFRS 3 and other standards (e.g. MFRS 136 *Impairment of Assets* regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by MFRS 3 and other standards for business combination.

The amendments to MFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The Directors of the Bank do not anticipate that the application of these amendments to MFRS 11 will have a material impact on the Group's and the Bank's financial statements.

### **Amendments to MFRS 101 Disclosure Initiative**

The amendments aim to improve the effectiveness of disclosures and are designed to encourage companies to apply professional judgement in determining the information (including where and in what order) to be disclosed in the financial statements.

The amendments mark the completion of the five, narrow-focus improvements to disclosure requirements that the IASB had identified following its 2013 Discussion Forum.

The Directors of the Group and of the Bank do not anticipate that the application of MFRS 101 in the future have a material impact on the amounts reported and disclosures made in the Group's and the Bank's financial statements.

### **Amendments to MFRS 116 and MFRS 138 Clarification of Acceptance Methods of Depreciation and Amortisation**

The amendments to MFRS 116 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to MFRS 138 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. The presumption can only be rebutted in the following two limited circumstances:

- (a) When the intangible asset is expressed as a measure of revenue; or
- (b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. The Group and the Bank use the straight-line method for depreciation and amortisation for the property, plant and equipment, and intangible assets respectively. The Directors of the Bank believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the Directors of the Bank do not anticipate that the application of these amendments to MFRS 116 and MFRS 138 will have a material impact on the Group's and the Bank's financial statements.

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **3.1 Basis of Accounting**

The financial statements of the Group and of the Bank have been prepared on the historical cost basis, unless otherwise indicated in the significant accounting policies stated below.

Historical cost is generally based on the fair value of consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group and Bank take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of MFRS 2, leasing transactions that are within the scope of MFRS 117 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in MFRS 102 or value-in-use in MFRS 136.

The principal accounting policies are set out below.

### **3.2 Subsidiary and Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiary). Control is achieved when the Bank has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its return.

Income and expenses of subsidiary acquired or disposed of during the year are included in the statements of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiary is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiary that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable Standards).

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 139 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate.

Investment in subsidiary which are eliminated on consolidation, are stated at cost less impairment losses, if any, in the Bank's separate financial statements.



### 3.3 Business Combinations

Acquisitions of subsidiary and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At acquisition date, the identifiable assets acquired and liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with MFRS 112 *Income Taxes* and MFRS 119 *Employee Benefits* respectively;
- liabilities or equity instruments related to the share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with MFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another Standard.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the “measurement period” (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Where a business combination is achieved in stages, the Group’s previously held equity interests in the acquiree are remeasured to fair value at the acquisition date (i.e. the date when the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised at that date.

### **3.4 Investment in Associate**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of MFRS 139 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with MFRS 136 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with MFRS 136 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with MFRS 139. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate.

In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as that would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive by that associate would be reclassified to profit or loss on disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of the Group's interest in the associate that are not related to the Group.

Investment in associate is accounted for in the consolidated financial statements using the equity method less any impairment losses, unless it is classified as held for sale or distribution. The cost of the investment includes transaction costs. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the associates, after adjustments if any, to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest including any long-term investments is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

### **3.5 Revenue Recognition**

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably.

#### **(i) Interest income**

Interest income is recognised in profit or loss for all interest bearing assets using the effective interest method. Interest income includes the amortisation of premium or accretion of discount.

Interest income on loans, advances and financing is accounted for using the effective interest method by reference to rest periods as stipulated in the loan agreements, which are either monthly or daily.

For impaired financial assets where the value of the financial asset has been written down as a result of an impairment loss, interest/financing income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

#### **(ii) Fee and commission income**

Loan arrangement, commissions and service charges/fees are recognised as income when all conditions precedent are fulfilled.

Commitment fees and guarantee fees which are material are recognised when the transaction is completed.

Dividends from held-for-trading and available-for-sale securities are recognised when declared.

### **3.6 Leasing**

A lease is recognised as a finance lease if it transfers substantially to the Group and the Bank all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

#### **(i) Finance leases**

Assets acquired by way of hire-purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the statements of financial position as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's and the Bank's incremental borrowing rate is used. Any initial direct costs are also added to the carrying amount of such assets.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 3.10.

#### **(ii) Operating leases**

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, whenever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

### **3.7 Foreign Currencies**

#### **(i) Functional and presentation currency**

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Bank’s functional currency.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM’000) except where otherwise indicated.

#### **(ii) Foreign currency transactions**

In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the year.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. Exchange differences arising from such non-monetary items are also recognised directly in other comprehensive income.

### **3.8 Employee Benefits**

#### **(i) Short-term employee benefits**

Wages, salaries, paid annual leaves, bonuses and social contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group and of the Bank. Short-term accumulating compensated absences such as paid annual leave are recognised when services rendered by the employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

#### **(ii) Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which the Group and the Bank pay fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund (“EPF”).

### **3.9 Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

#### **(i) Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s and the Bank’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(ii) **Deferred tax**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that sufficient future taxable profits will be available against which those deductible temporary differences, unused tax losses and unused tax credits can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiary and associates except where the Group and the Bank are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient future taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group and the Bank expect, at the end of the reporting period, to recover or settle the carrying amount of their assets and liabilities.

Deferred 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 they relate to income taxes levied by the same taxation authority and the Group and the Bank intend to settle their current tax assets and liabilities on a net basis.



(iii) **Current and deferred tax for the period**

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

**3.10 Property, Plant and Equipment**

All items of property, plant and equipment are initially recorded at cost. 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 Group and the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised to profit or loss. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment except for freehold land and building are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Motor vehicle	20%
Office equipment and machinery	20%
Furniture, fixtures and fittings	10% - 20%
Computer equipment	20% - 33 1/3%

The residual values, useful life and depreciation method are reviewed at the end of each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss.

### **3.11 Intangible Assets**

Computer software acquired is measured at cost on initial recognition. Following initial recognition, computer software is carried at cost less accumulated amortisation and accumulated impairment losses, if any. The cost are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that it may be impaired. The amortisation period and amortisation method are reviewed at least at end of each reporting period.

### **3.12 Impairment of Non-financial Assets**

At end of each reporting period, the Group and the Bank review the carrying amounts of non-financial assets, other than deferred tax assets, to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value-in-use, which is measured by reference to discounted future cash flows. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

An impairment loss is recognised in profit or loss immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any available previously recognised revaluation surplus for the same asset.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised.

The reversal is recognised in profit or loss immediately, unless the asset is carried at revalued amount. A reversal of an impairment loss on a revalued asset is credited directly to revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in profit or loss, a reversal of that impairment loss is recognised as income in profit or loss.

### **3.13 Provisions**

Provisions are recognised when the Group and the Bank have a present obligation (legal or constructive) as a result of a past event, it is probable that the Group and the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### **3.14 Restructurings**

A restructuring provision is recognised when the Group and the Bank have developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

### **3.15 Contingent Liabilities and Contingent Assets**

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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 Group. The Group and the Bank do not recognise contingent assets but disclose their existence where inflows of economic benefits are probable, but not virtually certain.

### **3.16 Financial Instruments**

Financial assets and financial liabilities are recognised in the statements of financial position when, and only when, the Group and the Bank become a party to the contractual provisions of the financial instruments.

Financial assets and financial liabilities are initially measured a fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### **3.16.1 Effective Interest Method**

The effective interest method is a method of calculating the amortised cost of a financial asset/liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets/liability, or, where appropriate, a shorter period. Income/expense is recognised on an effective interest basis for debt instruments other than those financial asset/liability designated as at fair value through profit and loss.

#### **3.16.2 Financial assets**

Financial assets are classified into the following specified categories: financial assets “at fair value through profit or loss”, “held-to-maturity” investments, “available-for-sale” financial assets and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as FVTPL.

A financial asset is classified as held for trading if:

- (a) it has been acquired principally for the purpose of selling in the near future; or
- (b) on initial recognition it is part of a portfolio of identified financial instruments that the Group and the Bank manage together and have a recent actual pattern of short-term profit-taking or
- (c) it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as FVTPL upon initial recognition if:

- (a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- (b) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's and the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- (c) it forms part of a contract containing one or more embedded derivatives, and MFRS 139 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 35.1.

(ii) **Available-for-sale financial assets (AFS)**

AFS financial assets, comprising government securities and investment securities, are intended to be held for a longer period of time and may be sold in response to the needs for liquidity or changes in interest rates, exchange rates or prices. The Group and the Bank use trade date accounting where the purchase and sale of an investment is under a contract whose terms require delivery of the investments within the timeframe established by the market concerned. The investments are stated at fair value. Fair value is determined in the manner described in Note 35.1.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of the reporting period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's and the Bank's right to receive the dividends is established.

(iii) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified in this category include cash and balances with banks, reverse repurchase agreement and loans, advances and financing. These financial assets are initially recognised at fair value, including direct and incremental transaction costs, and subsequently measured at amortised cost using the effective interest method. Interest income on loans and receivables is recognised in "Interest income" in profit or loss. Impairment losses on loans, advances and financing are recognised in profit or loss as "Allowance for impairment on loans, advances and financing". Regular way recognition of loans, advances and financing is recorded on settlement date, when all the conditions under the loan contract have been fulfilled.

(iv) **Cash and cash equivalents**

Cash and cash equivalents as stated in the statements of cash flows comprise cash and short-term funds, deposits and placements with financial institutions that are readily convertible to cash with insignificant risk of changes in value.

(v) **Securities**

The holdings of the securities portfolio of the Group and the Bank are segregated based on the following categories and valuation methods:

(a) **Securities held-for-trading**

Securities are classified as held-for-trading if they are acquired and held principally with the intention of resale in the near term. The securities held-for-trading will be stated at fair value and any gain or loss arising from a change in their fair values and the derecognition of held-for-trading securities are recognised in profit or loss.

(b) **Securities available-for-sale**

Securities available-for-sale are financial assets that are not classified as held-for-trading or held-to-maturity. The securities available-for-sale are measured at fair value or at cost (less impairment losses) if the fair value cannot be reliably measured. Any gain or loss arising from a change in fair value is recognised directly in other comprehensive income until the financial asset is sold, collected, disposed of or impaired, at which time the cumulative gain or loss previously recognised in equity will be transferred to profit or loss, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss.

(vi) **Securities purchased under resale agreements**

Securities purchased under resale agreements are securities which the Group and the Bank had purchased with a commitment to resell at a future date. The commitment to resell the securities is reflected as an asset on the statements of financial position.

Conversely, obligations on securities sold under repurchase agreements are securities which the Group and the Bank have sold from its portfolio, with a commitment to repurchase at a future date. Such financing transactions and the obligation to repurchase the securities are reflected as a liability on the statements of financial position.

### **3.16.3 Impairment of financial assets**

#### **(i) Loans, advances and financing**

Loans, advances and financing (“loans”) of the Group and of the Bank are classified as impaired when they fulfill any of the following criteria:

- (a) Principal or interest or both are past due for three (3) months or more;
- (b) Where a loan is in arrears for less than three (3) months, the loan exhibits indications of credit weaknesses; or
- (c) Where an impaired loan has been rescheduled or restructured, the loan will continue to be classified as impaired until repayments based on the revised and/or restructured terms have been observed continuously for certain period of months.

For determination of impairment on loans, the Group and the Bank assess at the end of each reporting period whether there is objective evidence that a loan or a group of loans is impaired. A loan or a group of loans is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (i.e. an incurred loss event) and that loss event has an impact on the estimated future cash flows of the loans or a group of loans that can be reliably estimated.

The Group and the Bank first assess individually whether objective evidence of impairment exists individually for loans which are individually significant, or collectively for loans which are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financing, the loan is then included in a group of financing with similar credit risk characteristics and collectively assessed for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loan’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loan’s original effective profit rate. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Where appropriate, the calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.



For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics. Impairment for this group is assessed based on the historical loss experience in terms of default rate and estimated recovery rate.

Future cash flows of the loans are evaluated depending on the availability of security for the loans. For unsecured loans, the fraction of exposure at default that will not be recovered following the default is taken in full.

For loans secured with collateral pledged to the Group and the Bank, the fraction of exposure at default would take into account value of the security discounted based on the expected period of recovery of the security using the effective interest rate.

The likelihood that the loan would fall into default is computed based on average default rates for the latest number of years using historical data of outstanding balance that flow through to the following month. Similar rate of the likelihood of default is applied to the group of loans with similar credit risk characteristics.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to customers are classified in loan impairment charges.

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 previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

(ii) **Available-for-sale financial assets (AFS)**

The Group and the Bank assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, cumulative gain or losses previously recognised in other comprehensive income are classified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in other reserves. In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(iii) **Held-to-maturity investments**

The Group and the Bank assess at the end of each reporting period whether objective evidence of impairment of financial investments held-to-maturity exists as a result of one or more loss events and that loss event has an impact on the estimated future cash flows of the financial investment or group of financial investments that can be reliably estimated.

Where there is objective evidence of impairment, an impairment loss is recognised as the difference between the acquisition cost and the present value of the estimated future cash flows, less any impairment loss previously recognised.

If held to maturity investments have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group and the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

(iv) **Rescheduled and restructured financing**

Where a loan shows evidence of credit weaknesses, the Group and the Bank may seek to renegotiate the loan rather than to take possession of collateral. This may involve an extension of the payment arrangements via rescheduling or the renegotiation of new loan terms and conditions via restructuring. Management monitors the renegotiated financing to ensure that all the revised terms are met and that the repayments are made promptly for a continuous period. Where an impaired loan is renegotiated, the borrower must adhere to the revised and/or restructured repayment terms for a continuous period of six months before the loan is classified as non-impaired. These financing continue to be subjected to individual or collective impairment assessment.

### **3.16.4 Derecognition of financial assets**

Financial assets are derecognised when the contractual rights to the cash flows from the assets expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the assets to another entity. If the Group and the Bank neither transfer nor retain substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group and the Bank recognise their retained interest in the asset and an associated liability for amounts it may have to pay. The Group and the Bank continue to retain the asset in their statements of financial position and recognise a liability for the obligation created as a result of the transfer of the asset.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated equity is recognised in profit or loss.

### **3.16.5 Financial Liabilities and Equity Instruments**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group and the Bank are recognised at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities "at fair value through profit or loss" or "other financial liabilities".

#### **(i) Financial liabilities at fair value through profit or loss (FVTPL)**

Financial liabilities are classified as FVTPL when the financial liability is either held for trading or it is designated as FVTPL.

A financial liability is classified as held for trading if:

- (a) it has been incurred principally for the purpose of repurchasing in the near future; or
- (b) on initial recognition it is part of a portfolio of identified financial instruments that the Group and the Bank manage together and has a recent actual pattern of short-term profit-taking; or
- (c) it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as FVTPL upon initial recognition if:

- (a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- (b) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's and the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- (c) it forms part of a contract containing one or more embedded derivatives, and MFRS 139 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as FVTPL.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 35.

(ii) **Subordinated debt capital**

The interest-bearing instruments are recognised as liability and are recorded at amortised cost. Interest expense is recognised on an effective interest basis.

(iii) **Other financial liabilities**

Deposits of non-bank customers, deposits and balances of banks and other financial institutions and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest method, with interest expense recognised on an effective yield basis.

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount of obligation under the contract recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described above.

### **3.16.6 Derecognition of financial liabilities**

The Group and the Bank derecognise financial liabilities when, and only when, the Group's and the Bank's obligations are discharged, cancelled or they expire.

### **3.17 Derivatives Financial Instruments**

Derivatives are financial instruments where the contracted or notional amounts of which are not included in the statements of financial position either because rights and obligations arise out of one and the same contract, the performance of which is due after reporting date, or because the notional amounts serve merely as variables for calculation purposes. Examples of derivatives are forward exchange contracts, options, swaps, futures and forward rate agreements. The underlying value may involve interest rate, currency, commodity, bond or equity products or a combination of these.

All foreign currency contracts and interest rate swaps undertaken as a hedge against open positions created by customer transactions have been disclosed as contingent items.

These transactions are measured at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gain or loss arising from the change in the fair value of the derivative instrument is recognised in profit or loss unless they are part of a hedging relationship which qualifies for hedge accounting where the gain or loss is recognised as follows:

(i) **Fair value hedge**

Where a derivative financial instrument hedges the changes in fair value of a recognised asset or liability, any gain or loss on the hedging instrument is recognised in profit or loss. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss being recognised in profit or loss.

(ii) **Cash flow hedge**

Gains and losses on the hedging instruments, to the extent that the hedge is effective, are deferred in the separate component of equity. The ineffective part of any gain or loss is recognised in profit or loss. The deferred gains and losses are then released to the statements of comprehensive income in the periods when the hedged item affects profit or loss.

(iii) **Embedded derivatives**

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realised or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

(iv) **Forward exchange contracts**

Unmatured forward exchange contracts are valued at forward rates as at the end of the reporting period, applicable to their respective dates of maturity, and unrealised losses and gains are recognised in the statements of profit or loss and other comprehensive income.

(v) **Interest rates swap, futures, forward and option contracts**

The Group and the Bank act as an intermediary with counterparties who wish to swap their interest obligations. The Group and the Bank also use interest rate swaps, futures, forward and option contracts in its trading account activities and in its overall interest rate risk management.

Interest income or interest expense associated with interest rate swaps that qualify as hedges are recognised over the life of the swap agreement as a component of interest income or interest expense. Gains and losses on interest rates futures, forward and option contracts that qualify as hedges are generally deferred and amortised over the life of the hedged assets or liabilities as adjustments to interest income or interest expense.

Gains and losses on interest rate swaps, futures, forward and option contracts that do not qualify as hedges are recognised in the current year using the mark-to-market method, and are included in profit or loss.

4. **CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

Preparation of the financial statements involved making certain estimates and assumptions concerning the future judgments. They affect the accounting policies applied, amounts of assets, liabilities, income and expenses reported and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in these estimates and assumptions made by management may have an effect on the balances as reported in the financial statements.

(i) **Fair value estimation for available-for-sale securities, securities purchased under resale agreements and derivative financial instruments**

The fair values of securities that are not traded in an active market are determined using valuation techniques based on assumptions of market conditions existing at the end of the reporting period, including reference to quoted market prices and independent dealer quotes for similar securities and discounted cash flows method.

Where the fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible but where this is not feasible, a degree of judgment is required in establishing fair values. The judgment includes consideration of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

(ii) **Deferred tax assets**

Deferred tax assets are recognised on provisions for various costs and are measured and recognised based on the tax rates that are expected to apply in the period when the asset is realised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(iii) **Impairment losses on loans, advances and financing**

A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate. The Group and the Bank review their loans and advances to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in profit or loss, management exercises judgment on whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a loan before the decrease can be identified within an individual loan.

There are two components to the Group's and the Bank's loan impairment provisions: individual assessment and collective assessment.

Individual assessment - All impaired loans that exceed specific thresholds are individually assessed for impairment. Impairment losses are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held. These estimates take into account the customer's debt capacity and financial flexibility; the level and quality of its earnings; the amount and sources of cash flows; the industry in which the counterparty operates; and the realisable value of any security held. Estimating the quantum and timing of future recoveries involves significant judgment. The size of receipts will depend on the future performance of the borrower and the value of security, both of which will be affected by future economic conditions; additionally, collateral may not be readily marketable. The actual amount of future cash flows and the date they are received may differ from these estimates and consequently actual losses incurred may differ from those recognised in the financial statements.

Collective assessment - Under MFRS 139, collective assessment is performed on loans, advances and financing which are not individually significant based on the incurred loss approach. All loans, advances and financing (excluding those assessed individually as impaired above) are pooled into groups with similar credit risk characteristics and the future cash flows for each group is estimated on the basis of historical loss experience for such assets and discounted to present value.



(iv) **Impairment of securities available-for-sale**

The Group and the Bank assess at the end of each reporting period whether there is objective evidence that a financial investment classified as available-for-sale is impaired. In the case of quoted equity investments, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether objective evidence of impairment exists. Where such evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised) is removed from equity and recognised in profit or loss.

For unquoted equity investments which are measured at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of unrealised reserves.

For debt instruments, impairment is assessed based on the same criteria as other financial investments available-for-sale. Where impairment losses have been previously recognised in profit or loss, if there is a subsequent increase in the fair value of the debt instrument that can be objectively related to a credit event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

5. **CASH AND SHORT-TERM FUNDS**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Cash and balances with banks and other financial institutions	59,886	357,896
Money at call and deposit placements maturing within one month	<u>2,076,560</u>	<u>1,324,360</u>
	<u>2,136,446</u>	<u>1,682,256</u>

Included in money at call and deposit placements maturing within one month of the Group and of the Bank is an amount of RM533,460,000 (2014: RM151,424,000) representing cash collateral pledged for derivative transactions.

6. **SECURITIES AVAILABLE-FOR-SALE**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At fair value</b>		
Money market instruments:		
Malaysian Government Securities	189,017	383,633
Malaysian Government Treasury Bills	49,749	-
<b>At cost</b>		
Unquoted shares in Malaysia	1,699	1,699
	<u>240,465</u>	<u>385,332</u>

7. **LOANS, ADVANCES AND FINANCING**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At amortised cost</b>		
<b>(i) By type</b>		
Overdrafts	20,461	38,043
Term loans/financing:		
Housing loans/financing	15,366	17,626
Other term loans/financing	130	196
Factoring receivables	37,878	51,258
Bills receivables	684	84,296
Claims on customers under acceptance credits	70,975	47,333
Staff loans	1,539	2,287
Revolving credit	271,435	495,369
Trust receipt	-	141
	<u>418,468</u>	<u>736,549</u>
Less: Allowance for impaired loans, advances and financing:		
Collective assessment allowance	(3,866)	(4,592)
Individual assessment allowance	(252)	(800)
	<u>414,350</u>	<u>731,157</u>

(Forward)

7. **LOANS, ADVANCES AND FINANCING (CONT'D.)**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>(ii) By type of customer</b>		
Domestic business enterprises:		
Small/medium enterprises	-	933
Others	401,432	703,068
Individuals	17,036	20,108
Foreign entity	-	11,152
Domestic banking institutions	-	1,288
	<u>418,468</u>	<u>736,549</u>
<b>(iii) By interest rate sensitivity</b>		
Fixed rate		
Housing loans/financing	841	1,450
Other fixed rate loan/financing	564	837
Variable rate		
BLR plus	15,631	20,224
Cost plus	401,432	714,038
	<u>418,468</u>	<u>736,549</u>
<b>(iv) By residual contractual maturity</b>		
Maturity within one year	401,624	717,205
More than one year to three years	418	844
More than three years to five years	898	753
More than five years	15,528	17,747
	<u>418,468</u>	<u>736,549</u>

7. **LOANS, ADVANCES AND FINANCING (CONT'D.)**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>(v) By geographical distribution</b>		
Malaysia:		
Selangor	241,470	449,249
Kuala Lumpur	155,739	245,645
Johor	20,460	20,917
Negeri Sembilan	409	327
Penang	343	388
Melaka	47	75
Perak	-	19,948
	<u>418,468</u>	<u>736,549</u>
<b>(vi) By sector</b>		
Wholesale and retail	261,958	278,790
Finance, insurance and business services	70,835	80,899
Manufacturing	47,678	272,200
Mining and quarrying	20,961	74,718
Purchase of residential landed properties	16,341	18,747
Purchase of transport vehicles	679	1,246
Consumption credit	16	115
Construction	-	9,583
Transport, storage and communication	-	251
	<u>418,468</u>	<u>736,549</u>
<b>(vii) Movements in impaired loans, advances and financing are as follows:</b>		
At 1 January	2,028	1,885
Impaired during the year	381	674
Reclassified as non-impaired	(580)	(498)
Amount written off	(413)	(33)
	<u>1,416</u>	<u>2,028</u>
At 31 December	1,416	2,028
Individual assessment allowance	(252)	(800)
	<u>1,164</u>	<u>1,228</u>
Net impaired loans, advances and financing	<u>1,164</u>	<u>1,228</u>
Gross impaired loans, advances and financing as a percentage of gross loans, advances and financing	<u>0.34%</u>	<u>0.28%</u>

7. **LOANS, ADVANCES AND FINANCING (CONT'D.)**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>(viii) Impaired loans, advances and financing by sector</b>		
Purchase of landed properties (Residential)	1,416	1,646
Purchase of motor vehicle	-	48
Wholesale and retail	-	334
	<u>1,416</u>	<u>2,028</u>
<b>(ix) Movements in allowance for impaired loans, advances and financing are as follows:</b>		
<b>Collective Assessment Allowance</b>		
At 1 January	4,592	5,548
Allowance made during the year (Note 27)	1,403	1,700
Amount written back (Note 27)	(2,129)	(2,656)
	<u>3,866</u>	<u>4,592</u>
At 31 December	<u>3,866</u>	<u>4,592</u>
<b>Individual Assessment Allowance</b>		
At 1 January	800	943
Allowance made during the year (Note 27)	405	864
Amount written back (Note 27)	(539)	(974)
Amount written off	(414)	(33)
	<u>252</u>	<u>800</u>
At 31 December	<u>252</u>	<u>800</u>

8. **DERIVATIVE FINANCIAL ASSETS/LIABILITIES**

Derivative financial instruments are off-balance sheet financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, interest rates and security prices) of the underlying instruments. Most of the Group's and of the Bank's derivative trading activities relate to deals with customers which are normally laid off with counterparties. The Group and the Bank may also take positions with the expectation to gain from favourable movements in prices, rates or indices.

As at the end of the reporting period, the Group and the Bank have positions in the following types of derivatives:

<b>Group/Bank</b>	<b>Notional RM'000</b>	<b>2015</b>	
		<b>Assets RM'000</b>	<b>Liabilities RM'000</b>
<b>Derivatives held for trading at fair value through profit or loss</b>			
Foreign exchange contracts:			
Forward	1,140,655	35,313	76,256
Cross-currency swaps and options	2,677,939	8,378	47,944
Interest rate contracts:			
Swaps	8,055,408	49,786	397,104
Cross-currency interest rate swaps	4,578,602	438,195	565,445
	<u>16,452,604</u>	<u>531,672</u>	<u>1,086,749*</u>
<b>2014</b>			
<b>Group/Bank</b>	<b>Notional RM'000</b>	<b>Assets RM'000</b>	<b>Liabilities RM'000</b>
<b>Derivatives held for trading at fair value through profit or loss</b>			
Foreign exchange contracts:			
Forward	3,522,920	86,155	66,870
Cross-currency swaps and options	1,945,804	18,982	56,402
Interest rate contracts:			
Swaps	18,459,825	364,035	461,274
Cross-currency interest rate swaps	5,317,722	219,271	252,700
Equity related contracts	22,398	730	730
	<u>29,268,669</u>	<u>689,173</u>	<u>837,976</u>

\* Includes provision for non-strategic derivative trades as stated in Note 28.

8. **DERIVATIVE FINANCIAL ASSETS/LIABILITIES (CONT'D.)**

The table above shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded at gross, is the amount of a derivative's underlying variable or reference rate and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the end of the reporting period and are indicative of neither the market risk nor the credit risk.

The fair values of the Group's and the Bank's derivative instruments are estimated by reference to quoted market prices. Internal models are used where no market price is available.

9. **STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA**

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia ("BNM") in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994) to satisfy the Statutory Reserve Requirement, the amounts of which are determined at set percentages of total eligible liabilities.

10. **OTHER ASSETS**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Tax recoverable	9,654	11,654
Other receivables, deposits and prepayments	53,961	38,056
	<u>63,615</u>	<u>49,710</u>

11. **INVESTMENT IN SUBSIDIARY COMPANIES**

	<b>Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At cost</b>		
Unquoted shares in Malaysia	<u>10</u>	<u>20</u>

11. **INVESTMENT IN SUBSIDIARY COMPANIES (CONT'D.)**

The subsidiary companies of the Bank, both of which are incorporated in Malaysia, are as follows:

Name of Subsidiary	Principal Activities	Proportion of Ownership Interest/ Voting Power Held by the Group	
		2015	2014
RBS Nominees (Tempatan) Sdn. Bhd.	Nominee services	100%	100%
RBS Nominees (Asing) Sdn. Bhd.	Nominee services	-	100%

All income and expenditure arising from the nominee activities of the subsidiary companies have been recognised in the Bank's results.

In 2014, the Bank had submitted applications to the Registrar of Companies ("ROC") to strike-off the Bank's two wholly owned subsidiary companies. At the end of the reporting period, the application to strike-off RBS Nominees (Asing) Sdn. Bhd. has been approved by ROC. The strike-off has no material effect on the earnings and net assets of the Bank for the financial year ended 31 December 2015.

12. **INVESTMENT IN ASSOCIATED COMPANY**

	Group	
	2015 RM'000	2014 RM'000
Unquoted shares at cost	2,700	2,700
Share of post-acquisition loss	(883)	(883)
Impairment loss (Note 26(b))	(517)	(517)
	<u>1,300</u>	<u>1,300</u>
	Bank	
	2015 RM'000	2014 RM'000
Unquoted shares at cost	2,700	2,700
Impairment loss (Note 26(b))	(1,400)	(1,400)
	<u>1,300</u>	<u>1,300</u>



12. **INVESTMENT IN ASSOCIATED COMPANY (CONT'D.)**

Details of the associated company, which is incorporated in Malaysia, is as follows:

<b>Name of Associate</b>	<b>Principal Activities</b>	<b>Proportion of Ownership Interest/ Voting Power Held by the Group</b>	
		<b>2015</b>	<b>2014</b>
Gale Force Sdn. Bhd.	Investing in or acquiring non-performing loans	25%	25%

During the year, the associated company has entered into a members voluntary liquidation. As at the date of this report, the liquidation process is still on-going.

The unaudited summarised financial information of the associated company is as follows:

	<b>2015*</b> <b>RM'000</b>	<b>2014</b> <b>RM'000</b>
<b>Assets and liabilities</b>		
Current assets	<u>9,643</u>	<u>9,377</u>
Total assets	<u><u>9,643</u></u>	<u><u>9,377</u></u>
Current liabilities	<u>200</u>	<u>2,173</u>
Total liabilities	<u><u>200</u></u>	<u><u>2,173</u></u>
<b>Results</b>		
Revenue	-	712
Loss for the year	<u><u>-</u></u>	<u><u>(1,873)</u></u>

\* Latest position as at 25 February 2016 as provided by liquidator.

13. **PROPERTY, PLANT AND EQUIPMENT**

<b>2015</b>	<b>Freehold Land and Building RM'000</b>	<b>Motor Vehicle RM'000</b>	<b>Office Equipment and Machinery RM'000</b>	<b>Furniture, Fixtures and Fittings RM'000</b>	<b>Computer Equipment RM'000</b>	<b>Total RM'000</b>
<b>Group and Bank</b>						
<b>Cost</b>						
At 1 January 2015	388	616	3,583	12,670	15,907	33,164
Additions	-	-	5	-	1,230	1,235
Write-off	-	-	(536)	(760)	(2,462)	(3,758)
Disposal	(388)	-	-	(8,089)	-	(8,477)
Reclassification (Note 14)	-	-	566	-	(4,075)	(3,509)
At 31 December 2015	-	616	3,618	3,821	10,600	18,655
<b>Accumulated Depreciation</b>						
At 1 January 2015	-	468	3,583	7,932	12,060	24,043
Depreciation charge for the year	-	103	-	827	1,691	2,621
Write-off	-	-	(533)	(760)	(2,446)	(3,739)
Disposal	-	-	-	(5,835)	-	(5,835)
Reclassification (Note 14)	-	45	348	(209)	(3,986)	(3,802)
At 31 December 2015	-	616	3,398	1,955	7,319	13,288
<b>Net Book Value</b>	-	-	220	1,866	3,281	5,367

(Forward)

13. **PROPERTY, PLANT AND EQUIPMENT (CONT'D.)**

<b>2014</b>	<b>Freehold Land and Building RM'000</b>	<b>Motor Vehicle RM'000</b>	<b>Office Equipment and Machinery RM'000</b>	<b>Furniture, Fixtures and Fittings RM'000</b>	<b>Computer Equipment RM'000</b>	<b>Total RM'000</b>
<b>Group and Bank</b>						
<b>Cost</b>						
At 1 January 2014	388	616	3,459	12,472	15,110	32,045
Additions	-	-	124	198	797	1,119
At 31 December 2014	388	616	3,583	12,670	15,907	33,164
<b>Accumulated Depreciation</b>						
At 1 January 2014	-	345	3,265	6,344	10,580	20,534
Depreciation charge for the year	-	123	318	1,588	1,480	3,509
At 31 December 2014	-	468	3,583	7,932	12,060	24,043
<b>Net Book Value</b>	<b>388</b>	<b>148</b>	<b>-</b>	<b>4,738</b>	<b>3,847</b>	<b>9,121</b>

14. **INTANGIBLE ASSETS**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<u>Computer Software:</u>		
<b>Cost</b>		
At 1 January	3,831	3,831
Additions	1,149	-
Write-off	(3,953)	-
Reclassification (Note 13)	3,509	-
	<u>4,536</u>	<u>3,831</u>
At 31 December	<u>4,536</u>	<u>3,831</u>
<b>Accumulated Amortisation</b>		
At 1 January	3,165	2,916
Amortisation for the year (Note 26(b))	394	249
Write-off	(3,952)	-
Reclassification (Note 13)	3,802	-
	<u>3,409</u>	<u>3,165</u>
At 31 December	<u>3,409</u>	<u>3,165</u>
<b>Net Book Value</b>	<u>1,127</u>	<u>666</u>

15. **DEFERRED TAX**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	19,170	28,135
Recognised in profit or loss (Note 29)	(6,844)	(9,014)
Recognised in equity	(450)	49
	<u>11,876</u>	<u>19,170</u>
At 31 December	<u>11,876</u>	<u>19,170</u>

15. DEFERRED TAX (CONT'D.)

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Presented after appropriate offsetting as follows:		
Deferred tax assets	12,493	19,428
Deferred tax liabilities	<u>(617)</u>	<u>(258)</u>
Net	<u>11,876</u>	<u>19,170</u>

Deferred 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 income taxes relate to the same fiscal authority.

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax assets of the Group and of the Bank:

	<b>Other Payables RM'000</b>	<b>Other Temporary Differences RM'000</b>	<b>Unrealised Reserves RM'000</b>	<b>Total RM'000</b>
At 1 January 2014	29,234	39	-	29,273
Transfer from deferred tax liabilities	-	-	269	269
Recognised in equity	-	-	49	49
Recognised in profit or loss	<u>(20,018)</u>	<u>9,855</u>	<u>-</u>	<u>(10,163)</u>
At 31 December 2014	<u>9,216</u>	<u>9,894</u>	<u>318</u>	<u>19,428</u>
At 1 January 2015	9,216	9,894	318	19,428
Transfer from deferred tax liabilities	-	-	(318)	(318)
Recognised in profit or loss	<u>(5,121)</u>	<u>(1,496)</u>	<u>-</u>	<u>(6,617)</u>
At 31 December 2015	<u>4,095</u>	<u>8,398</u>	<u>-</u>	<u>12,493</u>

15. **DEFERRED TAX (CONT'D.)**

Deferred tax liabilities of the Group and of the Bank:

	<b>Capital Allowances RM'000</b>	<b>Unrealised Reserves RM'000</b>	<b>Total RM'000</b>
At 1 January 2014	1,407	(269)	1,138
Transfer from deferred tax assets	-	269	269
Recognised in profit or loss	(1,149)	-	(1,149)
	<u>258</u>	<u>-</u>	<u>258</u>
At 31 December 2014			
At 1 January 2015	258	-	258
Transfer to deferred tax assets	-	(318)	(318)
Recognised in profit or loss	227	-	227
Recognised in equity	-	450	450
	<u>485</u>	<u>132</u>	<u>617</u>
At 31 December 2015			

The availability of capital allowances for offsetting against taxable profits is subject to agreement by the relevant tax authorities.

16. **DEPOSITS FROM CUSTOMERS**

<b>Type</b>	<b>Group</b>	
	<b>2015 RM'000</b>	<b>2014 RM'000</b>
<b>At amortised cost</b>		
Demand deposits	1,080,448	1,032,137
Savings deposits	962	1,293
Fixed deposits	84,180	178,678
Negotiable instruments of deposits	-	3,279
	<u>1,165,590</u>	<u>1,215,387</u>

16. **DEPOSITS FROM CUSTOMERS (CONT'D.)**

<b>Type</b>	<b>Bank</b>	
	<b>2015 RM'000</b>	<b>2014 RM'000</b>
<b>At amortised cost</b>		
Demand deposits	1,080,458	1,032,157
Savings deposits	962	1,293
Fixed deposits	84,180	178,678
Negotiable instruments of deposits	-	3,279
	<u>1,165,600</u>	<u>1,215,407</u>

- (i) Maturity structure of fixed deposits and negotiable instruments of deposits is as follows:

	<b>Group/Bank</b>	
	<b>2015 RM'000</b>	<b>2014 RM'000</b>
Due within six months	84,137	177,352
Six months to one year	43	4,605
	<u>84,180</u>	<u>181,957</u>

- (ii) The deposits are sourced from the following types of customers:

	<b>Group</b>	
	<b>2015 RM'000</b>	<b>2014 RM'000</b>
Government and statutory bodies	1,499	22,112
Business enterprises	1,001,169	1,089,481
Individuals	14,669	14,044
Others	148,253	89,750
	<u>1,165,590</u>	<u>1,215,387</u>

  

	<b>Bank</b>	
	<b>2015 RM'000</b>	<b>2014 RM'000</b>
Government and statutory bodies	1,499	22,112
Business enterprises	1,001,179	1,089,481
Individuals	14,669	14,044
Others	148,253	89,770
	<u>1,165,600</u>	<u>1,215,407</u>

**17. DEPOSITS AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At amortised cost</b>		
Licensed banks	29,879	19,091
Other financial institutions	299,609	686,861
	<u>329,488</u>	<u>705,952</u>

**18. OTHER LIABILITIES**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Other liabilities	36,607	33,225
Internal settlement cost (Note 31(a))	15,734	35,294
Tax liabilities	2,661	1,776
	<u>55,002</u>	<u>70,295</u>

**19. SUBORDINATED DEBT CAPITAL**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	-	208,553
Net amortisation during the year	-	(8,553)
Redemption of subordinated debt capital	-	(200,000)
	<u>-</u>	<u>-</u>
At 31 December	<u>-</u>	<u>-</u>

On 8 June 2007, the Bank issued RM200 million in aggregate principal amount of Redeemable Subordinated Negotiable Instruments of Deposits (“NIDs”) maturing on 8 June 2017 at 4.15% per annum subject to revision on year 6 onwards. The Subordinated NIDs bore an interest stepped up by 0.5% per annum from the 6th year onwards till the end of maturity.

On 6 June 2014, the Bank had fully redeemed its subordinated debt capital which resulted in a change in estimation of effective interest rate of the subordinated debt resulting in a gain of RM7,904,000 in the statements of profit or loss and other comprehensive income.



20. **SHARE CAPITAL**

	<b>Group/Bank</b>	
	<b>Number of shares</b>	
	<b>2015</b>	<b>2014</b>
	<b>'000</b>	<b>'000</b>
<b>Authorised:</b>		
<b>Ordinary shares of RM1 each:</b>		
At beginning/end of the year	<u>500,000</u>	<u>500,000</u>
<b>Issued and fully paid:</b>		
<b>Ordinary shares of RM1 each:</b>		
At beginning of year	343,000	203,000
Issued during the year	<u>-</u>	<u>140,000</u>
At end of the year	<u>343,000</u>	<u>343,000</u>

As approved by the shareholder at an Extraordinary General Meeting held on 30 May 2014, the issued and paid-up share capital of the Bank was increased from RM203,000,002, comprising 203,000,002 ordinary shares of RM1.00 each, to RM343,000,002 comprising 343,000,002 ordinary shares of RM1.00 each by way of issuance of 140,000,000 new ordinary shares at RM1.00 each in the Company for the purpose of maintaining a strong Risk Weighted Capital Ratio (“RWCR”) through the redemption of subordinate debt capital.

21. **RESERVES**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Non-distributable:		
Share premium	76,182	76,182
Statutory reserves (Note a)	178,843	172,259
Unrealised reserves (Note b)	417	(956)
Regulatory reserves (Note c)	1,153	4,237
Distributable:		
Retained earnings (Note d)	<u>171,131</u>	<u>148,294</u>
	<u>427,726</u>	<u>400,016</u>

(a) **Statutory reserves**

The statutory reserves are maintained in compliance with Section 47(2)(f) of the Financial Services Act, 2013 and are not distributable as dividends.

(b) **Unrealised reserves**

The unrealised reserves comprise fair value changes on securities available-for-sale.

(c) **Regulatory reserves**

The reserves are maintained in line with the requirement of Bank Negara Malaysia as disclosed in Note 2.1.

(d) **Retained earnings**

The Bank is currently under the single-tier income tax system effective 1 January 2014. Accordingly, there is no further need to deduct tax when paying dividends. Dividends can be freely distributed without having to keep track of a dividend franking account.

22. **OPERATING REVENUE**

Operating revenue of the Group and of the Bank comprises all types of revenue derived from the business of banking and comprises gross interest income (after adding back net interest/income suspended), fee and commission income, investment income, gross dividends and other income derived from banking operations.

23. **INTEREST INCOME**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Loans, advances and financing	22,374	21,777
Money at call and deposit placements with financial institutions	48,189	18,585
Securities available-for-sale	11,471	18,165
	<u>82,034</u>	<u>58,527</u>
Amortisation of premium less accretion of discount	(1,482)	(1,865)
	<u>80,552</u>	<u>56,662</u>
Total interest income	<u>80,552</u>	<u>56,662</u>
Of which:		
Interest income earned on impaired loans, advances and financing	<u>35</u>	<u>69</u>

24. **INTEREST EXPENSE**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Deposits and placements from banks and other financial institutions	1,402	3,868
Deposits from customers	8,005	9,837
Subordinated debt capital (Note 19)	-	(3,502)
	<u>9,407</u>	<u>10,203</u>

## 25. OTHER OPERATING INCOME

	Group		Bank	
	2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Fee income:				
Commissions	1,103	1,895	1,103	1,895
Service charges and fees	1,837	1,853	1,837	1,853
Guarantee fees	2,438	4,680	2,438	4,680
Other fee income	6,651	6,648	6,651	6,648
	<u>12,029</u>	<u>15,076</u>	<u>12,029</u>	<u>15,076</u>
Net gain/(loss) arising from sale of securities:				
Securities available-for-sale	-	43	-	43
	<u>-</u>	<u>43</u>	<u>-</u>	<u>43</u>
Net gain arising from disposal of property, plant and equipment*	15,362	-	15,362	-
	<u>15,362</u>	<u>-</u>	<u>15,362</u>	<u>-</u>
Gross dividend income from:				
Securities available-for-sale	138	125	138	125
Associated company	-	-	-	252
	<u>138</u>	<u>125</u>	<u>138</u>	<u>377</u>
Other income/(expenses):				
Foreign exchange gain/(loss)				
Unrealised	85,745	(7,322)	85,745	(7,322)
Realised	(31,107)	11,329	(31,107)	11,329
(Loss)/Gain on derivatives trading				
Unrealised	(89,204)	(18,836)	(89,204)	(18,836)
Realised	20,182	26,311	20,182	26,311
Others	(192)	(864)	(192)	(864)
	<u>(14,576)</u>	<u>10,618</u>	<u>(14,576)</u>	<u>10,618</u>
	<u>12,953</u>	<u>25,862</u>	<u>12,953</u>	<u>26,114</u>

\* During the year, the Bank entered into Sale and Purchase agreement with a third party to dispose of its freehold land and building located in Penang, Malaysia along with certain office equipment and machinery, furniture, fixtures and fittings at sales consideration of RM18,004,850.

26. **OTHER OPERATING EXPENSES**

	<b>Group</b>		<b>Bank</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Personnel costs (Note a)	19,569	19,619	19,569	19,619
Establishment costs (Note b)	8,488	16,304	8,488	17,187
Marketing expenses (Note c)	240	859	240	859
Administration and general expenses (Note d)	8,486	9,003	8,486	9,003
	<u>36,783</u>	<u>45,785</u>	<u>36,783</u>	<u>46,668</u>

(a) **Personnel costs**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Salaries, bonuses and allowances	14,901	14,000
Other staff related expenses	1,932	2,680
EPF – defined contribution plan	2,179	2,348
Social security costs	433	483
Rental of accommodation	124	108
	<u>19,569</u>	<u>19,619</u>

26. **OTHER OPERATING EXPENSES (CONT'D)**

(b) **Establishment costs**

	<b>Group</b>		<b>Bank</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Share of group costs after offsetting waiver of management charges of RMNil (2014: RM18,438,000) for prior years	2,741	6,066	2,741	6,066
Depreciation of property, plant and equipment (Note 13)	2,621	3,509	2,621	3,509
Amortisation of intangible assets (Note 14)	394	249	394	249
Rental of premises	1,393	1,409	1,393	1,409
Impairment loss on investment in associated company (Note 12)	-	517	-	1,400
Property, plant and equipment written off	19	-	19	-
Intangible asset written off	1	-	1	-
Others	1,319	4,554	1,319	4,554
	<u>8,488</u>	<u>16,304</u>	<u>8,488</u>	<u>17,187</u>

(c) **Marketing expenses**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Advertising	130	305
Others	110	554
	<u>240</u>	<u>859</u>

26. **OTHER OPERATING EXPENSES (CONT'D)**

(d) **Administration and general expenses**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Communication	1,916	2,441
Legal and professional fees	1,555	1,185
Transportation	606	760
Property maintenance	1,742	1,328
Others	2,667	3,289
	<u>8,486</u>	<u>9,003</u>

Included in the above expenditure are the following statutory disclosures:

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Directors' remuneration and benefits-in-kind	2,035	1,975
Auditors' remuneration		
Statutory audit	214	234
Audit related services*	45	45
	<u>45</u>	<u>45</u>

\* Audit related services included validation review based on agreed-upon procedures required for regulatory purposes.

26. **OTHER OPERATING EXPENSES (CONT'D.)**

Details of Directors' remuneration of the Bank during the year are as follows:

	<b>Salary and other remuneration RM'000</b>	<b>Fees RM'000</b>	<b>Bonuses RM'000</b>	<b>Benefits -in-kind RM'000</b>	<b>Total RM'000</b>
<b>2015</b>					
Executive director:					
Andrew Mark Sill	1,483	-	307	35	1,825
Non-executive directors:					
Tan Sri Asmat					
bin Kamaludin	-	110	-	-	110
Jonathan William Addis	-	100	-	-	100
	<u>1,483</u>	<u>210</u>	<u>307</u>	<u>35</u>	<u>2,035</u>

	<b>Salary and other remuneration RM'000</b>	<b>Fees RM'000</b>	<b>Bonuses RM'000</b>	<b>Benefits -in-kind RM'000</b>	<b>Total RM'000</b>
<b>2014</b>					
Executive director:					
Andrew Mark Sill	1,464	-	270	35	1,769
Non-executive directors:					
Tan Sri Asmat					
bin Kamaludin	-	110	-	-	110
Dato' Jorgen Bornhoft	-	56	-	-	56
Jonathan William Addis	-	40	-	-	40
	<u>1,464</u>	<u>206</u>	<u>270</u>	<u>35</u>	<u>1,975</u>



27. **WRITE BACK FOR IMPAIRMENT ON LOANS, ADVANCES AND FINANCING**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Write back for impairment on loans, advances and financing:		
<b>Individual Assessment Allowance:</b>		
Made in the financial year (Note 7)	405	864
Written back in the financial year (Note 7)	(539)	(974)
Written off loans recovered	<u>(76)</u>	<u>(16)</u>
	<u>(210)</u>	<u>(126)</u>
<b>Collective Assessment Allowance:</b>		
Made in the financial year (Note 7)	1,403	1,700
Written back in the financial year (Note 7)	<u>(2,129)</u>	<u>(2,656)</u>
	<u>(726)</u>	<u>(956)</u>
	<u><u>(936)</u></u>	<u><u>(1,082)</u></u>

28. **PROVISION FOR NON-STRATEGIC DERIVATIVE TRADES**

During the year, the Group and the Bank identified certain long-dated derivatives that no longer form part of the Group's and the Bank's strategy and therefore a provision is made to reflect its estimated cost to sell, terminate or novate the trades.

29. **TAX EXPENSE**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Malaysian income tax based on results for the year:		
Current year	155	-
Over provision in prior years	<u>1,588</u>	<u>940</u>
<b>Current tax expense</b>	<u>1,743</u>	<u>940</u>
Deferred tax (Note 15):		
Relating to origination and reversal of temporary differences	9,449	7,491
(Under)/Over provision in prior years	<u>(2,605)</u>	<u>1,523</u>
<b>Deferred tax expense</b>	<u>6,844</u>	<u>9,014</u>
<b>Tax expense</b>	<u><u>8,587</u></u>	<u><u>9,954</u></u>

29. **TAX EXPENSE (CONT'D)**

**Reconciliation of tax expense**

	<b>Group</b>		<b>Bank</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Profit before tax	<u>34,924</u>	<u>26,935</u>	<u>34,924</u>	<u>26,987</u>
Taxation at Malaysian statutory tax rate of 25%	8,731	6,734	8,731	6,747
Non-taxable income	(4,544)	(31)	(4,544)	(94)
Expenses not deductible for tax purposes	4,915	788	4,915	838
Effect of change in tax rate	502	-	502	-
Over/(Under) provision of deferred tax assets in prior years	(2,605)	1,523	(2,605)	1,523
Under/(Over) provision of current income tax payable in prior years	<u>1,588</u>	<u>940</u>	<u>1,588</u>	<u>940</u>
Tax expense for the year	<u><u>8,587</u></u>	<u><u>9,954</u></u>	<u><u>8,587</u></u>	<u><u>9,954</u></u>

The Budget 2014 announced on 25 October 2013 reduced the corporate income tax rate from 25% to 24% with effect from year of assessment 2016. Accordingly, the applicable tax rates to be used for the measurement of any applicable deferred tax will be the expected rates.

30. **EARNINGS PER SHARE**

The earnings per share of the Group and of the Bank have been calculated based on the profit for the year of RM26,337,000 (profit for the year in 2014 of RM16,981,000 and RM17,033,000 respectively) on the weighted average number of ordinary shares of RM1 each in issue of 343,000,002 (2014: 273,000,002) during the year.

31. **SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

Given the reach of the UK Government and their controlled bodies and the volume and diversity of transactions with them, the disclosure of transactions with these related parties is impractical. Hence, for purposes of the financial statements of the Bank and the Group, related companies refer to members of The Royal Bank of Scotland Group Plc's group of companies.

- (a) Significant transactions undertaken by the Group and the Bank with related companies are as follows:

<b>2015</b>	<b>Subsidiary companies RM'000</b>	<b>Associated company RM'000</b>	<b>Other related companies RM'000</b>
<b>Income:</b>			
Commissions and fees			396
Interest income	-	-	61
Share of group and information technology costs			<u>5,827</u>
<b>Expense:</b>			
Interest expense	-	-	807
Share of group and information technology costs	-	-	<u>2,741</u>
<b>Assets:</b>			
Cash and short-term funds	-	-	10,359
Interest receivable	-	-	20
Derivative financial assets	-	-	<u>401,803</u>
<b>Liabilities:</b>			
Deposits from customers	10	-	532
Deposits and placements from banks and other financial institutions	-	-	299,609
Interest payable	-	-	1
Derivative financial liabilities	-	-	355,071
Internal settlement cost	-	-	<u>15,734</u>

31. **SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES  
(CONT'D)**

<b>2014</b>	<b>Subsidiary companies RM'000</b>	<b>Associated company RM'000</b>	<b>Other related companies RM'000</b>
<b>Income:</b>			
Commissions and fees	-	-	326
Interest income	-	-	1,310
Share of group and information technology costs	-	-	5,334
Dividend received*	-	252	-
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Expense:</b>			
Interest expense	-	-	243
Share of group and information technology costs	-	-	6,066
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Assets:</b>			
Cash and short-term funds			1,499,750
Interest receivable	-	-	4
Derivative financial assets	-	-	226,582
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Liabilities:</b>			
Deposits from customers	20	-	3,999
Deposits and placements from banks and other financial institutions	-	-	686,861
Interest payable	-	-	36
Derivative financial liabilities	-	-	279,734
Internal settlement cost	-	-	35,294
	<u>          </u>	<u>          </u>	<u>          </u>

\* Significant transaction by the Bank only.

31. **SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)**

(b) Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year are as follows:

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Short-term employee benefits	4,861	5,170
Post-employment benefits:		
Defined contribution plan	<u>460</u>	<u>487</u>
	<u><u>5,321</u></u>	<u><u>5,657</u></u>

Included in the total compensation of key management personnel are:

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Directors' remuneration excluding benefits-in-kind	<u>2,000</u>	<u>1,940</u>

32. **OPERATING LEASE ARRANGEMENTS**

The Group and the Bank have entered into non-cancellable operating lease agreements for the use of buildings. These leases have an average term of 9 years with an option for cancellation every 3 years. There are no restrictions placed upon the Group and the Bank by entering into these leases.

The future aggregate minimum lease payments under non-cancellable operating leases contracted for as of the reporting date but not recognised as liabilities are as follows:

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Future minimum rental payments:		
Not later than 1 year	1,267	1,204
Later than 1 year and not later than 5 years	<u>213</u>	<u>201</u>
	<u><u>1,480</u></u>	<u><u>1,405</u></u>

**33. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES**

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Outstanding credit exposures with connected parties	40,807	138,773
Total credit exposures	<u>2,970,447</u>	<u>4,125,825</u>
Percentage of outstanding credit exposures to connected parties:		
- as a proportion of total credit exposures	1.37%	3.36%
- as a proportion of capital base (Note 37)	<u>5.54%</u>	<u>19.48%</u>

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

Based on these guidelines, a connected party refers to the following:

- (i) Directors of the Bank and their close relatives;
- (ii) Controlling shareholder and their close relatives;
- (iii) Executive officer, being a member of management having authority and responsibility for planning and directing and/or controlling the activities of the Bank, and their close relatives;
- (iv) Officers who are responsible for or have the authority to appraise and/or approve credit transactions or review the status of existing credit transactions, either as a member of a committee or individually, and their close relatives;
- (v) Firms, partnerships, companies or any legal entities which control, or are controlled by any person listed in (i) to (iv) above, or in which they have an interest, as a director, partner, executive officer, agent or guarantor, and their subsidiary or entities controlled by them;
- (vi) Any person for whom the persons listed in (i) to (iv) above is a guarantor; and
- (vii) Subsidiary of or an entity controlled by the Bank and its connected parties.

Due care has been taken to ensure that the credit worthiness of the connected party is not less than that normally required of other persons.

Credit transactions and exposure to connected parties as disclosed above include the extension of credit facilities and/or off-balance sheet credit exposure such as guarantees, trade-related facilities and loan commitments. It also includes holding of equities and private debt securities issued by the connected parties.

34. **COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Group and the Bank make various commitments and incur certain contingent liabilities with legal recourse to their customers. No material losses are anticipated as a result of these transactions. The commitments and contingencies are not secured against the Group's and Bank's assets.

Risk Weighted Exposures of the Group and of the Bank as of 31 December are as follows:

	<b>Principal amount RM'000</b>	<b>2015 Credit equivalent amount * RM'000</b>	<b>Risk- weighted amount RM'000</b>	<b>Principal amount RM'000</b>	<b>2014 Credit equivalent amount * RM'000</b>	<b>Risk- weighted amount RM'000</b>
Direct credit substitutes	1,370	1,370	1,370	6,338	6,338	6,338
Transaction-related contingent items	240,279	120,140	116,781	644,368	322,184	314,521
Short-term self-liquidating trade - related contingencies	72,844	14,569	14,569	124,068	24,814	24,766
Other commitments, such as formal standby facilities and credit lines:						
maturity less than one year	1,694,305	338,861	324,766	1,714,432	342,886	327,188
maturity more than one year	179	90	67	323	162	121
Foreign exchange related contracts:						
less than one year	3,573,493	47,789	37,929	5,019,236	159,122	125,160
one year to less than five years	245,100	29,569	22,326	449,488	38,957	23,763

(Forward)



34. **COMMITMENTS AND CONTINGENCIES (CONT'D.)**

	<b>Principal amount RM'000</b>	<b>2015 Credit equivalent amount * RM'000</b>	<b>Risk- weighted amount RM'000</b>	<b>Principal amount RM'000</b>	<b>2014 Credit equivalent amount * RM'000</b>	<b>Risk- weighted amount RM'000</b>
Interest rate related contracts:						
less than one year	3,167,600	270,872	132,030	5,984,083	154,793	115,634
one year to less than five years	7,543,711	514,708	193,823	13,058,632	820,425	332,081
five years and above	1,922,699	223,564	57,765	4,734,832	600,754	391,776
Equity related contracts:						
one year to less than five years	-	-	-	22,398	2,074	1,221
	<u>18,461,580</u>	<u>1,561,532</u>	<u>901,426</u>	<u>31,758,198</u>	<u>2,472,509</u>	<u>1,662,569</u>

\* The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia guidelines.

### 35. **FINANCIAL RISK MANAGEMENT POLICIES**

The Group and the Bank adopt the risk management policies of the holding company, which encompass a variety of controls and reporting processes. This includes establishing risk management policies and guidelines which set out the Group's and the Bank's overall business strategies, tolerance for risk and general risk management philosophy to ensure that adequate resources are available for the development of the Group's and the Bank's business whilst managing its interest rate, market, credit and liquidity risks. The Board of Directors has approved guidelines pertaining to the risk management policies of the Group and the Bank which are closely adhered to, ensuring that the operations of the Bank are conducted in a prudent manner.

The Group and the Bank govern risk by adopting a 'three lines of defence' model to ensure appropriate responsibility is allocated for the management, reporting and escalation of risk matters. The first line of defence consists of the business and functions, which are responsible for owning, raising, capturing, confirming and resolving risks within their areas including performing self-certification to test and certify the adequacy and effectiveness of controls to meet these responsibilities. The second line of defence consists of RBS Group Risk Management and this includes Credit risk, Market risk and Operational risk. Each RBS Group Risk Management department is responsible for owning and developing their respective risk management frameworks, systems and tools, which the business and functions use to discharge their responsibilities. Additionally, the second line of defence provides oversight and challenge to the business and functions to ensure that risk exposure is adequately and effectively managed. The third line of defence is Internal Audit ("IA"). IA is responsible for providing independent assurance on the design, adequacy and effectiveness of the Group's system of internal controls.

#### **Capital Management**

Capital management is performed at the holding company level. The aim is to maintain an appropriate level of capital to meet its business needs and regulatory requirements, and operate within an agreed risk appetite.

The Group and the Bank have set a capital contingency framework to safeguard that the capital level stays within appropriate levels. This framework includes Early Warning Indicators, as well as setting Internal Capital Target levels above the regulatory minimum. The Early Indicator Trigger levels as well as the Internal Capital Target level are generally reviewed annually inline with the Internal Capital Adequacy Assessment Process to ensure it remains adequate for the Group.

(a) **Operational Risk**

The Operational Risk Management (“ORM”) team is responsible for providing effective guidance and oversight of operational risk within the business in the Asia Pacific region.

As part of the second line of defence, ORM provides assistance and guidance to the business and functions within the first line of defence, and ensures adherence to all appropriate operational risk policies and reporting requirements. ORM is responsible for the development and maintenance of the operational risk framework, systems, tools and methodologies including the deployment of these to the businesses and functions.

The ORM toolkit includes tools to assist with determining:

- **How much risk is acceptable?** This is achieved via Group & Divisional Policy Framework (supporting a consistent approach to ‘how we do business’) and helping the business determine its Risk Appetite.
- **What risks we face?** Tools include Change Risk Assessment (which focuses on risks associated with change related activities, as opposed to ‘business as usual’ activities), Risk Assessments (used to identify and assess the operational risks faced with ‘business as usual’ activities) and Scenario Analysis (forward looking assessment to determine exposure to extreme but plausible operational risk events).
- **How do we reduce risk?** Event & Loss Data Management process (to help effectively manage and report our operational risk events and includes the Group Notifiable Event Process (“GNEP”) and Incident Analysis Reporting Procedure (“IAR”)) and Risk Issues Management (to allow the identification, capture, classification and monitoring of operational risk issues and associated actions).
- **How do we know it’s working?** ORM provides oversight and challenge to the first line of defence on the management of its operational risk primarily via the Control Environment Certification (“CEC”) and the Risk & Control Assurance Program (“RACA”) whereby the first line of defence conducts periodic testing and certification of its controls within their respective areas to ensure that these are adequate and effective.

35. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

(b) **Credit Risk**

Credit risk considers the ability of a borrower or counterparty to honor commitments under an agreement as any such failure has an adverse impact on the banks' financial performance. The Group and the Bank are exposed to credit risk through its various lending activities such as funded facilities, non-funded facilities as well as hedging facilities.

The Group's and the Bank's credit risk management process is independent of the business so as to protect integrity of the risk assessment process and decision making. The global as well as local policies guide the credit risk team to make informed decisions.

Credit risk in respect of exposures to corporate borrowers is measured and managed at both individual counterparty level as well as at a portfolio level. Credit rating tools are an integral part of risk-assessment of the corporate borrowers and different rating models are used for each segment that has distinct risk characteristics such as large corporate and financial companies.

The credit rating tools use a combination of quantitative inputs and qualitative inputs to arrive at a 'point-in-time' view of the rating of counterparty. Each internal rating grade corresponds to a distinct probability of default. Model validation is carried out periodically at a global level by objectively assessing the accuracy and stability of ratings.

All credit exposures, once approved, are monitored and reviewed periodically against the approved limits. Borrowers with lower credit rating are subject to more frequent reviews. Besides this, there are monthly risk migration analysis and monthly watch list meeting.

Risk review involves independent review of credit risk assessment, compliance with internal policies of the Group and of the Bank and with the regulatory framework, compliance of sanction terms and conditions and effectiveness of loan administration.

Customers with emerging credit problems are identified early and classified accordingly. Remedial action is initiated promptly to minimise the potential loss to the Group and the Bank.

The Group and the Bank control and limit concentration risk by means of appropriate structural limits and borrower limits based on creditworthiness. The exposures to individual clients or group are based on the internal rating of the borrower as well as group-wise borrowing limits and capped by the regulatory ceiling.

**35. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

Industry analysis plays an important part in assessing the concentration risk within the loan portfolio. Particular attention is given to industry sectors where the Group and the Bank believe there is a high degree of risk or potential for volatility in the future. The Group and the Bank have fixed internal limits for aggregate commitments to different sectors so that the exposures are evenly spread over various sectors.

35. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

The following table represents the Group's and Bank's credit risk concentrations as of 31 December 2015:

	<b>Short-term funds and placements with financial institutions including Statutory Deposit with BNM RM'000</b>	<b>Securities available-for- sale RM'000</b>	<b>Loans, advances and financing RM'000</b>	<b>Derivative financial assets RM'000</b>	<b>Commitments and contingencies RM'000</b>
Government and Central Banks	1,580,264	238,766	-	-	-
Mining and quarrying	-	-	20,961	137	651,644
Manufacturing	-	-	47,678	2,225	1,289,985
Electricity, gas and water	-	-	-	-	150,000
Construction	-	-	-	32,818	112,498
Purchase of residential landed properties	-	-	16,341	-	-
Wholesale and retail	-	-	261,958	546	578,026
Transport, storage and communication	-	-	-	210	309,108
Finance, insurance and business services	554,697	1,699	70,835	495,735	15,370,113
Purchase of transport vehicles	-	-	679	-	-
Consumption credit	-	-	16	-	179
Community, social and personal services	-	-	-	1	27
Others	2,822	-	(4,118)	-	-
	<u>2,137,783</u>	<u>240,465</u>	<u>414,350*</u>	<u>531,672</u>	<u>18,461,580</u>

\* Net of collective and individual assessment allowance RM3,866,000 and RM252,000 respectively.

35. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

The following table represents the Group's and Bank's credit risk concentrations as of 31 December 2014:

	<b>Short-term funds and placements with financial institutions including Statutory Deposit with BNM RM'000</b>	<b>Securities available-for- sale RM'000</b>	<b>Loans, advances and financing RM'000</b>	<b>Derivative financial assets RM'000</b>	<b>Commitments and contingencies RM'000</b>
Government and Central Banks	19,344	383,633	-	-	-
Mining and quarrying	-	-	74,718	22,278	1,036,741
Manufacturing	-	-	272,200	49,318	2,733,179
Electricity, gas and water	-	-	-	-	150,000
Construction	-	-	9,583	11,150	513,840
Purchase of residential landed properties	-	-	18,328	-	323
Wholesale and retail	-	-	278,456	1,615	810,805
Transport, storage and communication	-	-	251	204,947	2,178,733
Finance, insurance and business services	1,664,139	1,699	80,899	399,865	24,334,557
Purchase of transport vehicles	-	-	1,199	-	-
Consumption credit	-	-	115	-	-
Community, social and personal services	-	-	-	-	20
Others	3,514	-	(4,592)	-	-
	<u>1,686,997</u>	<u>385,332</u>	<u>731,157*</u>	<u>689,173</u>	<u>31,758,198</u>

\* Net of collective and individual assessment allowance RM4,592,000 and RM800,000 respectively.

35. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

Gross loans, advances and financing are analysed as follow:

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Neither past due nor impaired	415,084	733,169
Past due but not impaired	1,968	1,352
Impaired	1,416	2,028
	<u>418,468</u>	<u>736,549</u>

The breakdown of the gross amount of loans, advances and financing individually assessed as impaired, by class, along with the fair value of related collateral held by the Group and the Bank as security are as follow:

<b>Group/Bank</b>	<b>Total Gross Impaired Loans, Advances and Financing RM'000</b>	<b>Individual Assessment Allowance RM'000</b>	<b>Fair Value of Collateral RM'000</b>
<b>2015</b>			
Purchase of landed properties (Residential)	1,416	252	1,164
	<u>1,416</u>	<u>252</u>	<u>1,164</u>
<b>2014</b>			
Purchase of landed properties (Residential)	1,646	419	1,227
Purchase of transport vehicles	48	47	1
Wholesale and retail	334	334	-
	<u>2,028</u>	<u>800</u>	<u>1,228</u>



### 35. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

#### (c) Market Risk

Market risk is the risk of losses arising from changes in market rates or prices that can affect either the value of financial instruments that can be marked to market or the derivatives credit risk exposure to counterparties.

The Group and the Bank have a comprehensive market risk management framework in place to identify measure, monitor, analyse and control market risk arising from its trading activities on a consistent and timely basis. Market risk management is governed through policies and procedures and levels of risk appetite in terms of Value at Risk ("VaR"). Limits are then proposed by the business within the terms of agreed policy.

These are agreed and monitored by an independent market risk management function. Policies cover both the trading and non-trading books.

Market risk exposures are monitored daily by independent market risk management team using relevant systems. Daily reports measuring utilisation of currency and holding limits together with price value basis points limits are generated and circulated to the relevant parties for information and action. The Bank has no significant exposure to equity and commodity price risk.

Value at Risk (VaR) and limits, independent stress testing of portfolios, factor sensitivity measures and derivatives are used as additional risk management tools to manage and hedge market risk exposures.

The table below provides the aggregate VaR for 31 December 2015 and 31 December 2014 at 99% confidence level, one day holding period.

	<b>Group/Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'mil</b>	<b>RM'mil</b>
Aggregate VaR	<u>1.07</u>	<u>0.75</u>

The aggregate VaR includes the diversification effect of imperfect or negative correlations between certain risk types. Therefore the aggregate VaR can be lower than the sum of individual risk types on the same day (e.g. year end).

In practice, the actual trading results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profit or loss in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored regularly to test the validity of the assumptions and the parameters used in the VaR calculation.

35. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

(d) **Interest Risk**

Sensitivity to interest rates in banking activities arises from mismatches in the interest rate characteristics of the assets and their corresponding liabilities funding these assets. One of the major causes of these mismatches is timing differences in the re-pricing of the financial assets and the liabilities. The Group and the Bank set limits on the level of gaps or mismatch of interest rates of items on and off the statements of financial position.

35. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

The following table represents the Group's assets and liabilities at carrying amounts as of 31 December 2015:

The Group	Non-Trading Book							Trading book RM'000	Total RM'000
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Impairment RM'000		
<b>Assets</b>									
Cash and short-term funds	2,136,446	-	-	-	-	-	-	-	2,136,446
Securities available-for-sale	-	49,749	189,017	-	-	1,699	-	-	240,465
Loans, advances and financing	340,073	54,519	22,477	625	774	-	(4,118)	-	414,350
Derivative financial assets	-	-	-	-	-	-	-	531,672	531,672
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,337	-	-	1,337
Other assets	-	-	-	-	-	63,615	-	-	63,615
Investment in associated company	-	-	-	-	-	1,300	-	-	1,300
Property, plant and equipment	-	-	-	-	-	5,367	-	-	5,367
Intangible asset	-	-	-	-	-	1,127	-	-	1,127
Deferred tax assets	-	-	-	-	-	11,876	-	-	11,876
<b>Total Assets</b>	<b>2,476,519</b>	<b>104,268</b>	<b>211,494</b>	<b>625</b>	<b>774</b>	<b>86,321</b>	<b>(4,118)</b>	<b>531,672</b>	<b>3,407,555</b>

(Forward)

35. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

The Group	Non-Trading Book							Trading book RM'000	Total RM'000
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Impairment RM'000		
<b>Liabilities</b>									
Deposits from customers	1,156,504	5,052	4,034	-	-	-	-	-	1,165,590
Deposits and placements from banks and other financial institutions	329,488	-	-	-	-	-	-	-	329,488
Derivative financial liabilities	-	-	-	-	-	-	-	1,086,749	1,086,749
Other liabilities	-	-	-	-	-	55,002	-	-	55,002
<b>Total Liabilities</b>	<u>1,485,992</u>	<u>5,052</u>	<u>4,034</u>	<u>-</u>	<u>-</u>	<u>55,002</u>	<u>-</u>	<u>1,086,749</u>	<u>2,636,829</u>
On balance sheet interest sensitivity gap	990,527	99,216	207,460	625	774	31,319	(4,118)	(555,077)	770,726
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-	(844,915)	(844,915)
<b>Net interest sensitivity gap</b>	<u>990,527</u>	<u>99,216</u>	<u>207,460</u>	<u>625</u>	<u>774</u>	<u>31,319</u>	<u>(4,118)</u>	<u>(1,399,992)</u>	<u>(74,189)</u>

## 35. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

The following table represents the Group's assets and liabilities at carrying amounts as of 31 December 2014:

The Group	Non-Trading Book							Trading book RM'000	Total RM'000
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Impairment RM'000		
<b>Assets</b>									
Cash and short-term funds	1,682,256	-	-	-	-	-	-	-	1,682,256
Securities available-for-sale	-	60,025	216,878	106,730	-	1,699	-	-	385,332
Loans, advances and financing	387,169	329,908	17,355	961	1,156	-	(5,392)	-	731,157
Derivative financial assets	-	-	-	-	-	-	-	689,173	689,173
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	4,741	-	-	4,741
Other assets	-	-	-	-	-	49,710	-	-	49,710
Investment in associated company	-	-	-	-	-	1,300	-	-	1,300
Property, plant and equipment	-	-	-	-	-	9,121	-	-	9,121
Intangible asset	-	-	-	-	-	666	-	-	666
Deferred tax assets	-	-	-	-	-	19,170	-	-	19,170
<b>Total Assets</b>	<u>2,069,425</u>	<u>389,933</u>	<u>234,233</u>	<u>107,691</u>	<u>1,156</u>	<u>86,407</u>	<u>(5,392)</u>	<u>689,173</u>	<u>3,572,626</u>

(Forward)

35. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

The Group	Non-Trading Book							Trading book RM'000	Total RM'000
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Impairment RM'000		
<b>Liabilities</b>									
Deposits from customers	1,194,260	7,054	14,073	-	-	-	-	-	1,215,387
Deposits and placements from banks and other financial institutions	461,197	244,755	-	-	-	-	-	-	705,952
Derivative financial liabilities	-	-	-	-	-	-	-	837,976	837,976
Other liabilities	-	-	-	-	-	70,295	-	-	70,295
<b>Total Liabilities</b>	<b>1,655,457</b>	<b>251,809</b>	<b>14,073</b>	<b>-</b>	<b>-</b>	<b>70,295</b>	<b>-</b>	<b>837,976</b>	<b>2,829,610</b>
On balance sheet interest sensitivity gap	413,968	138,124	220,160	107,691	1,156	16,112	(5,392)	(148,803)	743,016
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-	(239,519)	(239,519)
<b>Net interest sensitivity gap</b>	<b>413,968</b>	<b>138,124</b>	<b>220,160</b>	<b>107,691</b>	<b>1,156</b>	<b>16,112</b>	<b>(5,392)</b>	<b>(388,322)</b>	<b>503,497</b>

35. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

The following table represents the Bank's assets and liabilities at carrying amounts as of 31 December 2015:

<b>The Bank</b>	<b>Non-Trading Book</b>							<b>Trading book</b>	<b>Total</b>
	<b>Up to 1 month</b>	<b>1 - 3 months</b>	<b>3 - 12 months</b>	<b>1 - 5 years</b>	<b>Over 5 years</b>	<b>Non-interest sensitive</b>	<b>Impairments</b>		
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>									
Cash and short-term funds	2,136,446	-	-	-	-	-	-	-	2,136,446
Securities available-for-sale	-	49,749	189,017	-	-	1,699	-	-	240,465
Loans, advances and financing	340,073	54,519	22,477	625	774	-	(4,118)	-	414,350
Derivative financial assets	-	-	-	-	-	-	-	531,672	531,672
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,337	-	-	1,337
Other assets	-	-	-	-	-	63,615	-	-	63,615
Investment in subsidiary company	-	-	-	-	-	10	-	-	10
Investment in associated company	-	-	-	-	-	1,300	-	-	1,300
Property, plant and equipment	-	-	-	-	-	5,367	-	-	5,367
Intangible asset	-	-	-	-	-	1,127	-	-	1,127
Deferred tax assets	-	-	-	-	-	11,876	-	-	11,876
<b>Total Assets</b>	<b>2,476,519</b>	<b>104,268</b>	<b>211,494</b>	<b>625</b>	<b>774</b>	<b>86,331</b>	<b>(4,118)</b>	<b>531,672</b>	<b>3,407,565</b>

(Forward)

## 35. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

The Bank	Non-Trading Book							Trading book RM'000	Total RM'000
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Impairments RM'000		
<b>Liabilities</b>									
Deposits from customers	1,156,514	5,052	4,034	-	-	-	-	-	1,165,600
Deposits and placements from banks and other financial institutions	329,488	-	-	-	-	-	-	-	329,488
Derivative financial liabilities	-	-	-	-	-	-	-	1,086,749	1,086,749
Other liabilities	-	-	-	-	-	55,002	-	-	55,002
<b>Total Liabilities</b>	<b>1,486,002</b>	<b>5,052</b>	<b>4,034</b>	<b>-</b>	<b>-</b>	<b>55,002</b>	<b>-</b>	<b>1,086,749</b>	<b>2,636,839</b>
On balance sheet interest sensitivity gap	990,517	99,216	207,460	625	774	31,329	(4,118)	(555,077)	770,726
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-	(844,915)	(844,915)
<b>Net interest sensitivity gap</b>	<b>990,517</b>	<b>99,216</b>	<b>207,460</b>	<b>625</b>	<b>774</b>	<b>31,329</b>	<b>(4,118)</b>	<b>(1,399,992)</b>	<b>(74,189)</b>



## 35. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

The following table represents the Bank's assets and liabilities at carrying amounts as of 31 December 2014:

The Bank	Non-Trading Book							Trading book RM'000	Total RM'000
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Impairments RM'000		
<b>Assets</b>									
Cash and short-term funds	1,682,256	-	-	-	-	-	-	-	1,682,256
Securities available-for-sale	-	60,025	216,878	106,730	-	1,699	-	-	385,332
Loans, advances and financing	387,169	329,908	17,355	961	1,156	-	(5,392)	-	731,157
Derivative financial assets	-	-	-	-	-	-	-	689,173	689,173
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	4,741	-	-	4,741
Other assets	-	-	-	-	-	49,710	-	-	49,710
Investment in subsidiary company	-	-	-	-	-	20	-	-	20
Investment in associated company	-	-	-	-	-	1,300	-	-	1,300
Property, plant and equipment	-	-	-	-	-	9,121	-	-	9,121
Intangible asset	-	-	-	-	-	666	-	-	666
Deferred tax assets	-	-	-	-	-	19,170	-	-	19,170
<b>Total Assets</b>	<u>2,069,425</u>	<u>389,933</u>	<u>234,233</u>	<u>107,691</u>	<u>1,156</u>	<u>86,427</u>	<u>(5,392)</u>	<u>689,173</u>	<u>3,572,646</u>

(Forward)

## 35. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

The Bank	Non-Trading Book							Trading book RM'000	Total RM'000
	Up to 1 month RM'000	1 - 3 months RM'000	3 - 12 months RM'000	1 - 5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Impairments RM'000		
<b>Liabilities</b>									
Deposits from customers	1,194,280	7,054	14,073	-	-	-	-	-	1,215,407
Deposits and placements from banks and other financial institutions	461,197	244,755	-	-	-	-	-	-	705,952
Derivative financial liabilities	-	-	-	-	-	-	-	837,976	837,976
Other liabilities	-	-	-	-	-	70,295	-	-	70,295
<b>Total Liabilities</b>	<b>1,655,477</b>	<b>251,809</b>	<b>14,073</b>	<b>-</b>	<b>-</b>	<b>70,295</b>	<b>-</b>	<b>837,976</b>	<b>2,829,630</b>
On balance sheet interest sensitivity gap	413,948	138,124	220,160	107,691	1,156	16,132	(5,392)	(148,803)	743,016
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-	(239,519)	(239,519)
<b>Net interest sensitivity gap</b>	<b>413,948</b>	<b>138,124</b>	<b>220,160</b>	<b>107,691</b>	<b>1,156</b>	<b>16,132</b>	<b>(5,392)</b>	<b>(388,322)</b>	<b>503,497</b>

35. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

Included in the tables below are the Group's and the Bank's assets and liabilities categorised by their average effective interest rates per annum at the end of the reporting period.

Group/Bank	2015						2014					
	MYR	USD	AUD	EUR	GBP	SGD	MYR	USD	AUD	EUR	GBP	SGD
	%	%	%	%	%	%	%	%	%	%	%	%
<b>Financial Assets</b>												
Cash and short-term fund	3.09	-	-	-	-	-	3.23	0.11	-	-	-	-
Securities available-for-sale	2.86	-	-	-	-	-	3.86	-	-	-	-	-
Loans, advances and financing	3.83	-	-	-	-	-	3.64	-	-	-	-	-
<b>Financial Liabilities</b>												
Deposits from customers	3.14	0.15	2.01	-	0.35	-	3.13	0.03	3.15	-	0.53	-
Deposits and placements from banks and other financial institutions	-	0.37	-	-	-	-	-	0.16	-	-	-	-

35. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

(e) **Liquidity Risk**

The Group's and the Bank's liquidity risk are managed centrally by the Bank. Liquidity risk is the risk that the Group and the Bank are unable to meet their financial obligations, including wholesale maturities or customer deposit withdrawals, as and when they fall due.

The risk arises through the maturity transformation role that banks perform. It is dependent on the Group's and the Bank's specific factors such as maturity profile, composition of sources and uses of funding, the quality and size of the liquidity profile as well as broader market factors such as wholesale market conditions.

The Group and the Bank use a suite of tools to monitor, limit and stress test the risks within the balance sheet. The limits and targets control the amount and composition of funding sources, asset and liability mismatches and funding concentrations, in addition to the liquidity risk.

Stress testing is performed on a regular basis as part of the liquidity risk management activities. Liquidity stress tests apply scenarios based on behavioural and contractual assumptions.

The Group and the Bank have a Contingency Funding Plan ("CFP") that is updated at least annually. The CFP provides a description of availability, size and timing of contingent liability sources available to the Group and the Bank. The CFP also includes documented processes for actions that may be required to meet outflows and specific roles and responsibilities for effective implementation of the CFP.

The following tables show the assets and liabilities of the Group and of the Bank based on contractual undiscounted repayment obligations as of 31 December 2015 and 31 December 2014:

35. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

The following table summarises the maturity profile of the Group's assets and liabilities as of 31 December 2015 based on remaining contractual maturity:

<b>The Group</b>	<b>Up to 1 month RM'000</b>	<b>1 - 3 months RM'000</b>	<b>3 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No specific maturity RM'000</b>	<b>Total RM'000</b>
<b>Assets</b>							
Cash and short-term funds	2,136,446	-	-	-	-	-	2,136,446
Securities available-for-sale	-	49,749	189,017	-	-	1,699	240,465
Loans, advances and financing	61,181	68,519	271,924	1,316	15,528	(4,118)	414,350
Derivative financial assets	8,429	242,589	23,612	252,053	4,989	-	531,672
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,337	1,337
Other assets	-	-	-	-	-	63,615	63,615
Investment in associated company	-	-	-	-	-	1,300	1,300
Property, plant and equipment	-	-	-	-	-	5,367	5,367
Intangible asset	-	-	-	-	-	1,127	1,127
Deferred tax assets	-	-	-	-	-	11,876	11,876
<b>Total Assets</b>	<u>2,206,056</u>	<u>360,857</u>	<u>484,553</u>	<u>253,369</u>	<u>20,517</u>	<u>82,203</u>	<u>3,407,555</u>

(Forward)

35. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

<b>The Group</b>	<b>Up to 1 month RM'000</b>	<b>1 - 3 months RM'000</b>	<b>3 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No specific maturity RM'000</b>	<b>Total RM'000</b>
<b>Liabilities</b>							
Deposits from customers	1,156,504	5,052	4,034	-	-	-	1,165,590
Deposits and placements from banks and other financial institutions	329,488	-	-	-	-	-	329,488
Derivative financial liabilities	359,029	49,179	124,450	406,114	147,977	-	1,086,749
Other liabilities	-	-	-	-	-	55,002	55,002
<b>Total Liabilities</b>	<b>1,845,021</b>	<b>54,231</b>	<b>128,484</b>	<b>406,114</b>	<b>147,977</b>	<b>55,002</b>	<b>2,636,829</b>
Net liquidity gap	361,035	306,626	356,069	(152,745)	(127,460)	27,201	770,726

The following table summarises the maturity profile of the Group's assets and liabilities as of 31 December 2014 based on remaining contractual maturity:

<b>The Group</b>	<b>Up to 1 month RM'000</b>	<b>1 - 3 months RM'000</b>	<b>3 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No specific maturity RM'000</b>	<b>Total RM'000</b>
<b>Assets</b>							
Cash and short-term funds	1,682,256	-	-	-	-	-	1,682,256
Securities available-for-sale	-	60,025	216,878	106,730	-	1,699	385,332
Loans, advances and financing	369,866	329,959	17,380	1,597	17,747	(5,392)	731,157
Derivative financial assets	115,094	56,144	58,582	301,689	157,664	-	689,173
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	4,741	4,741
Other assets	-	-	-	-	-	49,710	49,710
Investment in associated company	-	-	-	-	-	1,300	1,300
Property, plant and equipment	-	-	-	-	-	9,121	9,121
Intangible asset	-	-	-	-	-	666	666
Deferred tax assets	-	-	-	-	-	19,170	19,170
<b>Total Assets</b>	<b>2,167,216</b>	<b>446,128</b>	<b>292,840</b>	<b>410,016</b>	<b>175,411</b>	<b>81,015</b>	<b>3,572,626</b>

(Forward)

35. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

<b>The Group</b>	<b>Up to 1 month RM'000</b>	<b>1 - 3 months RM'000</b>	<b>3 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No specific maturity RM'000</b>	<b>Total RM'000</b>
<b>Liabilities</b>							
Deposits from customers	1,194,260	7,054	14,073	-	-	-	1,215,387
Deposits and placements from banks and other financial institutions	461,197	244,755	-	-	-	-	705,952
Derivative financial liabilities	240,340	37,285	79,810	222,742	257,799	-	837,976
Other liabilities	-	-	-	-	-	70,295	70,295
<b>Total Liabilities</b>	<b>1,895,797</b>	<b>289,094</b>	<b>93,883</b>	<b>222,742</b>	<b>257,799</b>	<b>70,295</b>	<b>2,829,610</b>
Net liquidity gap	271,419	157,034	198,957	187,274	(82,388)	10,720	743,016



35. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

The following table summarises the maturity profile of the Bank's assets and liabilities as of 31 December 2015 based on remaining contractual maturity:

<b>The Bank</b>	<b>Up to 1 month RM'000</b>	<b>1 - 3 months RM'000</b>	<b>3 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No specific maturity RM'000</b>	<b>Total RM'000</b>
<b>Assets</b>							
Cash and short-term funds	2,136,446	-	-	-	-	-	2,136,446
Securities available-for-sale	-	49,749	189,017	-	-	1,699	240,465
Loans, advances and financing	61,181	68,519	271,924	1,316	15,528	(4,118)	414,350
Derivative financial assets	8,429	242,589	23,612	252,053	4,989	-	531,672
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,337	1,337
Other assets	-	-	-	-	-	63,615	63,615
Investments in subsidiary companies	-	-	-	-	-	10	10
Investment in associated company	-	-	-	-	-	1,300	1,300
Property, plant and equipment	-	-	-	-	-	5,367	5,367
Intangible asset	-	-	-	-	-	1,127	1,127
Deferred tax assets	-	-	-	-	-	11,876	11,876
<b>Total Assets</b>	<b>2,206,056</b>	<b>360,857</b>	<b>484,553</b>	<b>253,369</b>	<b>20,517</b>	<b>82,213</b>	<b>3,407,565</b>

(Forward)

35. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

<b>The Bank</b>	<b>Up to 1 month RM'000</b>	<b>1 - 3 months RM'000</b>	<b>3 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No specific maturity RM'000</b>	<b>Total RM'000</b>
<b>Liabilities</b>							
Deposits from customers	1,156,514	5,052	4,034	-	-	-	1,165,600
Deposits and placements from banks and other financial institutions	329,488	-	-	-	-	-	329,488
Derivative financial liabilities	359,029	49,179	124,450	406,114	147,977	-	1,086,749
Other liabilities	-	-	-	-	-	55,002	55,002
<b>Total Liabilities</b>	<b>1,845,031</b>	<b>54,231</b>	<b>128,484</b>	<b>406,114</b>	<b>147,977</b>	<b>55,002</b>	<b>2,636,839</b>
Net liquidity gap	361,025	306,626	356,069	(152,745)	(127,460)	27,211	770,726

The following table summarises the maturity profile of the Bank's assets and liabilities as of 31 December 2014 based on remaining contractual maturity:

<b>The Bank</b>	<b>Up to 1 month RM'000</b>	<b>1 - 3 months RM'000</b>	<b>3 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No specific maturity RM'000</b>	<b>Total RM'000</b>
<b>Assets</b>							
Cash and short-term funds	1,682,256	-	-	-	-	-	1,682,256
Securities available-for-sale	-	60,025	216,878	106,730	-	1,699	385,332
Loans, advances and financing	369,866	329,959	17,380	1,597	17,747	(5,392)	731,157
Derivative financial assets	115,094	56,144	58,582	301,689	157,664	-	689,173
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	4,741	4,741
Other assets	-	-	-	-	-	49,710	49,710
Investments in subsidiary companies	-	-	-	-	-	20	20
Investment in associated company	-	-	-	-	-	1,300	1,300
Property, plant and equipment	-	-	-	-	-	9,121	9,121
Intangible asset	-	-	-	-	-	666	666
Deferred tax assets	-	-	-	-	-	19,170	19,170
<b>Total Assets</b>	<b>2,167,216</b>	<b>446,128</b>	<b>292,840</b>	<b>410,016</b>	<b>175,411</b>	<b>81,035</b>	<b>3,572,646</b>

(Forward)

35. **FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)**

<b>The Bank</b>	<b>Up to 1 month RM'000</b>	<b>1 - 3 months RM'000</b>	<b>3 - 12 months RM'000</b>	<b>1 - 5 years RM'000</b>	<b>Over 5 years RM'000</b>	<b>No specific maturity RM'000</b>	<b>Total RM'000</b>
<b>Liabilities</b>							
Deposits from customers	1,194,280	7,054	14,073	-	-	-	1,215,407
Deposits and placements from banks and other financial institutions	461,197	244,755	-	-	-	-	705,952
Derivative financial liabilities	240,340	37,285	79,810	222,742	257,799	-	837,976
Other liabilities	-	-	-	-	-	70,295	70,295
<b>Total Liabilities</b>	<b>1,895,817</b>	<b>289,094</b>	<b>93,883</b>	<b>222,742</b>	<b>257,799</b>	<b>70,295</b>	<b>2,829,630</b>
Net liquidity gap	271,399	157,034	198,957	187,274	(82,388)	10,740	743,016

### 35. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D.)

Financial assets have been reflected in the time band of the latest date on which they could be repaid, unless earlier repayment can be demanded by the Group and the Bank. Financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty. If the repayment of a financial asset or liability is triggered by, or is subject to, specific criteria, such as market price hurdles being reached, the asset is included in the latest date on which it can be repaid regardless of early repayment and the liability is included at the earliest possible date that the conditions can be fulfilled without considering the probability of the conditions being met.

The contractual maturity of the financial assets and liabilities highlight the maturity transformation which underpins the role of banks to lend longer-term but funded predominantly by short-term liabilities such as customer deposits.

Customer assets and liabilities (including non-maturing savings/current deposits) are represented on contractual basis or period when it can legally be withdrawn. On a behavioural basis, the assets and liabilities cash flows may differ from contractual basis.

Financial assets and financial liabilities held for trading are classified based on trading pattern. The cash flows of the derivatives are presented net as they are short-term in nature and held for trading.

#### (f) **Currency Risk**

Currency risk is the risk to earnings and value of financial instruments caused by fluctuations in foreign exchange rates.

The Group and the Bank are exposed to movements in the foreign exchange rates from trading and non-trading transactions of their business units. Variations in the foreign exchange rates can lead to capital losses or reduced profit or loss. The Group's and the Bank's exposure to currency risk is controlled and monitored daily by a series of end of day, overnight and dealers' position limits.

36. **FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

Set out below is the comparison of the carrying amounts and fair values of the financial instruments of the Group. It does not include those short-term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values:

<b>Group</b>	<b>2015</b>		<b>2014</b>	
	<b>Carrying amount RM'000</b>	<b>Fair value RM'000</b>	<b>Carrying amount RM'000</b>	<b>Fair value RM'000</b>
<b>Financial Assets</b>				
Securities available-for-sale	240,465	240,465	385,332	385,332
Loans, advances and financing	414,350	414,234	731,157	731,221
Derivative financial assets	531,672	531,672	689,173	689,173
<b>Financial Liabilities</b>				
Deposits from customers	1,165,590	1,165,538	1,215,387	1,215,259
Derivative financial liabilities	<u>1,086,749*</u>	<u>1,073,422</u>	<u>837,976</u>	<u>837,976</u>

\* Includes provision for non-strategic derivative trades as stated in Note 28.

(Forward)

36. **FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)**

Set out below is the comparison of the carrying amounts and fair values of the financial instruments of the Bank. It does not include those short-term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values:

<b>Bank</b>	<b>2015</b>		<b>2014</b>	
	<b>Carrying amount RM'000</b>	<b>Fair value RM'000</b>	<b>Carrying amount RM'000</b>	<b>Fair value RM'000</b>
<b>Financial Assets</b>				
Securities available-for-sale	240,465	240,465	385,332	385,332
Loans, advances and financing	414,350	414,234	731,157	731,221
Derivative financial assets	531,672	531,672	689,173	689,173
<b>Financial Liabilities</b>				
Deposits from customers	1,165,600	1,165,548	1,215,407	1,215,279
Derivative financial liabilities	<u>1,086,749*</u>	<u>1,073,422</u>	<u>837,976</u>	<u>837,976</u>

\* Includes provision for non-strategic derivative trades as stated in Note 28.

36. **FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)**

The fair values for financial instruments recognised by the Group and the Bank are estimated based on the assumptions and techniques below.

These methods are subjective in nature and therefore the fair values presented may not be indicative of the actual realisable value.

(i) **Cash and Short-Term Funds**

The carrying amounts are a reasonable estimate of the fair values because of their short-term nature.

(ii) **Deposits and Placements with Other Financial Institutions**

Deposits and placements below one year are at carrying amounts while those maturing beyond one year have been valued based on discounted cashflows.

(iii) **Securities Available-For-Sale**

The estimated fair value is based on quoted and observable market prices at the reporting date. Where such quoted and observable market prices are not available, fair value is estimated using pricing models or discounted cash flows techniques. Where discounted cash flows technique is used, the estimated future cash flows are discounted based on current market rates for similar instrument at the end of the reporting period.

(iv) **Loans, Advances and Financing**

The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans with maturities of more than one year, the fair values are estimated based on discounted future cash flows of contractual instalment payments. In respect of non-performing loans, the fair values are deemed to approximate the carrying values, net of individual assessment allowance.

The fair value of variable rate financial instruments and those of a fixed rate nature maturing within 12 months of the end of the reporting period are assumed to approximate their carrying amounts.

The fair value of financial instruments with no specific maturity (e.g. cash and balances with banks and central banks, certain deposits from non-bank customers, banks and other financial institutions) are assumed to be the amount payable on demand at the end of the reporting period.

(v) **Statutory Deposit with BNM**

Statutory deposit with BNM is stated at carrying amount.



36. **FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)**

(vi) **Deposits from Customers**

Deposits from customers are valued at carrying amounts for all amounts on demand and below one year, while deposits over one year have been valued at discounted cashflows.

(vii) **Deposits and Placements from Banks and Other Financial Institutions**

Deposits and placements from banks and other financial institutions are valued at carrying amounts.

36.1 **Valuation of Financial Instruments**

The Group and the Bank measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- (i) Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- (ii) Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- (iii) Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

36. **FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)**

The following table shows the Group's financial instruments which are measured at fair value and those that are not measured at fair value but for which fair value disclosures are provided, analysed by the various levels within the fair value hierarchy. It does not include those short-term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values:

<b>Group</b>	<b>Carrying amount RM'000</b>	<b>Fair value RM'000</b>	<b>Level 1 RM'000</b>	<b>Level 2 RM'000</b>	<b>Level 3 RM'000</b>
<b>2015</b>					
<b>Financial Assets</b>					
Securities available-for-sale	240,465	240,465	-	238,766	1,699
Derivative financial assets	531,672	531,672	-	531,672	-
Loans, advances and financing *	414,350	414,234	-	-	414,234
<b>Financial Liabilities</b>					
Deposits from customers *	1,165,590	1,165,538	-	1,165,538	-
Derivative financial liabilities	<u>1,086,749**</u>	<u>1,073,422</u>	<u>-</u>	<u>1,073,422</u>	<u>-</u>

\* Financial instruments that are not measured at fair value but for which fair value disclosures are provided.

\*\* Includes provision for non-strategic derivative trades as stated in Note 28.

36. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

<b>Group</b>	<b>Carrying amount RM'000</b>	<b>Fair value RM'000</b>	<b>Level 1 RM'000</b>	<b>Level 2 RM'000</b>	<b>Level 3 RM'000</b>
<b>2014</b>					
<b>Financial Assets</b>					
Securities available-for-sale	385,332	385,332	-	383,633	1,699
Derivative financial assets	689,173	689,173	-	689,173	-
Loans, advances and financing *	731,157	731,221	-	-	731,221
<b>Financial Liabilities</b>					
Deposits from customers *	1,215,387	1,215,259	-	1,215,259	-
Derivative financial liabilities	<u>837,976</u>	<u>837,976</u>	<u>-</u>	<u>837,976</u>	<u>-</u>

\* Financial instruments that are not measured at fair value but for which fair value disclosures are provided.

36. **FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)**

The following table shows the Bank's financial instruments which are measured at fair value and those that are not measured at fair value but for which fair value disclosures are provided, analysed by the various levels within the fair value hierarchy. It does not include those short-term/on demand financial assets and financial liabilities where the carrying amounts are reasonable approximation of their fair values:

<b>Bank</b>	<b>Carrying amount RM'000</b>	<b>Fair value RM'000</b>	<b>Level 1 RM'000</b>	<b>Level 2 RM'000</b>	<b>Level 3 RM'000</b>
<b>2015</b>					
<b>Financial Assets</b>					
Securities available-for-sale	240,465	240,465	-	238,766	1,699
Derivative financial assets	531,672	531,672	-	531,672	-
Loans, advances and financing *	414,350	414,234	-	-	414,234
<b>Financial Liabilities</b>					
Deposits from customers *	1,165,600	1,165,548	-	1,165,548	-
Derivative financial liabilities	<u>1,086,749**</u>	<u>1,073,422</u>	<u>-</u>	<u>1,073,422</u>	<u>-</u>

\* Financial instruments that are not measured at fair value but for which fair value disclosures are provided.

\*\* Includes provision for non-strategic derivative trades as stated in Note 28.

36. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONT'D.)

<b>Bank</b>	<b>Carrying amount RM'000</b>	<b>Fair value RM'000</b>	<b>Level 1 RM'000</b>	<b>Level 2 RM'000</b>	<b>Level 3 RM'000</b>
<b>2014</b>					
<b>Financial Assets</b>					
Securities available-for-sale	385,332	385,332	-	383,633	1,699
Derivative financial assets	689,173	689,173	-	689,173	-
Loans, advances and financing *	731,157	731,221	-	-	731,221
<b>Financial Liabilities</b>					
Deposits from customers *	1,215,407	1,215,279	-	1,215,279	-
Derivative financial liabilities	<u>837,976</u>	<u>837,976</u>	<u>-</u>	<u>837,976</u>	<u>-</u>

\* Financial instruments that are not measured at fair value but for which fair value disclosures are provided.

37. **CAPITAL ADEQUACY**

The components of Tier I and Tier II capital of the Group are as follows:

	<b>Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Tier-I capital</b>		
Paid-up share capital	343,000	343,000
Share premium	76,182	76,182
Statutory reserves	178,843	172,259
Unrealised reserves	417	(956)
Retained earnings	171,131	148,294
	<u>769,573</u>	<u>738,779</u>
Less: Regulatory adjustments	(12,105)	(19,170)
	<u>757,468</u>	<u>719,609</u>
<b>Tier-II capital</b>		
Collective assessment allowance	3,866	4,592
Regulatory reserves	1,153	4,237
	<u>5,019</u>	<u>8,829</u>
Total Tier-II capital	<u>5,019</u>	<u>8,829</u>
Total capital funds	<u>762,487</u>	<u>728,438</u>
<b>Capital Ratios</b>		
Core capital ratio	36.61%	18.54%
Risk-weighted capital ratio	<u>36.85%</u>	<u>18.77%</u>

37. **CAPITAL ADEQUACY (CONT'D.)**

The components of Tier I and Tier II capital of the Bank are as follows:

	<b>Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Tier-I capital</b>		
Paid-up share capital	343,000	343,000
Share premium	76,182	76,182
Statutory reserves	178,843	172,259
Unrealised reserves	417	(956)
Retained earnings	171,131	148,294
	<u>769,573</u>	<u>738,779</u>
Less: Regulatory adjustments	(12,105)	(19,170)
	<u>757,468</u>	<u>719,609</u>
<b>Tier-II capital</b>		
Collective assessment allowance	3,866	4,592
Regulatory reserves	1,153	4,237
	<u>5,019</u>	<u>8,829</u>
Total Tier-II capital	<u>5,019</u>	<u>8,829</u>
Total capital funds	762,487	728,438
Less: Investment in subsidiary companies	(10)	(20)
	<u>762,477</u>	<u>728,418</u>
Capital base	<u>762,477</u>	<u>728,418</u>
<b>Capital Ratios</b>		
Core capital ratio	36.61%	18.54%
Risk-weighted capital ratio	<u>36.85%</u>	<u>18.77%</u>

37. **CAPITAL ADEQUACY (CONT'D.)**

The breakdown of risk-weighted assets by each major risk category is as follows:

	<b>Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Credit risk	1,403,900	2,737,313
Market risk	572,917	1,036,089
Operational risk	92,309	107,750
	<u>2,069,126</u>	<u>3,881,152</u>
	<b>Bank</b>	
	<b>2015</b>	<b>2014</b>
	<b>RM'000</b>	<b>RM'000</b>
Credit risk	1,403,900	2,737,313
Market risk	572,917	1,036,089
Operational risk	92,467	107,907
	<u>2,069,284</u>	<u>3,881,309</u>

38. **SIGNIFICANT CORPORATE EVENT**

In February 2015, The Royal Bank of Scotland Group Plc (“RBS Group”) announced plans to shrink its global footprint back to the United Kingdom, Ireland and selected countries in Western Europe. This has resulted the exit of the majority of RBS Group’s offices around the world, including Malaysia, via either closure or sale of the operations. Since the announcement, the Bank in Malaysia has ceased its marketing activities to new customers. However, the Bank continues to operate as a going concern and continues to serve existing customers. In addition, the shareholder of the Bank has initiated a divesting process which as of the date of the financial statements was authorised for issuance, was still in process.