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 2016

(In Ringgit Malaysia)

These Audited Financial Statements of the Bank with Unqualified Auditors' Report for the financial year ended 31 December 2016 were tabled at the Annual General Meeting/Adjourned Annual General Meeting held on ____________________

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(Incorporated in Malaysia)

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THE ROYAL BANK OF SCOTLAND BERHAD
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REPORT OF THE DIRECTORS

The Directors hereby submit 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 2016.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are banking and related financial services. The subsidiary, RBS Nominees (Tempatan) Sdn. Bhd. has been officially struck-off by the Companies Commission of Malaysia ("CCM"). There have been no significant changes in the nature of the principal activities of the Bank during the financial year except for its intention to cease operations as mentioned in Business Review 2016 and Outlook For 2017 section.

RESULTS OF OPERATIONS

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

	Group/Bank RM’000
Profit before taxation	8,947
Tax expense	(11,882)
Loss for the year	(2,935)

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, other than disclosed in Note 28 to the financial statements.

DIVIDENDS

Since the end of the previous financial year, the Bank paid an interim dividend of RM140,000,000 on 343,000,002 ordinary shares of RM1.00 each in respect of the current 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
Jonathan William Addis
Stefan Masuhr
Lim Yu Mei (appointed on 28 June 2016)
John Peter Shelley (resigned on 30 June 2016)
Andrew Mark Sill (resigned on 12 June 2016)

In accordance with Article 90A of the Bank's Articles of Association, Mr. Stefan Masuhr 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 1.1.2016/ Date of appointment	**Awarded**	**Sold**	**Balance as of 31.12.2016**
Shares in the holding company, The Royal Bank of Scotland Group plc				
Jonathan William Addis	4,000	-	-	4,000
Lim Yu Mei	3,889	3,102	-	6,991
Stefan Masuhr	-	66,468	25,857	40,611

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 35 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, other than or disclosed in Note 28 to the financial statements.

(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 2016 AND OUTLOOK FOR 2017

In February 2015, The Royal Bank of Scotland Group Plc ("RBS Group") announced that it was reducing its geographical presence primarily to the United Kingdom, Ireland and selected countries in Europe. This meant closing or selling its businesses in countries which were planned for exit.

In Malaysia a process was carried out for the sale of the Bank, and on 15 April 2016 Taiwan-based CTBC Holding announced that its subsidiaries will be buying 100% equity interest of the Bank. An Implementation Agreement, spelling out the contractual obligation and undertakings of both the vendor and the buyer from the date of the announcement up to the signing of the Sale and Purchase agreement, was signed on the same date.

However, on 8 August 2016 it was announced that both parties have mutually agreed to terminate the Implementation Agreement after concluding that completion will not be achieved within the timelines stated. Following the announcement, the Bank immediately commenced the scale down of its operations.

As part of the scaling down process, the Bank was able to exit the majority of client positions and facilities in the last four months of the year; and only minimal amount of loans, advances and financing remaining as at 31 December 2016. Deposits from customers have been fully exited. The Bank currently carries a much simpler financial positions with the majority of its funds invested in short term liquid assets.

These actions have reduced the risk weighted assets of the Bank, and as at 31 December 2016 the Bank's risk weighted capital ratio stood at 213.31% despite having declared and paid interim dividends of MYR140.0 million in December 2016.

The Bank has intention to cease its operations and is planning to return its banking license to Bank Negara Malaysia within the financial year 2017.

From the statements of profit or loss and other comprehensive income perspective, the Bank recorded profit before tax of RM8.9 million for the year ended 31 December 2016 as compared to profit before tax of RM34.9 million for 2015. The Bank has reported a decrease in net interest income of RM31.5 million during 2016, driven by reduced loan book size throughout the year. Other operating expenses reduced by RM17.8 million during the year compared to 2015 as a result of reduction in establishment expenses, driven by cessation of group recharges in 2016, and waiver of prior year group recharges. The majority of the collective impairment was reversed in line with the reduction of loan, advances and financing balances while individual impairment allowances has increased to reflect the net realisable value of outstanding loans, advances and financing.

Restructuring costs such as provisions for severance payments, write-off of deferred tax assets, property, plant and equipment, intangible assets and various other provisions have been made to reflect the potential costs of ceasing its operations. Please refer to Note 28 to the financial statements for further details.

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.

AUDITORS

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

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

TAN SRI ASMAT BIN KAMALUDIN

LIM YU MEI

Kuala Lumpur
23 February 2017

Company No. 301932 - A

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 **LIM YU MEI**, 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 14 to 125 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 2016 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

LIM YU MEI

Kuala Lumpur
23 February 2017

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 14 to 125 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 23rd day of February, 2017.

Before me,

PESURUHJAYA SUMPAH
No: W465
Nama: KAPT. (B) JASNI BIN YUSOFF
MALAYSIA

COMMISSIONER FOR OATHS

Lot 1.8, Tingkat 1,
Bangunan KWSP, Jln Raja Laut,
50350 Kuala Lumpur.
Tel: 019-6680745

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

Report on the Audit of the Financial Statements

Opinion

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 2016, 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 notes to the financial statements, including a summary of significant accounting policies, as set out on pages 14 to 125.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2016, and of their financial performance and their 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.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and Other Ethical Responsibilities

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

(Forward)

Emphasis of Matter

We draw attention to Note 3.1 to the financial statements which states that the Group and the Bank have intention to cease their operations. This indicates that the Group and the Bank will no longer continue as a going concern. Accordingly, the financial statements of the Group and the Bank have been drawn up on a basis other than that of a going concern which includes, where appropriate, writing down of the Group's and the of Bank's assets to net realisable value based on the Directors' best estimate. Our opinion is not qualified in respect of this matter.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of Group and of the Bank is responsible for the other information. The other information comprise the information included in the Directors' Report but do not include the financial statements of the Group and of the Bank and our auditors' report thereon.

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

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

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

Responsibilities of the Directors for the Financial Statements

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

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

(Forward)

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

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

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

(Forward)

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Group and the Bank have been properly kept in accordance with the provisions of the Act.

Other Matter

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

Deloitte & Touche PLT

DELOITTE & TOUCHE PLT (LLP0010197-LCA)
Chartered Accountants (AF 0834)

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

23 February 2017

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

		Group	
	Note	**2016 RM'000**	**2015 RM'000**
ASSETS			
Cash and short-term funds	5	632,535	2,136,446
Securities available-for-sale	6	161,837	240,465
Loans, advances and financing	7	7,492	414,350
Derivative financial assets	8	172,214	531,672
Statutory deposits with Bank Negara Malaysia	9	1,337	1,337
Other assets	10	15,682	63,615
Investment in associated company	12	-	1,300
Property, plant and equipment	13	-	5,367
Intangible assets	14	-	1,127
Deferred tax assets	15	-	11,876
TOTAL ASSETS		991,097	3,407,555
LIABILITIES AND SHAREHOLDER'S FUNDS			
Deposits from customers	16	-	1,165,590
Deposits and placements from banks and other financial institutions	17	63,521	329,488
Derivative financial liabilities	8	276,196	1,086,749
Other liabilities	18	10,553	55,002
Provision for restructuring	19	13,610	-
TOTAL LIABILITIES		363,880	2,636,829
Share capital	20	343,000	343,000
Reserves	21	284,217	427,726
SHAREHOLDER'S FUNDS		627,217	770,726
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		991,097	3,407,555
COMMITMENTS AND CONTINGENCIES	35	1,238,978	18,461,580

(Forward)

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

		Bank	
	Note	**2016 RM'000**	**2015 RM'000**
ASSETS			
Cash and short-term funds	5	632,535	2,136,446
Securities available-for-sale	6	161,837	240,465
Loans, advances and financing	7	7,492	414,350
Derivative financial assets	8	172,214	531,672
Statutory deposits with Bank Negara Malaysia	9	1,337	1,337
Other assets	10	15,682	63,615
Investment in subsidiary company	11	-	10
Investment in associated company	12	-	1,300
Property, plant and equipment	13	-	5,367
Intangible assets	14	-	1,127
Deferred tax assets	15	-	11,876
TOTAL ASSETS		991,097	3,407,565
LIABILITIES AND SHAREHOLDER'S FUNDS			
Deposits from customers	16	-	1,165,600
Deposits and placements from banks and other financial institutions	17	63,521	329,488
Derivative financial liabilities	8	276,196	1,086,749
Other liabilities	18	10,553	55,002
Provision for restructuring	19	13,610	-
TOTAL LIABILITIES		363,880	2,636,839
Share capital	20	343,000	343,000
Reserves	21	284,217	427,726
SHAREHOLDER'S FUNDS		627,217	770,726
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		991,097	3,407,565
COMMITMENTS AND CONTINGENCIES	35	1,238,978	18,461,580

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

Company No. 301932 - A

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Group 2016 RM'000	Group 2015 RM'000	Bank 2016 RM'000	Bank 2015 RM'000
Operating revenue	22	56,832	80,178	56,832	80,178
Interest income	23	43,421	80,552	43,421	80,552
Interest expense	24	(3,798)	(9,407)	(3,798)	(9,407)
Net interest income		39,623	71,145	39,623	71,145
Other operating income	25	13,411	12,953	13,411	12,953
Other operating expenses	26	(19,076)	(36,783)	(19,076)	(36,783)
(Allowances)/Write back for impairment on loans, advances and financing	27	(1,339)	936	(1,339)	936
Restructuring costs	28	(23,672)	-	(23,672)	-
Provision for non-strategic derivative trades	29	-	(13,327)	-	(13,327)
Profit before tax		8,947	34,924	8,947	34,924
Tax expense	30	(11,882)	(8,587)	(11,882)	(8,587)
(Loss)/Profit for the year attributable to equity holder of the Bank		(2,935)	26,337	(2,935)	26,337
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Net (loss)/gain on securities available-for-sale		(574)	1,373	(574)	1,373
		(574)	1,373	(574)	1,373
Total comprehensive (loss)/income for the year		(3,509)	27,710	(3,509)	27,710
(Loss)/Earnings per share (sen)	31	(0.86)	7.68	(0.86)	7.68

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

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

Group		← **Non-distributable Reserves** →				**Distributable Reserve**	
	Share capital RM'000	**Share premium RM'000**	**Statutory reserves RM'000**	**Unrealised reserves RM'000**	**Regulatory reserves RM'000**	**Retained earnings RM'000**	**Total 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	343,000	76,182	178,843	417	1,153	171,131	770,726

(Forward)

Group

	←	Non-distributable Reserves		→		Distributable Reserve	
	Share capital RM'000	**Share premium RM'000**	**Statutory reserves RM'000**	**Unrealised reserves RM'000**	**Regulatory reserves RM'000**	**Retained earnings RM'000**	**Total RM'000**
At 1 January 2016	343,000	76,182	178,843	417	1,153	171,131	770,726
Loss for the year	-	-	-	-	-	(2,935)	(2,935)
Interim dividend paid (Note 21)	-	-	-	-	-	(140,000)	(140,000)
Transfer from regulatory reserves	-	-	-	-	(1,153)	1,153	-
Net loss on securities available-for-sale	-	-	-	(706)	-	-	(706)
Deferred tax (Note 15)	-	-	-	132	-	-	132
Other comprehensive loss	-	-	-	(574)	-	-	(574)
At 31 December 2016	343,000	76,182	178,843	(157)	-	29,349	627,217

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

Company No. 301932 - A

THE ROYAL BANK OF SCOTLAND BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

Bank		←	**Non-distributable Reserves**		→	**Distributable Reserve**	
	Share capital RM'000	**Share premium RM'000**	**Statutory reserves RM'000**	**Unrealised reserves RM'000**	**Regulatory reserves RM'000**	**Retained earnings RM'000**	**Total 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	343,000	76,182	178,843	417	1,153	171,131	770,726

(Forward)

Bank

	← Non-distributable Reserves →					Distributable Reserve	
	Share capital RM'000	**Share premium RM'000**	**Statutory reserves RM'000**	**Unrealised reserves RM'000**	**Regulatory reserves RM'000**	**Retained earnings RM'000**	**Total RM'000**
At 1 January 2016	343,000	76,182	178,843	417	1,153	171,131	770,726
Loss for the year	-	-	-	-	-	(2,935)	(2,935)
Interim dividend paid (Note 21)	-	-	-	-	-	(140,000)	(140,000)
Transfer from regulatory reserves	-	-	-	-	(1,153)	1,153	-
Net loss on securities available-for-sale	-	-	-	(706)	-	-	(706)
Deferred tax (Note 15)	-	-	-	132	-	-	132
Other comprehensive loss	-	-	-	(574)	-	-	(574)
At 31 December 2016	343,000	76,182	178,843	(157)	-	29,349	627,217

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 2016

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES				
Profit before tax	8,947	34,924	8,947	34,924
Adjustments for:				
Unrealised loss on derivatives trading	2,190	89,204	2,190	89,204
Unrealised foreign exchange (gain)/loss	(172,844)	(85,745)	(172,844)	(85,745)
Depreciation of property, plant and equipment	1,267	2,621	1,267	2,621
Amortisation of premium less accretion of discount	668	1,482	668	1,482
Amortisation of intangible assets	376	394	376	394
Allowances/(Write back) for impairment on loans, advances and financing	1,339	(936)	1,339	(936)
Restructuring costs (Note 28):				
- Provision for severance payments	15,680	-	15,680	-
- Property, plant and equipment written off	4,119	-	4,119	-
- Intangible assets written off	757	-	757	-
- Other provisions	3,116	-	3,116	-
Net gain on disposal of property, plant and equipment	(99)	(15,362)	(99)	(15,362)
Provision for non-strategic derivative trades	-	13,327	-	13,327
Dividends income	(138)	(138)	(138)	(138)
Capital repayment on investment in associated company	(715)	-	(715)	-
Property, plant and equipment written off	-	19	-	19
Intangible asset written off	-	1	-	1
Operating (Loss)/Profit Before Working Capital Changes	(135,337)	39,791	(135,337)	39,791

(Forward)

	Group		Bank	
	2016	2015	2016	2015
	RM'000	RM'000	RM'000	RM'000
(Increase)/Decrease in:				
Loans, advances and financing	405,519	317,743	405,519	317,743
Statutory deposits with Bank Negara Malaysia	-	3,404	-	3,404
Cash collateral pledged for derivative transactions	363,889	(382,036)	363,889	(382,036)
Derivative financial assets	530,112	154,042	530,112	154,042
Other assets	48,476	(15,905)	48,476	(15,905)
Increase/(Decrease) in:				
Deposits from customers	(1,165,590)	(49,797)	(1,165,600)	(49,807)
Deposits and placements from banks and other financial institutions	(265,967)	(376,464)	(265,967)	(376,464)
Derivative financial liabilities	(810,553)	235,446	(810,553)	235,446
Restructuring costs	(5,186)	-	(5,186)	-
Other liabilities	(44,865)	(16,178)	(44,865)	(16,178)
Cash Used In Operations	(1,079,502)	(89,954)	(1,079,512)	(89,964)
Income taxes refunded	-	2,000	-	2,000
Income taxes paid	(2)	(858)	(2)	(858)
Net Cash Used In Operating Activities	(1,079,504)	(88,812)	(1,079,514)	(88,822)
CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES				
Proceeds from securities available-for-sale upon maturity	482,400	335,750	482,400	335,750
Net purchase of securities available-for-sale	(405,145)	(190,542)	(405,145)	(190,542)
Purchase of property, plant and equipment	(19)	(1,235)	(19)	(1,235)
Purchase of intangible assets	(6)	(1,149)	(6)	(1,149)
Dividends received	138	138	138	138
Proceeds from disposal of property, plant and equipment	99	18,004	99	18,004
Dissolution of dormant subsidiary	-	-	10	10
Proceeds from capital repayment of investment in associated company	2,015	-	2,015	-
Net Cash From Investing Activities	79,482	160,966	79,492	160,976

(Forward)

	Group		Bank	
	2016 **RM'000**	**2015** **RM'000**	**2016** **RM'000**	**2015** **RM'000**
CASH FLOWS USED IN FINANCING ACTIVITY				
Interim dividend paid (Note 21)	(140,000)	-	(140,000)	-
Net Cash Used In Financing Activity	(140,000)	-	(140,000)	-
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,140,022)	72,154	(1,140,022)	72,154
CASH AND CASH EQUIVALENTS AT 1 JANUARY	1,602,986	1,530,832	1,602,986	1,530,832
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	462,964	1,602,986	462,964	1,602,986
Cash and cash equivalents comprise the following:				
Cash and short-term funds (Note 5)	632,535	2,136,446	632,535	2,136,446
Cash collateral pledged (Note 5)	(169,571)	(533,460)	(169,571)	(533,460)
	462,964	1,602,986	462,964	1,602,986

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

1. CORPORATE INFORMATION

The principal activities of the Bank are banking and related financial services. The subsidiary, RBS Nominees (Tempatan) Sdn. Bhd. has been officially struck-off by the Companies Commission of Malaysia ("CCM"). There have been no significant changes in the nature of the principal activities of the Bank during the financial year except for its intention to cease operations as mentioned in Business Review 2016 and Outlook For 2017 section in Directors' Report.

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 2016 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 2016 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 23 February 2017.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Statement of Compliance

The financial statements of the Group and of 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

In the current period, the Group and the Bank have adopted all new and revised Standards issued by the Malaysian Accounting Standards Board ("MASB") to their operations and effective for annual periods beginning on or after 1 January 2016 as follows:

MFRS 14	Regulatory Deferral Accounts
Amendments to:	
MFRS 11	Accounting for Acquisitions of Interests in Joint Operations
MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
MFRS 10, MRFS 12 and MFRS 128	Investment Entities: Applying the Consolidation Exception
MFRS 101	Disclosure Initiative
MFRS 116 and MFRS 138	Clarification of Acceptable Methods of Depreciation and Amortisation
MFRS 116 and MFRS 141	Agriculture: Bearer Plants
MFRS 127	Equity Method in Separate Financial Statements
Annual Improvements to MFRSs 2012-2014 Cycle	

The adoption of abovementioned Standards and Amendments has had no material impact on the disclosures in the Group's and the Bank's financial statements.

2.2 New and Revised Standards, Amendments and Issues Committee Interpretations ("IC Interpretations") in issue but not yet effective

At the date of authorisation for issue of these financial statements, all new and revised Standards, Amendments and IC Interpretation 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 (IFRS 9 as issued by IASB in July 2014)[2]
MFRS 15	Revenue from Contracts with Customers[2]
MFRS 16	Leases[3]
Amendments to:	
MFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
MFRS 4	Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts[2]
MFRS 107	Disclosure Initiative[1]
MFRS 112	Recognition of Deferred Tax Assets for Unrealised Losses[1]
MFRS 140	Transfers of Investment Property[2]
IC Interpretation 22	Foreign Currency Transactions and Advance Considerations[2]
Annual Improvements to MFRSs 2014 - 2016 Cycle	

[1] Effective for annual periods beginning on or after 1 January 2017
[2] Effective for annual periods beginning on or after 1 January 2018
[3] Effective for annual periods beginning on or after 1 January 2019

The Group and the Bank are currently assessing the impact of adoption of the abovementioned Standards, Amendments and IC Interpretation. As at the date of authorisation of issue of the financial statements, the assessment process is still on-going. Thus, the impact of adopting these Standards, Amendments and IC Interpretation cannot be determined and estimated reliably now until the process is complete.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Accounting

The financial statements of the Group and of the Bank for the year ended 31 December 2016 have been prepared on a basis other than that of a going concern in view of the Bank's intention to cease operations. This basis of preparation includes, where appropriate, writing down the Bank's assets to net realisable value based on the Directors' best estimate. There have been no material adjustments arising as a result of ceasing to apply the going concern basis. No material differences from applying the going concern basis for preparation of the financial statements except for restructuring costs as disclosed in Note 28.

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 the 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 discloses 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 of 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 37.1.

(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 37.1.

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: Recogntion 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 37.1.

(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.

3.18 BNM Guidelines

On 4 February 2015, 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 2016. The Group and the Bank have early adopted this requirement for the financial year ended 31 December 2015. During the financial year ended 31 December 2016, 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).

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 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

	Group/Bank	
	2016	**2015**
	RM'000	**RM'000**
Cash and balances with banks and other financial institutions	12,964	59,886
Money at call and deposit placements maturing within one month	619,571	2,076,560
	632,535	2,136,446

Included in money at call and deposit placements maturing within one month of the Group and of the Bank is an amount of RM169,571,000 (2015: RM533,460,000) representing cash collateral pledged for derivative transactions.

6. SECURITIES AVAILABLE-FOR-SALE

	Group/Bank	
	2016	**2015**
	RM'000	**RM'000**
At fair value		
Money market instruments:		
Malaysian Government Securities	160,138	189,017
Malaysian Government Treasury Bills	-	49,749
At cost		
Unquoted shares in Malaysia	1,699	1,699
	161,837	240,465

7. LOANS, ADVANCES AND FINANCING

	Group/Bank	
	2016	**2015**
	RM'000	**RM'000**
At amortised cost		
(i) **By type**		
Term loans/financing:		
Housing loans/financing	12,907	15,366
Other term loans/financing	42	130
Overdrafts	-	20,461
Factoring receivables	-	37,878
Bills receivables	-	684
Claims on customers under acceptance credits	-	70,975
Staff loans	-	1,539
Revolving credit	-	271,435
	12,949	418,468
Less: Allowance for impaired loans, advances and financing:		
Collective assessment allowance	(731)	(3,866)
Individual assessment allowance	(4,726)	(252)
Net loans, advances and financing	7,492	414,350

(Forward)

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

	Group/Bank 2016 RM'000	Group/Bank 2015 RM'000
(ii) By type of customer		
Individuals	12,949	17,036
Domestic business enterprises - others	-	401,432
	12,949	418,468
(iii) By interest rate sensitivity		
Variable rate:		
BLR plus	12,949	15,631
Cost plus	-	401,432
Fixed rate:		
Housing loans/financing	-	841
Other fixed rate loan/financing	-	564
	12,949	418,468
(iv) By residual contractual maturity		
Maturity within one year	11	401,624
More than one year to three years	208	418
More than three years to five years	226	898
More than five years	12,504	15,528
	12,949	418,468

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

	Group/Bank	
	2016	**2015**
	RM'000	**RM'000**
(v) By geographical distribution		
Malaysia:		
Selangor	8,800	241,470
Kuala Lumpur	3,796	155,739
Negeri Sembilan	304	409
Pulau Pinang	49	343
Melaka	-	47
Johor	-	20,460
	12,949	418,468
(vi) By sector		
Purchase of residential landed properties	12,907	16,341
Purchase of transport vehicles	42	679
Consumption credit	-	16
Wholesale and retail	-	261,958
Finance, insurance and business services	-	70,835
Manufacturing	-	47,678
Mining and quarrying	-	20,961
	12,949	418,468
(vii) Movements in impaired loans, advances and financing are as follows:		
At 1 January	1,416	2,028
Impaired during the year	1,154	381
Reclassified as non-impaired	(521)	(580)
Amount written off	-	(413)
At 31 December	2,049	1,416
Individual assessment allowance*	(1,036)	(252)
Net impaired loans, advances and financing	1,013	1,164
Gross impaired loans, advances and financing as a percentage of gross loans, advances and financing	15.82%	0.34%

* Individual allowance assessment of RM755,000 was provided during the year to write-down the impaired loans to its net realisable value.

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

	Group/Bank 2016 RM'000	Group/Bank 2015 RM'000
(viii) Impaired loans, advances and financing by sector		
Purchase of landed properties (Residential)	2,023	1,416
Purchase of motor vehicle	26	-
	2,049	1,416
(ix) Movements in allowance for impaired loans, advances and financing are as follows:		
Collective Assessment Allowance		
At 1 January	3,866	4,592
Allowance made during the year (Note 27)	102	1,403
Amount written back (Note 27)	(3,237)	(2,129)
At 31 December	731	3,866
Individual Assessment Allowance		
At 1 January	252	800
Allowance made during the year* (Note 27)	4,815	405
Amount written back (Note 27)	(341)	(539)
Amount written off	-	(414)
At 31 December	4,726	252

* Additional impairment allowance of RM4,444,000 was made during the year to write-down the loans to its net realisable value.

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:

		2016	
Group/Bank	**Notional RM'000**	**Assets RM'000**	**Liabilities RM'000**
Derivatives held for trading at fair value through profit or loss			
Foreign exchange contracts:			
Spot and Forward	7,177	-	1
Interest rate contracts:			
Swaps	62,000	14	-
Cross-currency interest rate swaps	1,150,146	172,200	276,195
	1,219,323	172,214	276,196

		2015	
Group/Bank	**Notional RM'000**	**Assets RM'000**	**Liabilities RM'000**
Derivatives held for trading at fair value through profit or loss			
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
	16,452,604	531,672	1,086,749*

* Includes provision for non-strategic derivative trades as stated in Note 29.

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 of 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

	Group/Bank	
	2016	**2015**
	RM'000	**RM'000**
Tax recoverable	11,099	9,654
Other receivables, deposits and prepayments	4,583	53,961
	15,682	63,615

11. INVESTMENT IN SUBSIDIARY COMPANY

	Bank	
	2016	**2015**
	RM'000	**RM'000**
At cost		
Unquoted shares in Malaysia	-	10

11. INVESTMENT IN SUBSIDIARY COMPANY (CONT'D.)

The subsidiary company of the Bank, which is incorporated in Malaysia, is as follows:

Name of Subsidiary	Principal Activity	Proportion of Ownership Interest/ Voting Power Held by the Group 2016 %	2015 %
RBS Nominees (Tempatan) Sdn. Bhd.	Nominee services	-	100

RBS Nominees (Tempatan) Sdn. Bhd. has been officially struck-off by the Companies Commission of Malaysia in 2016. The strike-off has no material effect on the earnings and net assets of the Bank for the financial year ended 31 December 2016.

12. INVESTMENT IN ASSOCIATED COMPANY

	Group 2016 RM'000	2015 RM'000
Unquoted shares at cost	2,700	2,700
Share of post-acquisition loss	(883)	(883)
Impairment loss	(517)	(517)
Capital repayment of investment in associated company	(1,300)	-
	-	1,300

	Bank 2016 RM'000	2015 RM'000
Unquoted shares at cost	2,700	2,700
Impairment loss	(1,400)	(1,400)
Capital repayment of investment in associated company	(1,300)	-
	-	1,300

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

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

Name of Associate	Principal Activity	Proportion of Ownership Interest/ Voting Power Held by the Group 2016	2015
Gale Force Sdn. Bhd.	Investing in or acquiring non-performing loans	25%	25%

During the financial 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:

	2016 RM'000	2015 RM'000
Assets and liabilities		
Current assets	1,599	9,643
Total assets	1,599	9,643
Current liabilities	-	200
Total liabilities	-	200

13. PROPERTY, PLANT AND EQUIPMENT

2016 **Group and Bank**	**Freehold Land and Building RM'000**	**Motor Vehicle RM'000**	**Office Equipment and Machinery RM'000**	**Furniture, Fixtures and Fittings RM'000**	**Computer Equipment RM'000**	**Total RM'000**
Cost						
At 1 January 2016	-	616	3,618	3,821	10,600	18,655
Additions	-	-	-	-	19	19
Write-off (Note 28)	-	-	(3,618)	(3,821)	(10,619)	(18,058)
Disposal	-	(616)	-	-	-	(616)
At 31 December 2016	-	-	-	-	-	-
Accumulated Depreciation						
At 1 January 2016	-	616	3,398	1,955	7,319	13,288
Depreciation charge for the year	-	-	62	435	770	1,267
Write-off (Note 28)	-	-	(3,460)	(2,390)	(8,089)	(13,939)
Disposal	-	(616)	-	-	-	(616)
At 31 December 2016	-	-	-	-	-	-
Net Book Value	-	-	-	-	-	-

(Forward)

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

2015 **Group and Bank**	**Freehold Land and Building RM'000**	**Motor Vehicle RM'000**	**Office Equipment and Machinery RM'000**	**Furniture, Fixtures and Fittings RM'000**	**Computer Equipment RM'000**	**Total RM'000**
Cost						
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
Accumulated Depreciation						
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
Net Book Value	-	-	220	1,866	3,281	5,367

14. INTANGIBLE ASSETS

	Group/Bank 2016 RM'000	Group/Bank 2015 RM'000
Computer Software:		
Cost		
At 1 January	4,536	3,831
Additions	6	1,149
Write-off (Note 28)	(4,542)	(3,953)
Reclassification (Note 13)	-	3,509
At 31 December	-	4,536
Accumulated Amortisation		
At 1 January	3,409	3,165
Amortisation for the year (Note 26(b))	376	394
Write-off (Note 28)	(3,785)	(3,952)
Reclassification (Note 13)	-	3,802
At 31 December	-	3,409
Net Book Value	-	1,127

15. DEFERRED TAX

	Group/Bank 2016 RM'000	Group/Bank 2015 RM'000
At 1 January	11,876	19,170
Recognised in profit or loss (Note 30)	(1,903)	(6,844)
Recognised in equity	164	(450)
Amount written off in profit or loss (Note 30)	(10,105)	-
Amount written off in equity	(32)	-
At 31 December	-	11,876

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

	Group/Bank	
	2016	**2015**
	RM'000	**RM'000**
Presented after appropriate offsetting as follows:		
Deferred tax assets	-	12,493
Deferred tax liabilities	-	(617)
Net	-	11,876

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:

	Other Payables RM'000	**Other Temporary Differences RM'000**	**Unrealised Reserves RM'000**	**Total RM'000**
At 1 January 2015	9,216	9,894	318	19,428
Transfer from deferred tax liabilities	-	-	(318)	(318)
Recognised in profit or loss	(5,121)	(1,496)	-	(6,617)
At 31 December 2015	4,095	8,398	-	12,493
At 1 January 2016	4,095	8,398	-	12,493
Recognised in profit or loss	(3,784)	1,756	-	(2,028)
Recognised in equity	-	-	164	164
Written off in profit or loss	(311)	(10,154)	(132)	(10,597)
Written off in equity	-	-	(32)	(32)
At 31 December 2016	-	-	-	-

15. DEFERRED TAX (CONT'D.)

Deferred tax liabilities of the Group and of the Bank:

	Capital Allowances RM'000	Unrealised Reserves RM'000	Total RM'000
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
At 31 December 2015	485	132	617
At 1 January 2016	485	132	617
Recognised in profit or loss	(125)	-	(125)
Written off in profit or loss	(360)	(132)	(492)
At 31 December 2016	-	-	-

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

The amounts of temporary differences and unused tax losses for which no deferred tax assets have been recognised in the statements of financial position are as follows:

	Group/Bank	
	2016 RM'000	2015 RM'000
Temporary differences arising from:		
Other payables	4,891	-
Unrealised reserves	157	-
Unused tax losses	33,392	-
	38,440	-

Deferred tax assets have not be recognised in respect of those items as it is not probable that future taxable profit would be available against which the deductible temporary differences can be utilised.

The deductible temporary differences do not expire under current tax legislation.

16. DEPOSITS FROM CUSTOMERS

	Group 2016 RM'000	Group 2015 RM'000
Type		
At amortised cost		
Demand deposits	-	1,080,448
Savings deposits	-	962
Fixed deposits	-	84,180
	-	1,165,590

	Bank 2016 RM'000	Bank 2015 RM'000
Type		
At amortised cost		
Demand deposits	-	1,080,458
Savings deposits	-	962
Fixed deposits	-	84,180
	-	1,165,600

(i) Maturity structure of fixed deposits is as follows:

	Group/Bank 2016 RM'000	Group/Bank 2015 RM'000
Due within six months	-	84,137
Six months to one year	-	43
	-	84,180

16. DEPOSITS FROM CUSTOMERS (CONT'D.)

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

	Group 2016 RM'000	Group 2015 RM'000
Government and statutory bodies	-	1,499
Business enterprises	-	1,001,169
Individuals	-	14,669
Others	-	148,253
	-	1,165,590

	Bank 2016 RM'000	Bank 2015 RM'000
Government and statutory bodies	-	1,499
Business enterprises	-	1,001,179
Individuals	-	14,669
Others	-	148,253
	-	1,165,600

17. DEPOSITS AND PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group/Bank 2016 RM'000	Group/Bank 2015 RM'000
At amortised cost		
Licensed banks	-	29,879
Other financial institutions	63,521	299,609
	63,521	329,488

18. OTHER LIABILITIES

	Group/Bank 2016 RM'000	Group/Bank 2015 RM'000
Other liabilities	8,251	36,607
Internal settlement cost (Note 32(a))	-	15,734
Tax liabilities	2,302	2,661
	10,553	55,002

19. PROVISION FOR RESTRUCTURING

	Group/Bank 2016 RM'000	Group/Bank 2015 RM'000
Provision for severance payments	10,494	-
Other provisions	3,116	-
	13,610	-

20. SHARE CAPITAL

	Group/Bank Number of shares 2016 RM'000	Group/Bank Number of shares 2015 RM'000
Authorised:		
Ordinary shares of RM1 each:		
At beginning/end of the year	500,000	500,000
Issued and fully paid:		
Ordinary shares of RM1 each:		
At beginning/end of the year	343,000	343,000

21. RESERVES

	Group/Bank	
	2016	**2015**
	RM'000	**RM'000**
Non-distributable:		
Share premium	76,182	76,182
Statutory reserves (Note a)	178,843	178,843
Unrealised reserves (Note b)	(157)	417
Regulatory reserves (Note c)	-	1,153
Distributable:		
Retained earnings (Note d)	29,349	171,131
	284,217	427,726

(a) **Statutory reserves**

The statutory reserves are maintained in compliance with Section 47(2)(f) of the Financial Services Act, 2014 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 BNM as disclosed in Note 3.18.

(d) **Retained earnings**

The Bank is currently under the single-tier income tax system effective 1 January 2015. 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.

Since the end of the previous financial year, the Bank paid an interim dividend of RM140,000,000 on 343,000,002 ordinary shares of RM1.00 each in respect of the current financial year.

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

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

	Group/Bank	
	2016	**2015**
	RM'000	**RM'000**
Loans, advances and financing	11,071	22,374
Money at call and deposit placements with financial institutions	24,605	48,189
Securities available-for-sale	8,413	11,471
	44,089	82,034
Amortisation of premium less accretion of discount	(668)	(1,482)
Total interest income	43,421	80,552
Of which:		
Interest income earned on impaired loans, advances and financing	97	35

24. INTEREST EXPENSE

	Group/Bank	
	2016	**2015**
	RM'000	**RM'000**
Deposits and placements from banks and other financial institutions	369	1,402
Deposits from customers	3,429	8,005
	3,798	9,407

25. OTHER OPERATING INCOME

	Group 2016 RM'000	Group 2015 RM'000	Bank 2016 RM'000	Bank 2015 RM'000
Fee income:				
Commissions	746	1,103	746	1,103
Service charges and fees	730	1,837	730	1,837
Guarantee fees	926	2,438	926	2,438
Other fee income	6,640	6,651	6,640	6,651
	9,042	12,029	9,042	12,029
Net gain arising from disposal of property, plant and equipment*	99	15,362	99	15,362
	99	15,362	99	15,362
Gross dividend income from:				
Securities available-for-sale	138	138	138	138
	138	138	138	138
Other income/(expenses):				
Foreign exchange gain/(loss)				
Unrealised	172,844	85,745	172,844	85,745
Realised	(107,877)	(31,107)	(107,877)	(31,107)
(Loss)/Gain on derivatives trading				
Unrealised	(2,190)	(89,204)	(2,190)	(89,204)
Realised	(59,363)	20,182	(59,363)	20,182
Capital repayment from investment in associated company	715	-	715	-
Others	3	(192)	3	(192)
	4,132	(14,576)	4,132	(14,576)
	13,411	12,953	13,411	12,953

* In 2015, the Bank entered into Sale and Purchase agreement with a third party to dispose off 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 which was resulted in gain on disposal of RM15,362,810.

26. OTHER OPERATING EXPENSES

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Personnel costs (Note a)	16,434	19,569	16,434	19,569
Establishment costs (Note b)	(1,546)	8,488	(1,546)	8,488
Marketing expenses (Note c)	146	240	146	240
Administration and general expenses (Note d)	4,042	8,486	4,042	8,486
	19,076	36,783	19,076	36,783

(a) Personnel costs

	Group/Bank	
	2016 RM'000	2015 RM'000
Salaries, bonuses and allowances	11,928	14,901
Other staff related expenses	2,032	1,932
EPF - defined contribution plan	1,942	2,179
Social security costs	461	433
Rental of accommodation	71	124
	16,434	19,569

26. OTHER OPERATING EXPENSES (CONT'D)

(b) Establishment costs

	Group		Bank	
	2016 RM'000	**2015 RM'000**	**2016 RM'000**	**2015 RM'000**
(Write-back)/Share of group costs for prior years	(6,886)	2,741	(6,886)	2,741
Depreciation of property, plant and equipment (Note 13)	1,267	2,621	1,267	2,621
Amortisation of intangible assets (Note 14)	376	394	376	394
Rental of premises	1,617	1,393	1,617	1,393
Property, plant and equipment written off	-	19	-	19
Intangible asset written off	-	1	-	1
Others	2,080	1,319	2,080	1,319
	(1,546)	8,488	(1,546)	8,488

(c) Marketing expenses

	Group/Bank	
	2016 RM'000	**2015 RM'000**
Advertising	47	130
Others	99	110
	146	240

26. OTHER OPERATING EXPENSES (CONT'D)

(d) Administration and general expenses

	Group/Bank	
	2016	**2015**
	RM'000	**RM'000**
Communication	1,874	1,916
Legal and professional fees	1,203	1,555
Transportation	132	606
Property maintenance	1,028	1,742
Write back of tax penalties	(2,025)	-
Others	1,830	2,667
	4,042	8,486

Included in the above expenditure are the following statutory disclosures:

	Group/Bank	
	2016	**2015**
	RM'000	**RM'000**
Directors' remuneration and benefits-in-kind	1,262	2,035
Auditors' remuneration		
Statutory audit	150	214
Regulatory related services*	75	45

* Regulatory related services included validation review based on agreed-upon procedures required for regulatory purposes, interim limited review, as well as Pillar 3 review.

26. OTHER OPERATING EXPENSES (CONT'D.)

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

	Salary and other remuneration RM'000	Fees RM'000	Bonuses RM'000	Benefits -in-kind RM'000	Total RM'000
2016					
Executive directors:					
Andrew Mark Sill	710	-	169	16	895
Lim Yu Mei	134	-	23	-	157
Non-executive directors:					
Tan Sri Asmat bin Kamaludin	-	110	-	-	110
Jonathan William Addis	-	100	-	-	100
	844	210	192	16	1,262

	Salary and other remuneration RM'000	Fees RM'000	Bonuses RM'000	Benefits -in-kind RM'000	Total RM'000
2015					
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
	1,483	210	307	35	2,035

27. ALLOWANCE/(WRITE BACK) FOR IMPAIRMENT ON LOANS, ADVANCES AND FINANCING

	Group/Bank	
	2016	2015
	RM'000	RM'000
Allowance/(Write back) for impairment on loans, advances and financing:		
Individual Assessment Allowance:		
Made in the financial year (Note 7)	4,815	405
Written back in the financial year (Note 7)	(341)	(539)
Written off loans recovered	-	(76)
	4,474	(210)
Collective Assessment Allowance:		
Made in the financial year (Note 7)	102	1,403
Written back in the financial year (Note 7)	(3,237)	(2,129)
	(3,135)	(726)
	1,339	(936)

28. RESTRUCTURING COSTS

	Group/Bank	
	2016	2015
	RM'000	RM'000
Provision for severance payments	15,680	-
Property, plant and equipment written off (Note 13)	4,119	-
Intangible assets written off (Note 14)	757	-
Other provisions (Note 19)	3,116	-
	23,672	-
Deferred tax assets write off (Note 15)	11,876	-
	35,548	-

29. PROVISION FOR NON-STRATEGIC DERIVATIVE TRADES

A provision was made in year 2015 to reflect the estimated cost to sell, terminate or novate the long-dated derivative trades that are no longer part of the Group's and of the Bank's strategy.

30. TAX EXPENSE

	Group/Bank	
	2016	**2015**
	RM'000	**RM'000**
Malaysian income tax based on results for the year:		
Current year	467	155
(Over)/Under provision in prior years	(593)	1,588
Current tax (credit)/expense	(126)	1,743
Deferred tax (Note 15):		
Relating to origination and reversal of temporary differences	3,351	9,449
Under provision in prior years	(531)	(2,605)
Deferred tax assets written off	10,105	-
Unrecognised deferred tax assets	(917)	-
Deferred tax expense	12,008	6,844
Tax expense	11,882	8,587

30. TAX EXPENSE (CONT'D)

Reconciliation of tax expense

	Group		Bank	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Profit before tax	8,947	34,924	8,947	34,924
Taxation at Malaysian statutory tax rate of 24% (2015: 25%)	2,147	8,731	2,147	8,731
Non-taxable income	(3,924)	(4,544)	(3,924)	(4,544)
Expenses not deductible for tax purposes	5,595	4,915	5,595	4,915
Effect of change in tax rate	-	502	-	502
Under provision of deferred tax assets in prior years	(531)	(2,605)	(531)	(2,605)
(Over)/Under provision of current income tax payable in prior years	(593)	1,588	(593)	1,588
Deferred tax asset written off	10,105	-	10,105	-
Unrecognised deferred tax assets	(917)	-	(917)	-
Tax expense for the year	11,882	8,587	11,882	8,587

31. (LOSS)/EARNINGS PER SHARE

The loss per share of the Group and of the Bank have been calculated based on the loss for the year of RM2,935,000 (profit for the year in 2015 of RM26,337,000) on the weighted average number of ordinary shares of RM1 each in issue of 343,000,002 (2015: 343,000,002) during the year.

32. 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:

2016	**Subsidiary companies RM'000**	**Other related companies RM'000**
Income:		
Commissions and fees	-	833
Interest income	-	-
Share of group and information technology costs	-	4,854
Expense:		
Interest expense	-	277
Share of group and information technology costs	-	(6,886)
Assets:		
Cash and short-term funds	-	-
Interest receivable	-	-
Derivative financial assets	-	172,200
Liabilities:		
Deposits from customers	-	-
Deposits and placements from banks and other financial institutions	-	63,521
Interest payable	-	2
Derivative financial liabilities	-	103,978
Internal settlement cost	-	-

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

2015	**Subsidiary companies RM'000**	**Other related companies RM'000**
Income:		
Commissions and fees	-	396
Interest income	-	61
Share of group and information technology costs	-	5,827
Expense:		
Interest expense	-	807
Share of group and information technology costs	-	2,741
Assets:		
Cash and short-term funds	-	10,359
Interest receivable	-	20
Derivative financial assets	-	401,803
Liabilities:		
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 (Note 18)	-	15,734

32. 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:

	Group/Bank	
	2016	**2015**
	RM'000	**RM'000**
Short-term employee benefits	3,430	4,861
Post-employment benefits:		
Defined contribution plan	505	460
	3,935	5,321

Included in the total compensation of key management personnel are:

	Group/Bank	
	2016	**2015**
	RM'000	**RM'000**
Directors' remuneration excluding benefits-in-kind	1,246	2,000

33. OPERATING LEASE ARRANGEMENTS

During the year 2016, the Group and the Bank have entered into non-cancellable operating lease agreements for a term of 15 months for the use of buildings. 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 at the end of the reporting period but not recognised as liabilities are as follows:

	Group/Bank	
	2016	**2015**
	RM'000	**RM'000**
Future minimum rental payments:		
Not later than 1 year	533	1,267
Later than 1 year and not later than 5 years	-	213
	533	1,480

34. CREDIT TRANSACTIONS AND EXPOSURES WITH CONNECTED PARTIES

	Group/Bank 2016 RM'000	Group/Bank 2015 RM'000
Outstanding credit exposures with connected parties	84,830	40,807
Total credit exposures	206,672	2,970,447
Percentage of outstanding credit exposures to connected parties:		
- as a proportion of total credit exposures *	41.05%	1.37%
- as a proportion of capital base (Note 38)	13.51%	5.54%

* Percentage of outstanding credit exposures to connected parties as a proportion of total credit exposures exceeds the limit of 25% due to repayment of credit facilities by third party clients.

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.

35. 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 the Bank's assets.

Risk Weighted Exposures of the Group and of the Bank as of 31 December 2016 and 2015 are as follows:

	2016			2015		
	Principal amount RM'000	**Credit equivalent amount * RM'000**	**Risk-weighted amount RM'000**	**Principal amount RM'000**	**Credit equivalent amount * RM'000**	**Risk-weighted amount RM'000**
Direct credit substitutes	-	-	-	1,370	1,370	1,370
Transaction-related contingent items	926	463	328	240,279	120,140	116,781
Short-term self-liquidating trade - related contingencies	-	-	-	72,844	14,569	14,569
Other commitments, such as formal standby facilities and credit lines:						
maturity less than one year	18,597	3,719	2,360	1,694,305	338,861	324,766
maturity more than one year	132	66	50	179	90	67
Foreign exchange related contracts:						
less than one year	7,177	-	-	3,573,493	47,789	37,929
one year to less than five years	-	-	-	245,100	29,569	22,326

(Forward)

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

	2016 Principal amount RM'000	2016 Credit equivalent amount * RM'000	2016 Risk-weighted amount RM'000	2015 Principal amount RM'000	2015 Credit equivalent amount * RM'000	2015 Risk-weighted amount RM'000
Interest rate related contracts:						
less than one year	1,212,146	193,152	95,163	3,167,600	270,872	132,030
one year to less than five years	-	-	-	7,543,711	514,708	193,823
five years and above	-	-	-	1,922,699	223,564	57,765
	1,238,978	197,400	97,901	18,461,580	1,561,532	901,426

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

36. 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 of 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 of 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 in line with the Internal Capital Adequacy Assessment Process to ensure it remains adequate for the Group.

36. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(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.

36. 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 regular risk migration analysis and discussion on Risk of Credit Loss/Heightened monitoring clients.

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.

36. 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.

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

The following table represents the Group's and the Bank's credit risk concentrations as of 31 December 2016:

	Short-term funds and placements with financial institutions including Statutory Deposit with BNM RM'000	**Securities available-for-sale RM'000**	**Loans, advances and financing RM'000**	**Derivative financial assets RM'000**	**Commitments and contingencies RM'000**
Government and Central Banks	457,213	160,138	-	-	-
Mining and quarrying	-	-	-	-	-
Manufacturing	-	-	-	-	31,000
Electricity, gas and water	-	-	-	-	-
Construction	-	-	-	-	-
Purchase of residential landed properties	-	-	12,907	-	-
Wholesale and retail	-	-	-	-	5,383
Transport, storage and communication	-	-	-	-	-
Finance, insurance and business services	176,659	1,699	-	172,214	1,202,463
Purchase of transport vehicles	-	-	42	-	-
Consumption credit	-	-	-	-	132
Community, social and personal services	-	-	-	-	-
Others	-	-	(5,457)	-	-
	633,872	161,837	7,492*	172,214	1,238,978

* Net of collective and individual assessment allowance of RM731,000 and RM4,726,000 respectively.

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

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

	Short-term funds and placements with financial institutions including Statutory Deposit with BNM RM'000	Securities available-for-sale RM'000	Loans, advances and financing RM'000	Derivative financial assets RM'000	Commitments and contingencies RM'000
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)	-	-
	2,137,783	240,465	414,350*	531,672	18,461,580

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

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

Gross loans, advances and financing are analysed as follow:

	Group/Bank	
	2016	**2015**
	RM'000	**RM'000**
Neither past due nor impaired	8,269	415,084
Past due but not impaired	2,631	1,968
Impaired	2,049	1,416
	12,949	418,468

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:

Group/Bank	**Total Gross Impaired Loans, Advances and Financing RM'000**	**Individual Assessment Allowance RM'000**	**Fair Value of Collateral RM'000**
2016			
Purchase of landed properties (Residential) and motor vehicle	2,049	1,036	1,013
	2,049	1,036	1,013
2015			
Purchase of landed properties (Residential)	1,416	252	1,164
	1,416	252	1,164

36. 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 2016 and 31 December 2015 at 99% confidence level, one day holding period.

	Group/Bank	
	2016	**2015**
	RM'mil	**RM'mil**
Aggregate VaR	0.55	1.07

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.

36. 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. Mismatches in these characteristics can give rise to volatility in value of this portfolio of assets and liabilities as interest rates vary. 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.

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

The following table represents the Group's assets and liabilities at carrying amounts as of 31 December 2016:

The Group	**Non-Trading Book**								
	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**	**Trading book RM'000**	**Total RM'000**
Assets									
Cash and short-term funds	632,535	-	-	-	-	-	-	-	632,535
Securities available-for-sale	-	160,138	-	-	-	1,699	-	-	161,837
Loans, advances and financing	12,949	-	-	-	-	-	(5,457)	-	7,492
Derivative financial assets	-	-	-	-	-	-	-	172,214	172,214
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,337	-	-	1,337
Other assets	-	-	-	-	-	15,682	-	-	15,682
Investment in associated company	-	-	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	-	-	-	-
Intangible asset	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-
Total Assets	645,484	160,138	-	-	-	18,718	(5,457)	172,214	991,097

(Forward)

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

The Group	← Non-Trading Book →								
	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	Trading book RM'000	Total RM'000
Liabilities									
Deposits from customers	-	-	-	-	-	-	-	-	-
Deposits and placements from banks and other financial institutions	63,521	-	-	-	-	-	-	-	63,521
Derivative financial liabilities	-	-	-	-	-	-	-	276,196	276,196
Other liabilities	-	-	-	-	-	10,553	-	-	10,553
Provision for restructuring	-	-	-	-	-	13,610	-	-	13,610
Total Liabilities	63,521	-	-	-	-	24,163	-	276,196	363,880
On balance sheet interest sensitivity gap	581,963	160,138	-	-	-	(5,445)	(5,457)	(103,982)	627,217
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-	-	-
Net interest sensitivity gap	581,963	160,138	-	-	-	(5,445)	(5,457)	(103,982)	627,217

36. 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		→			
	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	Trading book RM'000	Total RM'000
Assets									
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
Total Assets	2,476,519	104,268	211,494	625	774	86,321	(4,118)	531,672	3,407,555

(Forward)

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

The Group	Non-Trading Book								
	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	Trading book RM'000	Total RM'000
Liabilities									
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
Total Liabilities	1,485,992	5,052	4,034	-	-	55,002	-	1,086,749	2,636,829
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)
Net interest sensitivity gap	990,527	99,216	207,460	625	774	31,319	(4,118)	(1,399,992)	(74,189)

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

The following table represents the Bank's assets and liabilities at carrying amounts as of 31 December 2016:

The Bank	**Non-Trading Book**								
	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**	**Trading book RM'000**	**Total RM'000**
Assets									
Cash and short-term funds	632,535	-	-	-	-	-	-	-	632,535
Securities available-for-sale	-	160,138	-	-	-	1,699	-	-	161,837
Loans, advances and financing	12,949	-	-	-	-	-	(5,457)	-	7,492
Derivative financial assets	-	-	-	-	-	-	-	172,214	172,214
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,337	-	-	1,337
Other assets	-	-	-	-	-	15,682	-	-	15,682
Investment in subsidiary company	-	-	-	-	-	-	-	-	-
Investment in associated company	-	-	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	-	-	-	-
Intangible asset	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-
Total Assets	645,484	160,138	-	-	-	18,718	(5,457)	172,214	991,097

(Forward)

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

The Bank	Non-Trading Book								
	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	Trading book RM'000	Total RM'000
Liabilities									
Deposits from customers	-	-	-	-	-	-	-	-	-
Deposits and placements from banks and other financial institutions	63,521	-	-	-	-	-	-	-	63,521
Derivative financial liabilities	-	-	-	-	-	-	-	276,196	276,196
Other liabilities	-	-	-	-	-	10,553	-	-	10,553
Provision for restructuring	-	-	-	-	-	13,610	-	-	13,610
Total Liabilities	63,521	-	-	-	-	24,163	-	276,196	363,880
On balance sheet interest sensitivity gap	581,963	160,138	-	-	-	(5,445)	(5,457)	(103,982)	627,217
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-	-	-
Net interest sensitivity gap	581,963	160,138	-	-	-	(5,445)	(5,457)	(103,982)	627,217

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

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

The Bank	← **Non-Trading Book**						→		
	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**	**Trading book RM'000**	**Total RM'000**
Assets									
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
Total Assets	2,476,519	104,268	211,494	625	774	86,331	(4,118)	531,672	3,407,565

(Forward)

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

The Bank	← Non-Trading Book						→		
	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	Trading book RM'000	Total RM'000
Liabilities									
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
Total Liabilities	1,486,002	5,052	4,034	-	-	55,002	-	1,086,749	2,636,839
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)
Net interest sensitivity gap	990,517	99,216	207,460	625	774	31,329	(4,118)	(1,399,992)	(74,189)

36. 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	2016						2015					
	MYR	USD	AUD	EUR	GBP	SGD	MYR	USD	AUD	EUR	GBP	SGD
	%	%	%	%	%	%	%	%	%	%	%	%
Financial Assets												
Cash and short-term fund	3.02	-	-	-	-	-	3.09	-	-	-	-	-
Securities available-for-sale	3.60	-	-	-	-	-	2.86	-	-	-	-	-
Loans, advances and financing	5.77	-	-	-	-	-	3.83	-	-	-	-	-
Financial Liabilities												
Deposits from customers	-	-	-	-	-	-	3.14	0.15	2.01	-	0.35	-
Deposits and placements from banks and other financial institutions	-	0.69	-	-	-	-	-	0.37	-	-	-	-

36. 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 broarder 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 statements of financial position. 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 maybe required to meet outflows and specific roles and responsibilities for effective implementation of the CFP.

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

The following table summarises the maturity profile of the Group's assets and liabilities as of 31 December 2016 based on remaining contractual maturity:

The Group	**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**	**No specific maturity RM'000**	**Total RM'000**
Assets							
Cash and short-term funds	632,535	-	-	-	-	-	632,535
Securities available-for-sale	-	160,138	-	-	-	1,699	161,837
Loans, advances and financing	4	-	7	434	12,504	(5,457)	7,492
Derivative financial assets	64,626	-	107,588	-	-	-	172,214
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,337	1,337
Other assets	-	-	-	-	-	15,682	15,682
Investment in associated company	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	-	-
Intangible asset	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
Total Assets	697,165	160,138	107,595	434	12,504	13,261	991,097

(Forward)

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

The Group	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	No specific maturity RM'000	Total RM'000
Liabilities							
Deposits from customers	-	-	-	-	-	-	-
Deposits and placements from banks and other financial institutions	63,521	-	-	-	-	-	63,521
Derivative financial liabilities	64,629	-	211,567	-	-	-	276,196
Other liabilities	-	-	-	-	-	10,553	10,553
Provision for restructuring	-	-	-	-	-	13,610	13,610
Total Liabilities	128,150	-	211,567	-	-	24,163	363,880
Net liquidity gap	569,015	160,138	(103,972)	434	12,504	(10,902)	627,217

36. **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:

The Group	**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**	**No specific maturity RM'000**	**Total RM'000**
Assets							
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
Total Assets	2,206,056	360,857	484,553	253,369	20,517	82,203	3,407,555

(Forward)

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

The Group	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	No specific maturity RM'000	Total RM'000
Liabilities							
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
Total Liabilities	1,845,021	54,231	128,484	406,114	147,977	55,002	2,636,829
Net liquidity gap	361,035	306,626	356,069	(152,745)	(127,460)	27,201	770,726

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

The following table summarises the maturity profile of the Bank's assets and liabilities as of 31 December 2016 based on remaining contractual maturity:

The Bank	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	No specific maturity RM'000	Total RM'000
Assets							
Cash and short-term funds	632,535	-	-	-	-	-	632,535
Securities available-for-sale	-	160,138	-	-	-	1,699	161,837
Loans, advances and financing	4	-	7	434	12,504	(5,457)	7,492
Derivative financial assets	64,626	-	107,588	-	-	-	172,214
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	1,337	1,337
Other assets	-	-	-	-	-	15,682	15,682
Investments in subsidiary company	-	-	-	-	-	-	-
Investment in associated company	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	-	-
Intangible asset	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-
Total Assets	697,165	160,138	107,595	434	12,504	13,261	991,097

(Forward)

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

The Bank	**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**	**No specific maturity RM'000**	**Total RM'000**
Liabilities							
Deposits from customers	-	-	-	-	-	-	-
Deposits and placements from banks and other financial institutions	63,521	-	-	-	-	-	63,521
Derivative financial liabilities	64,629	-	211,567	-	-	-	276,196
Other liabilities	-	-	-	-	-	10,553	10,553
Provision for restructuring	-	-	-	-	-	13,610	13,610
Total Liabilities	128,150	-	211,567	-	-	24,163	363,880
Net liquidity gap	569,015	160,138	(103,972)	434	12,504	(10,902)	627,217

36. 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:

The Bank	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	No specific maturity RM'000	Total RM'000
Assets							
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 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
Total Assets	2,206,056	360,857	484,553	253,369	20,517	82,213	3,407,565

(Forward)

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

The Bank	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	No specific maturity RM'000	Total RM'000
Liabilities							
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
Total Liabilities	1,845,031	54,231	128,484	406,114	147,977	55,002	2,636,839
Net liquidity gap	361,025	306,626	356,069	(152,745)	(127,460)	27,211	770,726

36. 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.

37. 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:

Group	**2016**		**2015**	
	Carrying amount RM'000	**Fair value RM'000**	**Carrying amount RM'000**	**Fair value RM'000**
Financial Assets				
Securities available-for-sale	161,837	161,837	240,465	240,465
Loans, advances and financing	7,492	7,492	414,350	414,234
Derivative financial assets	172,214	172,214	531,672	531,672
Financial Liabilities				
Deposits from customers	-	-	1,165,590	1,165,538
Derivative financial liabilities	276,196	276,196	1,086,749*	1,073,422

* Includes provision for non-strategic derivative trades as stated in Note 29.

(Forward)

37. 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:

Bank	**2016**		**2015**	
	Carrying amount RM'000	**Fair value RM'000**	**Carrying amount RM'000**	**Fair value RM'000**
Financial Assets				
Securities available-for-sale	161,837	161,837	240,465	240,465
Loans, advances and financing	7,492	7,492	414,350	414,234
Derivative financial assets	172,214	172,214	531,672	531,672
Financial Liabilities				
Deposits from customers	-	-	1,165,600	1,165,548
Derivative financial liabilities	276,196	276,196	1,086,749*	1,073,422

* Includes provision for non-strategic derivative trades as stated in Note 29.

37. 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 period. 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.

37. 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.

37.1 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.

37. 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:

Group	**Carrying amount RM'000**	**Fair value RM'000**	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**
2016					
Financial Assets					
Securities available-for-sale	161,837	161,837	-	160,138	1,699
Derivative financial assets	172,214	172,214	-	172,214	-
Loans, advances and financing *	7,492	7,492	-	-	7,492
Financial Liabilities					
Deposits from customers *	-	-	-	-	-
Derivative financial liabilities	276,196	276,196	-	276,196	-

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

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

Group	Carrying amount RM'000	Fair value RM'000	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000
2015					
Financial Assets					
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
Financial Liabilities					
Deposits from customers *	1,165,590	1,165,538	-	1,165,538	-
Derivative financial liabilities	1,086,749**	1,073,422	-	1,073,422	-

* 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 29.

37. 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:

Bank	**Carrying amount RM'000**	**Fair value RM'000**	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**
2016					
Financial Assets					
Securities available-for-sale	161,837	161,837	-	160,138	1,699
Derivative financial assets	172,214	172,214	-	172,214	-
Loans, advances and financing *	7,492	7,492	-	-	7,492
Financial Liabilities					
Deposits from customers *	-	-	-	-	-
Derivative financial liabilities	276,196	276,196	-	276,196	-

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

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

Bank	**Carrying amount RM'000**	**Fair value RM'000**	**Level 1 RM'000**	**Level 2 RM'000**	**Level 3 RM'000**
2015					
Financial Assets					
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
Financial Liabilities					
Deposits from customers *	1,165,600	1,165,548	-	1,165,548	-
Derivative financial liabilities	1,086,749**	1,073,422	-	1,073,422	-

* 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 29.

38. CAPITAL ADEQUACY

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

	Group	
	2016 RM'000	2015 RM'000
Tier-I capital		
Paid-up share capital	343,000	343,000
Share premium	76,182	76,182
Statutory reserves	178,843	178,843
Unrealised reserves	(157)	417
Retained earnings	29,349	171,131
	627,217	769,573
Less: Regulatory adjustments	-	(12,105)
Total Tier-I capital	627,217	757,468
Tier-II capital		
Collective assessment allowance	731	3,866
Regulatory reserves	-	1,153
Total Tier-II capital	731	5,019
Total capital funds	627,948	762,487
Capital Ratios		
Core capital ratio	213.17%	36.61%
Risk-weighted capital ratio	213.42%	36.85%

38. CAPITAL ADEQUACY (CONT'D.)

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

	Bank	
	2016 RM'000	2015 RM'000
Tier-I capital		
Paid-up share capital	343,000	343,000
Share premium	76,182	76,182
Statutory reserves	178,843	178,843
Unrealised reserves	(157)	417
Retained earnings	29,349	171,131
	627,217	769,573
Less: Regulatory adjustments	-	(12,105)
Total Tier-I capital	627,217	757,468
Tier-II capital		
Collective assessment allowance	731	3,866
Regulatory reserves	-	1,153
Total Tier-II capital	731	5,019
Total capital funds	627,948	762,487
Less: Investment in subsidiary company	-	(10)
Capital base	627,948	762,477
Capital Ratios		
Core capital ratio	213.06%	36.61%
Risk-weighted capital ratio	213.31%	36.85%

38. CAPITAL ADEQUACY (CONT'D.)

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

	Group	
	2016	**2015**
	RM'000	**RM'000**
Credit risk	157,551	1,403,900
Market risk	7,205	572,917
Operational risk	129,472	92,309
Total risk-weighted assets	294,228	2,069,126

	Bank	
	2016	**2015**
	RM'000	**RM'000**
Credit risk	157,551	1,403,900
Market risk	7,205	572,917
Operational risk	129,629	92,467
Total risk-weighted assets	294,385	2,069,284

39. SIGNIFICANT CORPORATE EVENT

In Malaysia a process was carried out for the sale of the Bank, and on 15 April 2016 Taiwan-based CTBC Holding announced that its subsidiaries will be buying 100% equity interest of the Bank. An Implementation Agreement, spelling out the contractual obligation and undertakings of both the vendor and the buyer from the date of the announcement up to the signing of the Sale and Purchase agreement, was signed on the same date.

However, on 8 August 2016 it was announced that both parties mutually agreed to terminate the Implementation Agreement after concluding that completion could not be achieved within the timelines stated. Following the announcement, the Bank immediately commenced the scale down of its operations.