RHB Bank Berhad
Brunei Darussalam Branch

Financial statements
Year ended 31 December 2018

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Independent auditor's report

RHB Bank Berhad
Brunei Operations

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the Brunei Operations of RHB Bank Berhad (the "Branch"), pursuant to the provision of the Brunei Darussalam Companies Act, Chapter 39 (the "Act"). These financial statements comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages FS1 to FS42.

The Branch is a segment of RHB Bank Berhad and is not a separately incorporated legal entity. The accompanying financial statements have been prepared from the records of the Branch and reflect only transactions recorded therein.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Act and International Financial Reporting Standards ("IFRSs") so as to give a true and fair view of the assets used in, and liabilities arising out of, the Branch's operations in Brunei Darussalam as at 31 December 2018 and of the results and cash flows of the Branch's operations in Brunei Darussalam for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the '*Auditor's responsibilities for the audit of the financial statements*' section of our report. We are independent of the Branch in accordance with the International Ethics Standards Board of Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Brunei Darussalam, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Branch's management is responsible for the other information contained in the Branch's financial statements. Other information is defined as all information in the branch accounts other than the financial statements and our auditor's report thereon.

We have obtained all other information prior to the date of this auditor's report.

Our opinion on the financial statements 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, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 management and directors for the financial statements

The Branch's management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and IFRSs and for devising and maintaining a system of internal accounting controls, sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, the Branch's management is responsible for assessing the Branch'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 Branch's management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Branch's financial reporting process.

Auditor's 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 auditor's 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 ISAs 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 ISAs, 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 controls 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 Branch's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Branch's management.

- Conclude on the appropriateness of the Branch's management's 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 Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements 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 auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, 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 Branch's management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

Report on other legal and regulatory requirements

We formed our audit opinion on the statement of financial position of the Branch based on the information and explanations given to us and as shown by the books of the Branch. We have obtained all the information and explanations that we required.

KPMG

KPMG
Certified Public Accountants

Sulaiman.

Hj Shazali bin Tan Sri Dato Hj Sulaiman
Public Accountant

Brunei Darussalam

Date: 31 MAR 2019

Statement of financial position
As at 31 December 2018

	Note	2018 B$'000	2017 B$'000
Assets			
Cash and short term funds	4	67,403	65,653
Balances with Autoriti Monetari Brunei Darussalam ("AMBD")	5	6,025	5,993
Group balances receivable	6	6,984	8,255
Government sukuk	7	13,000	12,500
Loans and advances	8	54,924	49,567
Investment securities	10	-	3,972
Property, plant and equipment	11	304	69
Other assets	12	1,778	1,378
Total assets		150,418	147,387
Liabilities and head office account			
Deposits from customers	13	95,738	101,110
Deposits from banks and other financial institutions	14	593	640
Group balances payable	15	12,969	5,749
Other liabilities	16	705	734
Provision for taxation		28	60
Head Office Account	18	40,385	39,094
Total liabilities and head office account		150,418	147,387

Certification

We certify that the above financial statements give a true and fair view of the financial position of the Brunei operations of RHB Bank Berhad (the "Branch") as at 31 December 2018 and the financial performance and cash flows of the Branch for the year ended 31 December 2018.

Ishak Bin Othman

Chief Executive Officer

Tunku Mohammad Firdaus bin Tunku Yahaya

Head of Operations

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

Statement of comprehensive income
Year ended 31 December 2018

	Note	2018 B$'000	2017 B$'000
Interest income	21	3,902	3,726
Less: Interest expense	21	(751)	(680)
Net interest income		3,151	3,046
Fee and commission income	22	387	344
Other income	23	329	379
Total operating income		3,867	3,769
Less:			
Personnel expenses	24	(1,337)	(1,325)
Operating lease expenses		(214)	(214)
Depreciation of property, plant and equipment	11	(70)	(44)
Other expenses	25	(699)	(795)
Allowance for impairment on loans and advances	26	(587)	(180)
Profit before taxation		960	1,211
Tax expense	17	(2)	(36)
Profit / Total comprehensive income for the year		958	1,175

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

Statement of cash flows
Year ended 31 December 2018

	Note	2018 B$'000	2017 B$'000
Cash flows from operating activities			
Profit before tax		960	1,211
Adjustments for:			
Depreciation of property, plant and equipment	11	70	44
Net impairment loss on loans and advances		629	596
Net interest income	21	(3,151)	(3,046)
Operating loss before changes in operating assets and liabilities		(1,492)	(1,195)
Changes in:			
Loans and advances		(5,653)	(1,906)
Group balances receivable		1,271	(4,516)
Group balances payable		7,220	(4,109)
Balances with AMBD		(32)	344
Placements with banks (tenors of more than 3 months)		2,600	10,700
Other assets		(380)	(135)
Deposits from customers		(5,372)	(6,359)
Deposits from banks and other financial institutions		(47)	258
Other liabilities		(108)	65
Cash used in operating activities		(1,993)	(6,853)
Interest received		3,758	3,639
Interest paid		(672)	(712)
Income taxes paid		(34)	-
Net cash generated from/(used in) operating activities		1,059	(3,926)
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(305)	(20)
Purchase of government sukuk		(32,694)	(32,357)
Redemption of government sukuk		32,290	35,000
Redemption of investment securities		4,000	-
Net cash generated from investing activities		3,291	2,623
Net movement in cash and cash equivalents		4,350	(1,303)
Cash and cash equivalents at 1 January		11,853	13,156
Cash and cash equivalents at 31 December	20	16,203	11,853

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

Notes to the financial statements

These notes form an integral part of the financial statements.

The financial statements were authorised for issue by the Branch Management on 31 March 2019.

1 Corporate information

RHB Bank Berhad, a bank incorporated in Malaysia, has the registered office of its Brunei Branch (the "Branch") at Unit G.02, Komplek Yayasan Sultan Haji Hassaanal Bolkiah, Bandar Seri Begawan BS 8711, Brunei Darussalam.

The Branch is a segment of RHB Bank Berhad (the "Head Office") and is not a separately incorporated legal entity.

The Branch is primarily involved in the business of banking and in the provision of financial services. There has been no significant change in the nature of these activities during the year.

2 Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except as otherwise described in the notes below.

2.3 Functional and presentation currency

These financial statements are presented in Brunei dollars (BND or B$), which is the Branch's functional currency. All financial information presented in Brunei dollars has been rounded to the nearest thousand, unless otherwise stated.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about assumptions and estimation uncertainties that have the most significant effect on the amounts recognised in the financial statements are set out in the following areas:

Impairment of financial instruments

Applicable from 1 January 2018

The Branch's expected credit loss ("ECL") calculations are outputs of complex models with a number of underlying assumptions. The significant judgements and estimates in determining expected credit loss include:

- The Branch's criteria for assessing if there has been a significant increase in credit risk; and
- Development of ECL models, including the choice of inputs relating to macroeconomic variables.

The calculation of ECL also includes expert credit judgement to be applied by credit risk management team based on counterparty information they receive from various sources including relationship managers and external market information.

Further information about key assumptions concerning future, and other key sources of estimation uncertainty, are set out in notes 3.3 and 31.

Applicable before 1 January 2018

- Individual impairment of financial assets - assessment of the timing and amount of future cash flows and collateral value and determination of prolonged or significant decline in market prices.

- Collective impairment of financial assets - assessment of probability of default and loss at default.

2.5 Change in accounting policies

The Branch adopted amendments and improvements to IFRSs which became effective from 1 January 2018.

(i) IFRS 9 *Financial instruments: Recognition and Measurement*

On 1 January 2018, the Branch has adopted IFRS 9 *Financial instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and introduces new requirements for: the classification and measurement of financial instruments; the recognition and measurement of ECL; and provides for a simplified approach to hedge accounting.

The Branch has further chosen not to restate comparative periods on the basis that it is not possible to do so without the use of hindsight.

Impact on the transition from IAS 39 to IFRS 9 is stated in Note 32.

(ii) IFRS 15 *Revenue from Contracts with Customers*

On 1 January 2018, the Branch has adopted IFRS 15, which provides a more detailed principles-based approach for income recognition. This standard applies to "Fees and commission income" but does not apply to financial instruments or lease contract.

The adoption of the revision to IFRS 15 did not have a material impact on the Branch's financial statements.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as explained in note 2.5, which addresses changes in accounting policies.

3.1 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Costs include expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment. When the Branch has an obligation to remove the asset or restore the site, estimate of the costs of dismantling and removing the item and restoring the site on which it is located is capitalised.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The gain or loss on disposal of an item of fixed asset is determined by comparing the proceeds from disposal with the carrying amount of fixed asset, and is recognised net within other income in profit or loss.

Depreciation is based on the cost of an asset less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The principal annual depreciation rates are as follows:

Renovation	10%
Equipment / furniture	10% - 33.3%
Motor vehicles	20%

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3.2 Foreign currency transactions

On initial recognition, transactions in foreign currencies are recorded in the functional currency of the Branch at the exchange rate ruling at the transaction date. Subsequent to initial recognition, monetary assets and monetary liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the reporting date. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at reporting date are recognised in the income statement.

3.3 Financial assets and financial liabilities

Classification and measurement of financial assets

Accounting policy from 1 January 2018

The Branch classifies its financial assets into the amortised cost measurement category.

At initial recognition, the Branch measure a financial asset at fair value plus transaction costs that are directly attributable to acquisition of the financial asset in the case of a financial asset not at Fair value through profit or loss ('FVTPL'). Transactions costs of financial assets carried at FVTPL are expensed in the income statement.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans & advances to customers and government sukuk.

Classification and subsequent measurement of debt instruments depend on the following factors:
- The Branch's business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial assets.

Based on these factors, the Branch classify their financial investments as amortised cost. Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated as FVTPL are measured at amortised cost. The carrying amount of these assets is adjusted for any expected credit losses that are recognised into income statement. The interest income is recognised into income statement using the effective interest rate method. Upon derecognition, any gain or loss will be recognised in income statement.

Reclassification policy

Reclassification of financial assets is required when, and only when, the Branch change their business model for managing the assets. In such cases, the Branch are required to reclassify all affected financial assets.

However, it will be inappropriate to reclassify financial assets that have been designated at fair value through profit or loss or equity instruments that have been designated as at fair value through other comprehensive income even when there is a change in business model. Such designations are irrevocable.

Recognition, initial measurement and derecognition

Regular purchases and sales of financial assets are recognised on the trade date on which the Branch committed to purchase or sell the assets at trade date. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Branch have transferred substantially all the risks and rewards of ownership.

Impairment

IFRS 9 introduces a new impairment model that requires the recognition of expected credit loss ('ECL'), replacing the incurred loss methodology model under IAS 39, for all financial assets, except for financial assets classified or designated as FVTPL and equity securities classified under FVOCI, which are not subject to impairment assessment. Off-balance sheet items that are subject to ECL include financial guarantees and undrawn loan commitments.

<u>General approach</u>

ECL will be assessed using an approach which classifies financial assets into three stages which reflects the change in credit quality of the financial assets since initial recognition:

(i) Stage 1 : 12 months ECL – not credit impaired

For credit exposures where there has not been a significant increase in credit risk since initial recognition or which has low credit risk at reporting date and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.

(ii) Stage 2 : Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

(iii) Stage 3 : Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised.

Generally, all financial assets that are 90 days past due or more are classified under Stage 3.

The Branch consider the following as constituting an event of default:

(1) Quantitative criteria

- The borrower is past due more than 90 days on any material credit obligation to the Branch

(2) Qualitative criteria

- Legal action has been initiated by the Branch for recovery purposes;
- Borrower is a bankrupt;
- Borrower has been assigned to external collection agency; and
- When there is modification referring to any changes in the contractual cash flow of loan due to credit deterioration reasons.

Significant increase in credit risk ('SICR')

(1) The Branch considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Branch compare the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.

(2) Among the indicators incorporated in ascertaining SICR are:

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increase in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrower in the group and changes in the operating results of the borrower.

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. The measurement of ECL is based on the discounted products of the Probability of Default model ('PD'), Loss Given Default model ('LGD') and Exposure at Default model ('EAD'). The changes in ECL between two-periods will be recognised in income statement.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Branch's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for doubtful debts for these financial assets is based on a 12-months ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

Other relevant historical information, loss experience or proxies will be utilised if deemed feasible.

In determining the ECL, management will evaluate a range of possible outcomes, taking into account past events, current conditions/trends and economic outlooks. Additional considerations that are assessed to have been adequately addressed by the ECL model estimates, a structured management overlay, which is subject to robust review and governance process, will be applied consistently.

Generally, all financial assets are considered to have experienced a significant increase in credit risk if the exposures is more than 30 days past due on its contractual payments.

Financial liabilities

The Branch's financial liabilities are initially recognised at fair value plus transaction costs. Subsequently, the financial liabilities are remeasured at amortised cost using the effective interest rate.

Accounting policy before 1 January 2018

Financial assets and financial liabilities are recognised when the Branch becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of 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 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.

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. The Branch has the following classifications of financial assets and financial liabilities:

a) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Branch has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

c) Financial liabilities held at amortised cost

Financial liabilities are subsequently measured at amortised cost using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Branch has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Branch has retained control, the assets continue to be recognised to the extent of the Branch's continuing involvement.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expired.

Offsetting financial instruments

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

Impairment

The Branch reviews its financial assets to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in profit or loss, the Branch makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a financial assets before the decrease can be identified with an individual financial assets. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

The Branch modified the requirements of IAS 39 Financial Instruments: Recognition and Measurement in respect of loan loss provisioning by Notice No. BU/N-5/2017/40 'Classification of Impaired Credit/ Financing Facilities and Financial Assets for Provisioning Purposes' issued pursuant to section 54 of the Autoriti Monetari Brunei Darussalam Order, 2010 and Banking Order, 2006. AMBD required the Branch to recognize allowance for impairment losses for loans and receivables at an amount calculated based on the higher of AMBD Guideline or IAS 39.

Based on IAS 39, individually assessed impairment allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. The Branch considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

For assessing collective impairment, the Branch uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Based on AMBD guideline, in making the assessment for individual impairment, the Branch takes into consideration the minimum impairment required under the following prudential arrangements set out in the AMBD Guideline as below:

- Substandard accounts (facilities that are past due for 90 days or more, but less than 180 days)

A specific provision to cover the amount of the expected exposure. Such provisioning shall not be less than 20 percent of the amount outstanding, net of interest suspended in the event such interest has been debited to the loan/overdraft account. At this stage the value of collateral will not be considered.

- Doubtful accounts (facilities that are past due for 180 days or more but less than 360 days)

A specific provision to cover the amount of the expected exposure. Such provisioning shall not be less than 50 percent of the amount outstanding, net of realisable value of security and interest suspended in the event such interest has been debited to the loan/overdraft account.

- Loss accounts (facilities that are past due for 360 days)

A specific provision equivalent to 100 percent of the amount outstanding, net of realisable security and interest suspended in the event such interest has been debited to the overdraft/loan account.

In calculating impairment based on the AMBD Guideline, the Branch takes into consideration a general provision of 2017: 1.25% based on total loans and advances to customers, net of specific provision, to cover possible loan losses which are not specifically identified.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised. When the Branch considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

3.4 Financial guarantee contracts

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

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

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

Accounting policy from 1 January 2018

Financial guarantee contracts are subsequently measured at the higher of the amount determined in accordance with the expected credit loss model under IFRS 9 'Financial Instruments' and the amount initially recognised less cumulative amount of income recognised in accordance with the principles of IFRS 15 'Revenue from Contracts with Customers', where appropriate.

Accounting policy prior to 1 January 2018

Financial guarantee contracts are subsequently measured at the highest of the amount determined in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised less cumulative amortisation, where applicable.

3.5 Contingent liabilities and contingent assets

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

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

3.6 Tax

Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in Head Office account or in other comprehensive income.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Branch expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, and the Branch intends to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

3.7 Interest income and expense

Interest income for financial assets held at fair value through other comprehensive income or amortised cost, and interest expense on all financial liabilities held at amortised cost is recognised in profit or loss using the effective interest method.

Interest income and expense on financial instruments held at fair value through profit or loss is recognised within net interest income.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Branch estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Where the estimates of cash flows have been revised, the carrying amount of the financial asset or liability is adjusted to reflect the actual and revised cash flows, discounted at the instrument's original effective interest rate. The adjustment is recognised as interest income or expense in the period in which the revision is made.

Interest income for financial assets that are either held at fair value through other comprehensive income or amortised cost that have become credit impaired subsequent to initial recognition (Stage 3) and have had amounts written off, is recognised using the credit adjusted effective interest rate. This rate is calculated in the same manner as the effective interest rate except that expected credit losses are included in the expected cash flows. Interest income is therefore recognised on the amortised cost of the financial asset including expected credit losses. Should the credit risk on a Stage 3 financial asset improve such that the financial asset is no longer considered credit impaired, interest income recognition reverts to a computation based on the rehabilitated gross carrying value of the financial asset.

3.8 Fees and commission

Other fees and commission income, including renewal fees, cancellation fees, commissions and service fees, are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, are expensed as the services are received.

3.9 Provisions

Provisions are recognised when the Branch has a present legal or constructive obligation where an outflow of resources to settle the obligation is probable and a reliable estimate can be made.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. When an outflow of resources to settle the obligation is no longer probable, the provision is reversed.

3.10 Employee benefits

Salaries, cash bonuses, allowances, commissions and defined contributions under regulations are recognised in the income statement when incurred. Leave entitlements are recognised when they accrue to employees. Provision for leave entitlements is made based on contractual terms with adjustment for expected attrition.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Branch participates in the Tabung Amanah Pekerja and Supplemental Contributory Pension schemes as defined by the laws of Brunei Darussalam. Contributions to Tabung Amanah Pekerja and Supplemental Contributory Pension are recognized as an expense in the period in which the related service is performed.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Branch has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3.11 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with banks and other financial institutions as well as highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Branch in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.12 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

3.13 Impairment of non-financial assets

At each reporting date, the Branch reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or cash generating units ("CGUs").

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

For the assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.14 New standards and interpretations not yet adopted

The following new standards are effective for periods beginning after 1 January 2018 and have not been applied in preparing these financial statements:

IFRS 16 Leases

The effective date of IFRS 16 is 1 January 2019. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Branch is in the process of evaluating the potential effect of this standard.

4 Cash and short term funds

	2018 B$'000	2017 B$'000
Cash in hand	4,070	2,455
Balances placed with AMBD	5,381	9,091
Balances with banks and other financial institutions	57,952	54,107
Total	67,403	65,653

Cash and short term funds are current in nature.

5 Balances with Autoriti Monetari Brunei Darussalam ("AMBD")

The minimum cash reserve is maintained as required by the provisions of Section 45 of the Brunei Darussalam Banking Order 2006. This is not available for use in the Branch's day to day operations. At present the minimum cash reserve requirement is 6% (2017: 6%) of the deposit liabilities and is not earning interest.

Balances with AMBD are current in nature.

6 Group balances receivable

	2018 B$'000	2017 B$'000
RHB Bank Berhad – Singapore Branch	6,980	8,251
RHB Bank Berhad – Bangkok Branch	4	4
Total	6,984	8,255

All group balances receivable are expected to mature within 12 months after the reporting date.

7 Government sukuk

	2018 B$'000	2017 B$'000
Government sukuk held		
- Original maturity less than one year	13,000	12,500
Total	13,000	12,500

8 Loans and advances

Loans and advances analysed by type:

	Note	2018 B$'000	2017 B$'000
Cash line / overdrafts		12,414	11,812
Term loans:			
- Property loans		15,179	13,653
- Other term loans		25,106	23,130
Trust receipts		2,563	1,669
Gross loan and advances		55,262	50,264
Less: Impairment	31	(338)	(697)
Net loan and advances		54,924	49,567

At 31 December 2018, B$51,841,000 (2017: B$50,198,000) of loans and advances are expected to be settled more than 12 months after the reporting date.

9 Non-performing loans and advances

	2017 B$'000
Loans and advances	1,666
Overdrafts	807
Gross amount	2,473
Less: Impairment	(155)
Net amount	2,318

Movement in non-performing loans and advances is as follows:

	2017 B$'000
Balance as at the beginning of the financial year	3,221
Classified as impaired	2,293
Reclassified as non-impaired	(1,744)
Amount written off	(1,297)
Balance as at the end of the financial year	2,473

For amount relating to 2018, refer to Note 31

10 Investment securities

	2018 B$'000	2017 B$'000
Held-to-maturity	-	3,972

11 Property, plant and equipment

	Renovation B$'000	Equipment / Furniture B$'000	Motor vehicles B$'000	Total B$'000
Cost				
Balance at 1 January 2017	1,237	1,241	106	2,584
Additions during the year	–	20	–	20
Balance at 31 December 2017	1,237	1,261	106	2,604
Balance at 1 January 2018	1,237	1,261	106	2,604
Additions during the year	–	305	–	305
Balance at 31 December 2018	1,237	1,566	106	2,909
Accumulated depreciation and impairment				
Balance at 1 January 2017	1,231	1,206	54	2,491
Depreciation charge for the year	1	22	21	44
Balance at 31 December 2017	1,232	1,228	75	2,535
Balance at 1 January 2018	1,232	1,228	75	2,535
Depreciation charge for the year	1	48	21	70
Balance at 31 December 2018	1,233	1,276	96	2,605
Carrying amounts				
Balance at 1 January 2017	6	35	52	93
Balance at 31 December 2017	5	33	31	69
Balance at 31 December 2018	4	290	10	304

Property, plant and equipment are non-current in nature.

12 Other assets

	2018 B$'000	2017 B$'000
Other receivables	1,140	903
Prepayments	209	80
Accrued interest receivable	357	337
Deposits	72	58
Total	1,778	1,378

At 31 December 2018, Nil (2017: B$126,000) of other assets had contractual maturities of more than 12 months after the reporting date.

13 Deposits from customers

Analysed by type of deposits:

	2018 B$'000	2017 B$'000
Demand deposits	18,856	23,319
Savings deposits	6,552	8,979
Fixed deposits	70,170	68,747
Others	160	65
Total	95,738	101,110

Analysed by type of customer:

	2018 B$'000	2017 B$'000
Government	21,000	21,800
Business enterprises	38,557	44,090
Individuals	36,021	35,155
Others	160	65
Total	95,738	101,110

At 31 December 2018, Nil (2017: Nil) of deposits from customers had contractual maturities of more than 12 months after the reporting date.

14 Deposits from banks and other financial institutions

	2018 B$'000	2017 B$'000
Banks and financial institutions	593	640
Total	593	640

Deposits from banks and other financial institutions are current in nature.

15 Group balances payable

	2018 B$'000	2017 B$'000
RHB Bank Berhad – Head Office	12,922	5,728
RHB Bank Berhad – Singapore Branch	43	17
RHB Bank Berhad – Bangkok Branch	4	4
Total	12,969	5,749

Group balances payable are current in nature.

16 Other liabilities

	2018 B$'000	2017 B$'000
Creditors and accruals	405	513
Accrued interest payable	300	221
Total	705	734

Other liabilities are current in nature.

17 Tax expense

The tax charge recognised in the profit or loss comprises the following:

	2018 B$'000	2017 B$'000
Current tax expense		
Current year	2	36
	2	36

Reconciliation of effective tax rate

Profit before income tax	960	1,211
Income tax at corporation tax rate of 18.5% (2017: 18.5%)	178	224
Non-deductible expenses	1	4
Non-taxable income	(62)	(22)
Tax incentives	(66)	(80)
Utilisation of previously unrecognised tax losses	-	(79)
Others	(49)	(11)
Total	2	36

18 Head Office Account

	Assigned capital B$'000	Statutory reserve fund B$'000	Retained profits B$'000	Total B$'000
Balance at 1 January 2017	30,000	3,984	3,935	37,919
Profit/ Other comprehensive income for the financial year	–	–	1,175	1,175
Total comprehensive income for the financial year	–	–	1,175	1,175
Transfers between reserves	–	588	(588)	–
Balance at 31 December 2017	30,000	4,572	4,522	39,094

	Assigned capital B$'000	Prudential reserve for credit loss B$'000	Statutory reserve fund B$'000	Retained profits B$'000	Total B$'000
Balance at 1 January 2018	30,000	–	4,572	4,522	39,094
Effect of adoption of IFRS 9	–	–	–	333	333
As restated	30,000	–	4,572	4,855	39,427
Profit/ Other comprehensive income for the financial year	–	–	–	958	958
Total comprehensive income for the financial year	–	–	–	958	958
Transfers to prudential reserve for credit loss	–	–	–	–	–
Transfers between reserves	–	–	479	(479)	–
Balance at 31 December 2018	30,000	–	5,051	5,334	40,385

The statutory reserve fund is maintained in accordance with Section 24 of the Banking Order, 2006. Part of the profit for the financial year is required to be transferred to the statutory reserve fund and not distributable as repatriation to Head Office. The Branch will transfer a minimum of 50% (2017: 50%) of the profit to the statutory reserve fund.

19 Commitments and contingencies

In the normal course of business, the Branch makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. As the contingencies and commitments may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements.

	2018 B$'000	2017 B$'000
Contingencies		
Letters of credit	207	1,057
Guarantees and bonds	1,573	2,141
Others	640	228
Sub total	2,420	3,426
Commitments		
Undrawn credit lines	11,215	10,639
Sub total	11,215	10,639
Total	13,635	14,065

20 Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following amounts:

	2018 B$'000	2017 B$'000
Cash in hand	4,070	2,455
Balances placed with AMBD	5,381	9,091
Balances with banks and other financial institutions	6,752	307
Total	16,203	11,853

21 Net interest income

	2018 B$'000	2017 B$'000
Interest income		
Loans and advances	2,785	2,676
Deposits and placement with other banks	815	739
Government Sukuk	148	123
Investment securities	137	160
Group balances receivable	17	28
Total interest income	3,902	3,726

Interest expense		
Deposits from customers	701	624
Group balances payable	50	56
Total interest expense	751	680
Net interest income	3,151	3,046

Included in the various line items under interest income for the year ended 31 December 2018 is Nil (2017: Nil) relating to impaired financial assets.

Total interest income and expense calculated using the effective interest method reported above that relate to financial assets or financial liabilities not carried at fair value through profit or loss are B$3,902,000 (2017: B$3,726,000) and B$751,000 (2017: B$680,000) respectively.

22 Fee and commission income

	2018 B$'000	2017 B$'000
Fee income		
Commission	240	191
Service charges	62	46
Fees on loans and advances	69	67
Guarantee fees	15	40
Others	1	-
Total fee income	387	344

23 Other income

	2018 B$'000	2017 B$'000
Foreign exchange gain	329	379
Total	329	379

24 Personnel expenses

	2018 B$'000	2017 B$'000
Wages and salaries	828	833
Allowance and bonuses	301	226
Contributions to defined contribution plan	126	141
Others	82	125
Total	1,337	1,325

25 Other expenses

	2018 B$'000	2017 B$'000
Advertisement and publicity	17	17
License fees	113	110
Auditor's fees	48	48
Legal and professional fees	-	16
Electronic data processing expenses	3	89
Others	518	515
Total	699	795

26 Allowance for impairment on loans and advances

	2018 B$'000	2017 B$'000
Charge/(Writeback)		
Loans and advances		
- Net charge	(26)	400
- Bad debt recovered	(42)	(416)
- Bad debt written off	655	196
Total	587	180

27 Accounting classifications and fair values

The Branch's classification of its financial assets and liabilities is summarised in the table below.

	Carrying amount	
	At Amortised cost B$'000	Total B$'000
2018		
Financial assets		
Cash and short term funds	67,403	67,403
Balances with AMBD	6,025	6,025
Group balances receivable	6,984	6,984
Government sukuk	13,000	13,000
Loans and advances	54,924	54,924
Other assets*	1,569	1,569
Total assets	149,905	149,905

2018	Carrying amount At Amortised cost B$'000	Total B$'000
Financial liabilities		
Deposits from customers	95,738	95,738
Deposits from banks and other financial institutions	593	593
Group balances payable	12,969	12,969
Other liabilities	705	705
Total liabilities	110,005	110,005

*: Excludes prepayments

	Carrying amount			
2017	Held to maturity B$'000	Loans and receivables B$'000	Other financial liabilities B$'000	Total B$'000
Financial assets				
Cash and short term funds	–	65,653	–	65,653
Balances with AMBD	–	5,993	–	5,993
Group balances receivable	–	8,255	–	8,255
Government sukuk	12,500	–	–	12,500
Loans and advances	–	49,567	–	49,567
Investment securities	3,972	–	–	3,972
Other assets*	–	1,298	–	1,298
Total assets	16,472	130,766	–	147,238
Financial liabilities				
Deposits from customers	–	–	101,110	101,110
Deposits from banks and other financial institutions	–	–	640	640
Group balances payable	–	–	5,749	5,749
Other liabilities	–	–	734	734
Total liabilities	–	–	108,233	108,233

*: Excludes prepayments

Determination of fair value

The methodologies and assumptions used in estimating fair values depend on the terms and risk characteristics of the various instruments and include the following:

Loans and advances

Fair value of loans and advances is estimated by discounting anticipated cash flows (including interest at contractual rates). Performing loans are grouped, to the extent possible, into homogenous pools segregated by maturity and the coupon rates of the loans within each pool. In general, cash flows are discounted using current market rates for instruments with similar maturity, repricing and credit risk characteristics.

For non-performing uncollateralised loans and advances, an estimate is made of the time period to realise these cash flows and the fair value is estimated by discounting these cash flows at the effective interest rate. For non-performing loans and advances where collateral exists, the fair value is the lesser of the carrying value of the loans and advances, net of specific allowances, or the fair value of the collateral, discounted as appropriate.

Based on the methodology described above, the Branch has determined that the carrying values of loans and advances approximate fair values.

Deposits by customers

Deposits by customer is calculated using discounted cash flow models, based on the deposit type and its related maturity, applying either market rates, where applicable or current rates offered for deposits of similar remaining maturities.

Based on the methodology described above, the Branch has determined that the carrying values of deposits by customers approximate fair values.

Other financial assets and liabilities

At the reporting date, the carrying amounts of the other financial assets and liabilities (including cash and cash equivalents, balances with Autoriti Monetari Brunei Darussalam, group balances receivable, government sukuk, investment securities, other assets, deposits from banks and other financial institutions, group balances payable and other liabilities) approximate their fair values because of the short periods to maturity or the effect of discounting is immaterial.

28 Operating leases

The Branch leases branch and office premises under operating leases. The leases typically run for a period of three years, with an option to renew the lease after that date. Lease payments are increased every three years to reflect market rentals.

At 31 December, the future minimum lease payments under non-cancellable operating leases were payable as follows:

	2018 B$'000	2017 B$'000
Minimum lease payable:		
Less than one year	102	204
Between one and three years	-	102
	102	306

29 Related party transactions

In the normal course of its banking business, the Branch has carried out transactions with related parties, principally the Head Office which is the ultimate controlling party of the Branch and with other branches and related corporations on terms agreed between the parties. Material related party transactions are separately disclosed in the relevant notes to the financial statements.

Transactions with key management personnel

Key management personnel compensation

Key management personnel compensation for the period comprised the following:

	2018 B$'000	2017 B$'000
Short-term employee benefits	192	202

Remuneration paid to key management personnel includes salary, bonus and other benefits-in-kind.

Key management personnel transactions

As at reporting date, there were no transactions or outstanding balances (2017: B$ Nil) related to key management personnel.

30 Capital management

The Branch's approach to capital management is to ensure that the Branch maintains adequate level of capital necessary to support its business and growth, to meet regulatory capital requirements at all times and to maintain a good credit rating.

Head Office committees oversee the Branch's capital planning and assessment process. Any capital management plans, the contingency capital plans, and any capital management actions are submitted to Head Office senior management team and/or Head Office board for approval.

As a branch of a foreign entity, Head Office is the primary equity capital provider to the Branch, and this is done via Head Office's own retained earnings and capital issuance. Capital generated by the branch in excess of planned requirements is returned to Head Office by way of repatriations.

Capital adequacy ratios ("CAR")

	2018 B$'000	2017 B$'000
Capital		
Core capital (Tier I capital)	40,385	39,094
Supplementary capital (Tier II capital)	70	542
Adjustment to Tier II capital	-	-
Total capital base	40,455	39,636
Total risk-weighted amount		
Risk weighted amount for credit risk	60,646	56,622
Risk weighted amount for operational risk	6,875	6,082
Risk weighted amount for market risk	771	331
Total risk-weighted amount	68,292	63,035
	%	%
Capital ratios		
Core capital (Tier 1) ratio	59.14	62.02
Total capital ratio	59.24	62.88

31 Financial risk management

The RHB Group (the "Group") takes proactive measures to manage the various risks posed by the rapidly changing business environment. A dedicated Board Risk Committee provides risk oversight of all material risks across the Group. At the management level, the Group Capital and Risk Committee and the Group Assets and Liabilities Committee ensure all key risks are managed in line with their respective Terms of Reference.

Group risk management framework

The Group Risk Management Framework governs the management of risks in the Group, as follows:

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

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

Overarching risk management principles

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

Risk governance and organisation

Principle 1: Risk governance from the Boards of Directors of the various operating entities with the Group

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

The Board of Directors (Board), through the Board Risk Committee (BRC), Group Capital and Risk Committee (GCRC) and the Group Risk and Credit Management function, establishes the risk appetite and risk principles for the Group and relevant entities. The BRC is the principal Board Committee that provides oversight over risk management activities for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, frameworks, policies and models. An Islamic Risk Management Committee (IRMC) was established to assist the Board of RHB Islamic Bank on risk issues relevant and unique to RHB Islamic Bank.

The responsibility for the supervision of the day-to-day management of enterprise risk and capital matters is delegated to the GCRC comprising Senior Management of the Group and which reports to the BRC/IRMC and the Group Management Committee. There are other committees set up to manage specific areas of risks in the Group.

Risk culture

Principle 2: Clear understanding of risk management ownership

Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group. The Group adopts the principle that "Risk and Compliance is Everyone's Responsibility".

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

Risk environment and infrastructure

Principle 3: Institutionalisation of a risk-focused organisation

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

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

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

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

The risk management processes within the Group seek to identify, measure, monitor and control risk so that risk exposures are adequately managed and the expected returns adequately compensate the risks.

- Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and ensure the risks can be managed and controlled within the risk appetite of the Group and specific entity, where necessary.

- Measurement: Risks are measured, assessed and aggregated using comprehensive qualitative and quantitative risk measurement methodologies, and the process also serves as an important tool as it provides an assessment of capital adequacy and solvency.

- Controlling and Monitoring: Controls, triggers and limits are used to manage risk exposures and to facilitate early identification of potential problem on a timely basis.

• Analytics and Reporting: Risk analysis and reports are prepared at the respective entities and consolidated level as well as business level are regularly escalated to the Senior Management and relevant Boards to ensure that the risks remain within the established appetite and to support an informed decision-making process.

The Group recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation and infrastructure. Towards this end, the Group has established frameworks, policies and other relevant control documents to ensure clearly defined practices and processes are implemented consistently across the Group. In terms of risk infrastructure, the Group has organised its resources and talents into specific functions, and invested into the technology, including data management to support the Group's risk management activities.

Risk Appetite

Principle 4: Alignment of risk management to business strategies

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

Risk appetite describes the types and level of risks the Group is prepared to accept in delivering its business strategies. It is a key component of risk management and set by the Board, and reported through various metrics that enable the Group to manage capital resources and shareholders' expectations.

Risk-adjusted return

Principle 5: Optimisation of risk-adjusted returns

One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholders' value by facilitating the allocation of capital to the businesses. The medium to long term strategy and principle of risk management of the Group is to intensify the integration of capital management within the Group. The Group is progressively implementing a risk-adjusted return-based framework for allocation of capital to business units and for performance measurement and management.

The main financial risks that the Branch is exposed to and how they are being managed are set out below.

(i) Credit risk

Credit risk arises as a result of customers' or counterparties' failure or unwillingness to fulfil their financial and contractual obligations as and when they arise.

Corporate and institutional credit risks are assessed by business units and approved by an independent party (Group Credit Management). Reviews are conducted at least once a year. A post-approval evaluation of credit facilities is emplaced and performed by the Credit Review team, with checks to ensure that credit facilities are properly appraised and approved. In addition, credit policies and product guidelines are continuously enhanced to ensure that they remain relevant in managing credit risks. A dedicated Credit Policy & Portfolio Management team designs strategies to achieve a desired ideal portfolio risk tolerance level.

The maximum exposure to credit risk is limited to the amounts on the statement of financial position, without taking into account the fair value of any collateral or master netting agreements.

As a fundamental credit principle, the Branch does not grant credit facilities solely on the basis of the collateral provided. All credit facilities are granted based on the credit standing of the borrower, source of repayment and debt service ability.

Collateral is taken whenever possible to mitigate the credit risk assumed. The value of the collateral is monitored periodically to cover credit risk associated with the respective financial asset. The main type of collateral taken by the Branch is cash and properties. Policies and processes are in place to monitor collateral concentration.

Credit Exposure by Stage

Financial assets are classified into three stages as below:

Stages	**Description**
Stage 1: 12 months ECL – not credit impaired	For credit exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.
Stage 2: Lifetime ECL – not credit impaired	For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.
Stage 3: Lifetime ECL – credit impaired	Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised.

Write- off policy

The Branch write off financial assets, in whole or in part when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

(i) Ceasing enforcement activity, and

(ii) Where the Branch's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

A write-off constitutes a derecognition event. The Branch may apply enforcement activities to financial assets written off. Recoveries resulting from the Branch's enforcement activities will be written back as bad debts recovered in the income statements.

Financial assets – credit quality

Loans and advances analysed by stages:

	12-month ECL (Stage 1) B$'000	Lifetime ECL not credit impaired (Stage 2) B$'000	Lifetime ECL credit impaired (Stage 3) B$'000	Total B$'000
Loans and advances to customers				
Balance as at 1 January 2018				
- As previously reported	–	–	–	–
- Effect of adoption of IFRS 9	43,272	1,193	5,799	50,264
- As restated	43,272	1,193	5,799	50,264
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to 12-month ECL (Stage 1)	894	(148)	(746)	–
- Transferred to Lifetime ECL not credit impaired (Stage 2)	(781)	831	(50)	–
- Transferred to Lifetime ECL credit impaired (Stage 3)	(940)	(716)	1,656	–
Purchase and origination	11,127	210	–	11,337
Derecognition	(5,251)	(147)	(315)	(5,713)
Amount written off	–	–	(626)	(626)
Balance as at 31 December 2018	48,321	1,223	5,718	55,262

Movement in impairment allowance included within loans and advances to banks, customers and bills receivable is as follows:

IFRS 9	12-month ECL (Stage 1) B$'000	Lifetime ECL not credit impaired (Stage 2) B$'000	Lifetime ECL credit impaired (Stage 3) B$'000	Total B$'000
Loans and advances to customers				
Balance as at 1 January 2018				
- As previously reported	-	-	-	-
- Effect of adoption of IFRS 9	93	48	223	364
- As restated	93	48	223	364
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to 12-month ECL (Stage 1)	116	(5)	(111)	-
- Transferred to Lifetime ECL not credit impaired (Stage 2)	(1)	9	(8)	-
- Transferred to Lifetime ECL credit impaired (Stage 3)	(2)	(30)	32	-
	113	(26)	(87)	-
Allowance made/(written back) during the financial year	(159)	10	146	(3)
Bad debts written off	-	-	-	-
Derecognition	(9)	-	(14)	(23)
Balance as at 31 December 2018	38	32	268	338

	2017 B$'000
Individual impairment allowance	
Balance as at the beginning of the financial year	1,154
Allowance made	639
Amount recoveries	(259)
	1,534
Amount written off	(1,379)
Balance as at the end of the financial year	155
Collective allowance for impairment	
Balance as at the beginning of the financial year	522
Charge for the year	20
	20
Balance as at the end of the financial year	542
Total allowance for impairment	697

Credit risk exposure is also analysed by industry in respect of the Branch's financial assets, including off-balance sheet financial instruments as set out below:

2018	Loans and advances B$'000	Letters of credit, acceptances, guarantees and bonds B$'000	Undrawn credit lines B$'000
By industry sector:			
Agriculture	426	37	174
Manufacturing	33	7	18
Transportation	145	66	173
Traders	10,510	1,303	4,855
Services	4,070	999	1,581
Constructions and property financing	33,592	8	4,098
Personal and consumption loans	1,088	–	243
Tourism	5,398	–	73
	55,262	2,420	11,215

2017	Loans and advances B$'000	Letters of credit, acceptances, guarantees and bonds B$'000	Undrawn credit lines B$'000
By industry sector:			
Agriculture	325	65	252
Manufacturing	35	13	11
Transportation	247	48	102
Traders	12,562	2,007	6,100
Services	3,916	1,084	1,619
Constructions and property financing	31,759	209	2,553
Personal and consumption loans	1,420	–	2
	50,264	3,426	10,639

2018	Loans and advances B$'000	Letters of credit, acceptances, guarantees and bonds B$'000	Undrawn credit lines B$'000
By customer type:			
Commercial	12,331	2,406	7,364
Retail	42,931	14	3,851
	55,262	2,420	11,215

2017	Loans and advances B$'000	Letters of credit, acceptances, guarantees and bonds B$'000	Undrawn credit lines B$'000
By customer type:			
Commercial	8,119	3,413	7,071
Retail	42,145	13	3,568
	50,264	3,426	10,639

Collateral accepted as security for loans and advances

At 31 December, collaterals and other security enhancements held against loans and advances are as follows:

	2018 B$'000	2017 B$'000
Mortgage of properties	51,636	46,949
Cash	2,171	1,743
Guarantees	1,455	1,572
	55,262	50,264

Security coverage of non-performing loans:

	2018 B$'000	2017 B$'000
Secured by cash / mortgage of properties	5,345	2,473
	5,393	2,473

(ii) Market risk

Market risk is the risk of financial loss where the value of the Branch's assets and liabilities could be adversely affected by changes in market variables such as interest rates, securities prices and foreign exchange rates. Market liquidity risk is the risk of financial loss caused by inability to secure market transactions at the required volume or price levels as a result of market turbulence or lack of trading liquidity.

The Branch is not exposed (2017: not exposed) to significant market risk except on its government sukuk.

Foreign exchange risk

Foreign exchange risk is the risk to earnings and economic value of foreign currency assets, liabilities and financial derivatives caused by fluctuations in foreign exchange rates.

The Branch's foreign exchange exposures comprise non-trading foreign exchange exposure principally derived from interbranch nostro accounts. As the majority of foreign exchange exposure is to Singapore Dollar (SGD), the Branch is not exposed to significant foreign exchange risk due to the currency Interchanged Agreement between Singapore and Brunei which interchange the two currencies at par.

(iii) Interest rate risk

Interest rate risk is the risk to both earnings and capital arising from adverse movement in interest rates.

At the reporting date, the interest rate profile of the Branch's interest-bearing financial instruments is as follows:

	2018 **B$'000**	**2017** **B$'000**
Fixed-rate assets	70,200	70,272
Floating-rate assets	55,261	50,264
Fixed-rate liabilities	(76,722)	(77,726)
	48,739	42,810

Interest rate sensitivity analysis

The Branch does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting dates would not affect profit or loss for fixed rate financial instruments.

At the reporting date, an increase of 100 basis points in interest rates would have increased profit or loss by B$552,610 (2017: B$502,640) for variable rate financial instruments. A decrease of 100 basis points in interest rates would have the opposite effect on profit or loss. This analysis assumes that all other variables remain constant.

(iv) Liquidity risk

Liquidity risk is the inability of the Branch to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses.

Liquidity risk is addressed through various measurement techniques such as liquidity gap analysis, early warning signals and stress testings that are controlled using approved limits and benchmarks. Periodic reports are presented to various operating and management level, including the Assets Liability Committee, Risk Management Committee and Board of Directors. In addition, the Branch reviews and enhances its Contingency Funding Plan to address probable circumstances that could cause liquidity distress to the Branch.

The following table shows cash flow analysis of the Branch's financial assets and liabilities by remaining contractual maturities on an undiscounted basis. Actual maturity dates may differ from contractual maturity dates due to behavioral patterns such as early withdrawal of deposits or loans.

2018	Less than 3 months B$'000	3 to 6 months B$'000	6 to 12 months B$'000	Over 1 year B$'000	Total B$'000
Assets					
Cash and short term funds	30,203	23,000	14,200	–	67,403
Balances with AMBD	6,025	–	–	–	6,025
Group balances receivables	6,984	–	–	–	6,984
Government sukuk	13,000	–	–	–	13,000
Loans and advances	6,473	6,624	3,686	38,141	54,924
Total assets	62,685	29,624	17,886	38,141	148,336
Liabilities					
Deposits from customers	44,479	24,662	26,597	–	95,738
Deposits from banks and other financial institutions	593	–	–	–	593
Group balances payable	12,969	–	–	–	12,969
Other liabilities	545	96	64	–	705
Total liabilities	58,586	24,758	26,661	–	110,005

2017	Less than 3 months B$'000	3 to 6 months B$'000	6 to 12 months B$'000	Over 1 year B$'000	Total B$'000
Assets					
Cash and short term funds	35,853	17,800	12,000	–	65,653
Balances with AMBD	5,993	–	–	–	5,993
Group balances receivables	8,255	–	–	–	8,255
Government sukuk	2,500	5,000	5,000	–	12,500
Loans and advances	9,025	4,408	2,865	33,269	49,567
Investment securities	3,972	–	–	–	3,972
Total assets	65,598	27,208	19,865	33,269	145,940
Liabilities					
Deposits from customers	36,888	37,319	27,428	–	101,635
Deposits from banks and other financial institutions	640	–	–	–	640
Group balances payable	5,749	–	–	–	5,749
Other liabilities	603	76	55	–	734
Total liabilities	43,880	37,395	27,483	–	108,758

32. IFRS 9 impact summary

The impact of the re-measurement and reclassifications and the impact of the changes to the recognition and measurement of credit impairment loss allowances, net of the related tax impacts, is set out by category of reserve in the tables below.

Statement of financial position

	IAS 39 measurement category	IFRS 9 measurement category	IAS 39 carrying amount as at 31 Dec 2017 B$'000	Expected credit losses B$'000	IFRS 9 carrying amount as at 1 Jan 2018 B$'000
Assets					
Cash and short term funds	Loans and receivables	Amortised cost	65,653	-	65,653
Balances with AMBD	Loans and receivables	Amortised cost	5,993	-	5,993
Group balances receivables	Loans and receivables	Amortised cost	8,255	-	8,255
Government sukuk	Held to maturity	Amortised cost	12,500	-	12,500
Loans and advances	Loans and receivables	Amortised cost	49,567	333	49,900
Investment securities	Held to maturity	Amortised cost	3,972	-	3,972
Other assets*	Loans and receivables	Amortised cost	1,298	-	1,298
Total assets			147,238	333	147,571
Liabilities					
Deposits from customers	Amortised cost	Amortised cost	101,110	-	101,110
Deposits from banks and other financial institutions	Amortised cost	Amortised cost	640	-	640
Group balances payable	Amortised cost	Amortised cost	5,749	-	5,749
Other liabilities	Amortised cost	Amortised cost	734	-	734
Total liabilities			108,233	-	108,233

*: Excludes prepayments

Expected credit loss

The initial adoption of the ECL approach increased accumulated profits and reserves by B$333,000 which relates to loans and advances. ECL allowance computed under IFRS 9 is lower by B$333,000 for the Branch than the allowance for impairment on loan and advances to customer under AMBD guideline.

RHB Bank Berhad
Brunei Darussalam Branch

Pillar 3 – Public Disclosure
(unaudited)

This section is pursuant to Notices on Risk Management and Pillar 3 – Public Disclosure Requirements.

1.0 CORPORATE GOVERNANCE OVERVIEW STATEMENT

Our approach to corporate governance

The Board of Directors (the "Board") of RHB Bank Berhad ("RHB" or the Company") is zealous in cultivating and fostering a corporate governance culture that amplifies RHB's core values of P.R.I.D.E. (Professional, Respect, Integrity, Dynamic & Excellence) throughout its value chain. These core values are ingrained within the organisation to inculcate positive corporate culture that would spur RHB to deliver and achieve its strategic objectives. We, as custodians of the bank, firmly believe good corporate culture defines both the behaviour within RHB Bank Berhad and its subsidiaries ("RHB Banking Group") and also the way we communicate with external stakeholders.

A summary of RHB's Corporate Governance practices vis-à-vis the Malaysian Code on Corporate Governance's (MCCG) principles are laid out as follows:

1.1 PRINCIPLE A: BOARD LEADERSHIP & EFFECTIVENESS

Responsibilities of the board

The year 2018 witnessed the launch of the Group's new strategic 5-year plan, FIT22, which succeeded its predecessor I.G.N.I.T.E that came to an end in 2017. FIT22 was assiduously developed to create sustainable value to all stakeholders of RHB. The new strategic plan is closely tied to the Group's brand promise of ***Together We Progress*** which essentially promotes the idea of the Company being a companion of its stakeholders, both internal and external, to achieve the targeted objectives in a sustainable and ethical manner.

The Management's performance is actively monitored in executing the Board's directive and strategies in line with the Group's new 5-Year plan on top of the Board providing direction and advice to ensure management do not divagate from their mandates. The Board has in place a Board Charter that provides clear outline on the roles and responsibilities for each member of the Board. This document was developed with great care and perseverance to guide and ensure each member is held accountable for their actions and inactions in serving the Group. Please refer to our disclosure of Practice 2.1 in the CG Report for additional information on the Board Charter.

Our governance model

RHB Banking Group ("Group") operates within a clearly defined Board approved governance model. This model elucidates on the clear governance practices and direction in relation to the decision making process across the Group. This delegation of authority is clearly defined within the Terms of References ("ToR") of the respective Board Committees. The ToRs are reviewed periodically by the Board to ensure effective and efficient decision making process within the Group. The Board Committees also act as oversight committees; evaluating and recommending matters under their purview for the Board's consideration and approval.

The Board receives updates from the respective chairperson/representatives of the Board Committees on matters that require specific attention that have been deliberated and considered at the meetings of Board Committees. This practice also applies for other main entities within the Group.
In supplementing the Board's effort to govern the Company, the following Board Committees have been established:

a. Board Audit Committee ("BAC")

The BAC is responsible to provide independent oversight over the management of financial reporting and internal control systems, ensure checks and balances for entities within the Group and review the financial condition as well as the performance of the Group.

b. Board Nominating & Remuneration Committee ("BNRC")

The BNRC supports the Boards in reviewing and assessing the appointment, performance & remuneration of directors, board committee members and key senior management officers (which entails Group Managing Director ("GMD"), Chief Executive Officer ("CEO")/Managing Director ("MD") who reports directly to the GMD and any person(s) as may be decided by the Committee) for recommendation to the Board.

c. Board Risk Committee ("BRC")

The BRC is responsible to provide oversight and governance of risks for the Group. It oversees senior management's activities in managing risk and ensures that the risk management process of each entity within the Group is put in place and functioning. The BRC also ensures the management of the Group's risk is in accordance with a risk-return performance management framework.

d. Board Credit Committee ("BCC")

The BCC is responsible to affirm, veto or include additional conditions on all types of credit applications (including understock/futures broking) and all types of underwriting applications for amounts above the defined thresholds of the Group Credit Committee ("GCC") which resides at the management level.

The detailed responsibilities of each committee can be found in the Board Charter of RHB Bank Berhad @ https://www.rhbgroup.com/about-us/our-principles/corporate-governance/bank *as well as the **CG Report.***

Composition of the board

We understand and acknowledge the importance of having a balanced, diverse, experienced and cohesive Board. The nucleus of the Board is in its composition itself. A Board that encapsulates diversity would be able to face the challenges headstrong and view the opportunity as well as business risks in a collective manner. Currently, there are six Independent Non- Executive Directors ("INED"), three Non-Independent Non-Executive Directors ("NINED") and one Executive Director ("ED") serving on the Board.

The Board is well pleased with the current established composition as it is an important driver of our effectiveness. The current composition allows a breadth of perspective to be shared by its members and is viewed as optimal for a company of RHB's size and intricate operations. The BNRC, in supporting the Board ensures factors such as mix of skills, calibre, competency, character and experience are taken into consideration in nominating candidates for Board appointment.

Remuneration

The Board is mindful that fair remuneration is critical to attract, retain and motivate Directors and senior management with the relevant experience and expertise required to lead RHB. The Board also ensures the remuneration proffered promotes the achievement of strategic objectives within the ambient of RHB's risk appetite. The Board Nominating & Remuneration Committee ("BNRC") has been entrusted with discharging the remuneration strategies, as outlined in its terms of reference, which can be referred on the corporate website.

1.2 PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

Audit committee

The Board has in place a Board Audit Committee ("BAC") that comprises 3 members, all of whom are Independent Non-Executive Directors. The Committee supports the Board with matters pertaining to financial reporting, external audit, internal control and internal audit process and review of related party transactions as well as conflict of interest situations.

All members of the BAC are financially literate and possess necessary financial background, knowledge and experience to review financial and non-financial reporting and matters put forth for deliberation before the committee. The BAC oversees the Group Internal Audit ("GIA") function which operates under a charter mandated by the BAC that gives unrestricted access to review all activities across the Group. The GIA reports directly to the BAC on all its activities.

The BAC reviews and approves the Group Internal Audit's annual audit plan, its staffing requirements and audit activities, including appraisal of the Group Chief Internal Auditor's performance. The audit committee is involved in deciding the remit of the internal audit function including its objectives, strategies, roles and responsibilities, scope and remuneration. Further information on the BAC and GIA of the Group can be found in the CG Report.

Risk management and internal control framework

As a financial institution, the Board recognises the importance of a sound system of risk management and internal control to ensure good corporate governance and to safeguard shareholders' investments, depositors' monies and the interests of policy owners, as well as the Company's and the Group's assets. RHB's risk management and internal control framework is designed not only to cover financial controls but also non-financial controls.

The Board Risk Committee ("BRC") provides oversight and governance of risks for the Group to ensure that the Group's risk management processes are functional and effective. The BRC also oversees Senior Management's activities in managing risk; ensuring that the risk management process in each of the Group's entities functions is in accordance with a risk-return performance management framework. Furthermore, the BRC supports and leads the Senior Management in driving the appropriate Risk Culture and Risk Ownership within the Group.

The BRC continues to enhance its oversight on RHB's compliance activities with special "compliance focus" meetings prior to every scheduled BRC monthly meetings. This effort was undertaken by the BRC to ensure that they were kept abreast by management on all matters relating to RHB's compliance activities.

1.3 PRINCIPLE C: INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

Communication with stakeholders

The Board endeavours to continue maintaining an open and timely communication with all stakeholders. The Board currently conducts its engagement with stakeholders through various mechanisms such as the publication of Annual Reports, Financial Reports, Corporate Governance Reports, Sustainability Reports, General Meetings, investors' conferences, roadshows, analyst briefings, and media briefings/press conferences and via electronic means such as RHB's corporate website.

Valuing the importance of transparency, we ensure important and material information are communicated to stakeholders in a timely manner, through the Bank's website, www.rhbgroup.com.

1.4 BOARD OVERSIGHT

The Board provides independent oversight over various aspects in the Group amongst others, governance processes and compliance with applicable laws, regulations, rules, directives and guidelines. In carrying out these tasks, the Board has delegated the oversight responsibilities to various Board Committees functioning within the Group. The Board will be apprised with reports on the Company's and the Group's compliance with its statutory obligations as well as rules and regulations governing the Company' and the Group's businesses and operations, actions taken to address shortcomings as well as self-regulating initiatives taken by the Group, especially initiatives that are critical to the Group's businesses and operations under local and foreign jurisdictions. The strictest rule applies. Should the local Authority require the Branch to adhere to its standards rather than Group, then the Branch can apply for a dispensation from Group in applying such requirement. Areas for improvement, non-compliance incidents and action plans are highlighted and recommended to the Board for information and approval where required.

1.5 CONDUCT OF GENERAL MEETINGS

We view the rights of shareholders to attend and participate in general meetings to be sacrosanct. In this regard, we as stewards of the Company ensure that shareholders are accorded the opportunity to raise questions or seek clarification on matters relating to RHB's performance both financial and non-financial during the General Meetings.

Further information on corporate reporting and meaningful relationship with stakeholders can be found within the **CG Report** of RHB Bank Berhad.

1.6 REFLECTION ON KEY CORPORATE GOVERNANCE FOCUS AREAS IN 2018

During the year, the Board focused on the following corporate governance matters:

Oversight on strategy & financial performance

With the new 5-Year FIT22 strategic plan in place, the Board continues to actively monitor and engage management on the progress and performance of the Group in achieving the financial and non-financial objectives. The Board receives regular update from management during Board and Board Committee meetings as it continues to imbue and support management by providing guidance and leadership ensuring management do not divagate from the targets. To nurture the cohesion between the Board and management, an offsite Board meeting session was organised with the participation of management. Board and Management were allowed to socialise outside the hustle and bustle of the corporate environment to synchronise the culture and mind-set of management in line with the Group's new FIT22 strategy to create long term sustainable value for all its stakeholders.

For & proper policy

Ensuring the Board is constituted of capable and ethical individuals, a review of the existing Fit & Proper Policy was conducted by the Board in line with the Bank Negara Malaysia's Fit and Proper Criteria. The policy was benchmarked against local and international requirements to ensure the policy provided sufficient guidance to Directors as well as senior management personnel. All Directors and senior officers of the Group are required to adhere to this policy.

Anti-bribery & corruption ("ABC") policy

The Board is aware that much attention has shifted towards culture and conduct among bankers as we are held to a higher moral standard as guardians of public trust on the financial system. As corruption corrodes from within and has far reaching consequences, the Board took affirmative action, instead of kicking the can down the road. The corporate liability provision introduced in the new MACC (Amendment) Act 2018 reinforced the importance of having a comprehensive internal ABC programme.

During the year, a new Group Policy on Anti-Bribery and Corruption was formulated and approved to ensure that the Board, Management and all employees of RHB Banking Group are edified of their responsibility and the repercussion of any unethical conduct. All employees of RHB Banking Group were encouraged to undertake e-learning courseware on RHB's guidance on gifts and hospitality as well as the Group's existing practices that dehort the proffering or the acceptance of bribes

Board effectiveness evaluation ("BEE")

With the support of the BNRC, we undertook the yearly evaluation of individual directors, the Board as a whole and Board Committee members via an internally conducted BEE exercise. The outcome of the BEE was tabulated in generic as well as thematic results on board culture and conduct. The results of the BEE provided insight into areas of strength and improvement of the Board as a whole and for individual directors. The Board was satisfied with the results unearthed from the BEE and undertook the necessary steps to ensure areas for improvements were treated with importance.

- **Whistleblowing policy**

The chair of the BAC was tasked with the responsibility of overseeing the effective implementation of the Whistleblowing Policy and Procedures. The RHB corporate website was also updated with the revised policy addressing additional dedicated whistleblowing channels for internal and external stakeholders of RHB to voice their concerns with regards to illegal, unethical or questionable practices within the Group. This includes availability of alternative whistleblowing channels and avenues to escalate similar matters to regulatory bodies and law enforcement agencies.

Directors' training

Acknowledging the evolving landscape of the financial services industry, the Board consciously undertook several training programmes to edify itself on the updates of the legal and regulatory landscapes impacting the Group's business operations. The continuous professional development of the Board also serves to enhance their understanding of the Group's businesses and its cross-pollination across the Retail Banking, Wholesale Banking, and Islamic Banking and Insurance sectors.

The Corporate Governance Report is available at https://www.rhbgroup.com/about-us/our-principles/corporate-governance/bank

2.0 RISK MANAGEMENT REPORT

GROUP RISK MANAGEMENT FRAMEWORK

The Group Risk Management Framework governs the management of risks in the Group, as follows:

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

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

2.1 OVERARCHING RISK MANAGEMENT PRINCIPLES

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

2.1.1 RISK GOVERNANCE AND ORGANISATION

Principle 1: Risk governance from the Boards of Directors of the various operating entities with the Group

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

The Board of Directors (Board), through the Board Risk Committee (BRC), Group Capital and Risk Committee (GCRC) and the Group Risk and Credit Management function, establishes the risk appetite and risk principles for the Group and relevant entities. The BRC is the principal Board Committee that provides oversight over risk management activities for the Group to ensure that the Group's risk management process is in place and functional. The BRC assists the Board to review the Group's overall risk management philosophy, frameworks, policies and models. An Islamic Risk Management Committee (IRMC) was established to assist the Board of RHB Islamic Bank on risk issues relevant and unique to RHB Islamic Bank.

The responsibility for the supervision of the day-to-day management of enterprise risk and capital matters is delegated to the GCRC comprising Senior Management of the Group and which reports to the BRC/IRMC and the Group Management Committee. There are other committees set up to manage specific areas of risks in the Group.

2.1.2 RISK CULTURE

Principle 2: Clear understanding of risk management ownership

Proactive risk ownership is important for effective management of risk. This promotes a risk awareness culture throughout the Group. The Group adopts the principle that "Risk and Compliance is Everyone's Responsibility".

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

2.1.3 RISK ENVIRONMENT AND INFRASTRUCTURE

Principle 3: Institutionalisation of a risk-focused organisation

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

Central Risk Management Function

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

The roles and responsibilities of the Group Chief Risk Officer include:

- Facilitating the setting of the strategic direction and overall policy on management and control of risks of the Group;

- Ensuring industry best practices in risk management are adopted across the Group, including the setting of risk management parameters and risk models;

- Developing a proactive, balanced and risk attuned culture within the Group;

- Advising Senior Management, GCRC, BRC/IRMC and Boards on risk issues and their possible impact on the Group in the achievement of its objectives and strategies;

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

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

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

Risk and Control Environment

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

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

The risk management processes within the Group seek to identify, measure, monitor and control risk so that risk exposures are adequately managed and the expected returns adequately compensate the risks.

- Identification: The identification and analysis of the existing and potential risks is a continuing process, in order to facilitate and ensure the risks can be managed and controlled within the risk appetite of the Group and specific entity, where necessary.

- Measurement: Risks are measured, assessed and aggregated using comprehensive qualitative and quantitative risk measurement methodologies, and the process also serves as an important tool as it provides an assessment of capital adequacy and solvency.

- Controlling and Monitoring: Controls, triggers and limits are used to manage risk exposures and to facilitate early identification of potential problem on a timely basis.

- Analytics and Reporting: Risk analysis and reports are prepared at the respective entities and consolidated level as well as business level are regularly escalated to the Senior Management and relevant Boards to ensure that the risks remain within the established appetite and to support an informed decision-making process.

The Group recognises that effective implementation of the risk management system and process must be supported by a robust set of documentation and infrastructure. Towards this end, the Group has established frameworks, policies and other relevant control documents to ensure clearly defined practices and processes are implemented consistently across the Group. In terms of risk infrastructure, the Group has organised its resources and talents into specific functions, and invested into the technology, including data management to support the Group's risk management activities.

2.1.4 RISK APPETITE

Principle 4: Alignment of risk management to business strategies

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

Risk appetite describes the types and level of risks the Group is prepared to accept in delivering its business strategies. It is a key component of risk management and set by the Board, and reported through various metrics that enable the Group to manage capital resources and shareholders' expectations.

2.1.5 RISK-ADJUSTED RETURN

Principle 5: Optimisation of risk-adjusted returns

One of the objectives of capital management is to reflect a risk-adjusted return assumed by the businesses throughout the Group. By linking risk to capital, the risk-adjusted return measure contributes to the creation of shareholders' value by facilitating the allocation of capital to the businesses. The medium to long term strategy and principle of risk management of the Group is to intensify the integration of capital management within the Group. The Group is progressively implementing a risk-adjusted return-based framework for allocation of capital to business units and for performance measurement and management.

2.2 SIGNIFICANT RISKS

2.2.1 CREDIT RISK

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

(a) Qualitative Disclosures

Impairment

IFRS 9 introduces a new impairment model that requires the recognition of expected credit loss ('ECL'), replacing the incurred loss methodology model under IAS 39, for all financial assets, except for financial assets classified or designated as FVTPL and equity securities classified under FVOCI, which are not subject to impairment assessment. Off-balance sheet items that are subject to ECL include financial guarantees and undrawn loan commitments.

General approach

ECL will be assessed using an approach which classifies financial assets into three stages which reflects the change in credit quality of the financial assets since initial recognition:

(i) Stage 1: 12 months ECL – not credit impaired

For credit exposures where there has not been a significant increase in credit risk since initial recognition or which has low credit risk at reporting date and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.

(ii) Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due.

(iv) Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL will be recognised. Generally, all financial assets that are 90 days past due or more are classified under Stage 3. The Branch consider the following as constituting an event of default:

1) Quantitative criteria

The borrower is past due more than 90 days on any material credit obligation to the Branch

2) Quantitative criteria

- The borrower is past due more than 90 days on any material credit obligation to the Branch;
- Legal action has been initiated by the Group and the Bank for recovery purposes;
- Borrower is a bankrupt;

- Borrower has been assigned to external collection agency; and
- When there is modification referring to any changes in the contractual cash flow of loan due to credit deterioration reasons.

Credit Risk Management Approach

Credit risk management is conducted in a holistic manner. Credit underwriting standards are articulated in an approved Group credit policy which is developed for the assurance of asset quality that is in line with the Group's risk appetite. Industry best practices are instilled in the continual updating of the Group credit policy including independent assessment of credit proposals, assignment of rating and adoption of multi-tiered delegated lending authorities spanning from individuals to credit approving committees.

Group Credit Committee ('GCC') is responsible for ensuring adherence to the Board approved credit risk appetite as well as the effectiveness of credit risk management. GCC is the senior management committee empowered to approve or reject all financial investments, counterparty credit and lending/financing up to the defined threshold limits.

The Board Credit Committee's (BCC) main functions are (i) affirming, vetoing or imposing more stringent conditions on credits of the Group which are duly approved by the GCC and/or GIUC (Group Investment Underwriting Committee), (ii) overseeing the management of impaired and high risk accounts, and (iii) approving credit transactions to connected parties up to the defined threshold limits.

The Group and the Bank also ensure that internal processes and credit underwriting standards are adhered to before credit proposals are approved. All credit proposals are first evaluated by the originating business units prior to submission to the relevant committees for approval. With the exception of credit applications for consumer and approved products under program lending/financing which can be approved by business units' supervisors, all other credit facilities are subject to independent assessment by a team of dedicated and experienced credit evaluators in Head Office. For proper checks and controls, joint approval is required for all discretionary lending between business and independent credit underwriters. Loans/financing which are beyond the delegated lending authority limits will be escalated to the relevant committees for approval.

Internal credit rating models are an integral part of the Group's credit risk management, decision-making process, and regulatory capital calculations. The credit grading models for corporate (or non-individual) obligors are used to risk rate the creditworthiness of the corporate obligors/guarantors/debt issuers based on their financial standing (such as gearing, expenses and profit) and qualitative aspects (such as management effectiveness and industry environment). The credit scoring models are for large volume of exposures that are managed on a portfolio basis, which includes programme lending/financing for small- and medium-sized enterprises. These models are developed through statistical modelling and applied onto the portfolio accordingly.

The analysis of any single large exposure and group of exposures is conducted regularly. The SBUs undertake regular account updates, monitoring and management of these exposures. Further, country and industry specific limits are also incorporated within the overall credit risk management framework for better assessment and management of credit concentration risk.

Credit reviews and rating are conducted on the credit exposures at least annually. Specific loans/financing may be reviewed more frequently under appropriate circumstances. Such circumstances may arise if, for instance, the Group believes that heightened risk exists in a particular industry, or the borrower/customer exhibits early warning signals such as default on obligations to suppliers or other financial institutions or is facing cash flow or other difficulties.

Regular risk reporting is made to the GCRC, IRMC, BRC and the Board. These reports include various credit risk aspects such as portfolio quality, credit migration, expected losses, and concentration risk exposures by business portfolio. Such reporting allows Senior Management to identify adverse credit trends, take prompt corrective actions, and ensure appropriate risk-adjusted decision-making. The Group also conducts regular credit stress tests to assess the credit portfolio's vulnerability to adverse credit risk events.

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

(b) Quantitative Disclosures

Credit risk exposure by industry in respect of the Branch's financial assets, including off-balance sheet financial instruments as set out below:

2018	**Loans and advances B$'000**	**Letters of credit, acceptances, guarantees and bonds B$'000**	**Undrawn credit lines B$'000**
By industry sector:			
Agriculture	426	37	174
Manufacturing	33	7	18
Transportation	145	66	173
Traders	10,510	1,303	4,855
Services	4,070	999	1,581
Constructions and property financing	33,592	8	4,098
Personal and consumption loans	1,088	–	243
Tourism	5,398	–	73
	55,262	2,420	11,215

2017	**Loans and advances B$'000**	**Letters of credit, acceptances, guarantees and bonds B$'000**	**Undrawn credit lines B$'000**
By industry sector:			
Agriculture	325	65	252
Manufacturing	35	13	11
Transportation	247	48	102
Traders	12,562	2,007	6,100
Services	3,916	1,084	1,619
Constructions and property financing	31,759	209	2,553
Personal and consumption loans	1,420	–	2
	50,264	3,426	10,639

Geographic Distribution - Loan and Advances

	2018 B$'000	**2017 B$'000**
Brunei - Muara	46,582	40,542
Kuala Belait	7,244	7,838
Tutong	1,436	1,884
	55,262	50,264

Geographic Distribution - Impairment

	2018 B$'000	**2017 B$'000**
Brunei - Muara	2,669	1,749
Kuala Belait	2,469	79
Tutong	255	645
	5,393	2,473

The following table shows cashflow analysis of the Branch's financial liabilities by remaining contractual maturities on an undiscounted basis. Actual maturity dates may differ from contractual maturity dates due to behavioral patterns such as early withdrawal of deposits or loans.

2018	**Less than 3 months B$'000**	**3 to 6 months B$'000**	**6 to 12 months B$'000**	**Over 1 years B$'000**	**Total B$'000**
Assets					
Cash and short term funds	30,203	23,000	14,200	–	67,403
Balances with AMBD	6,025	–	–	–	6,025
Group balances receivables	6,984	–	–	–	6,984
Government sukuk	13,000	–	–	–	13,000
Loans and advances	6,473	6,624	3,686	38,141	54,924
Total assets	62,685	29,624	17,886	38,141	148,336
Liabilities					
Deposits from customers	44,479	24,662	26,597	–	95,738
Deposits from banks and other financial institutions	593	–	–	–	593
Group balances payable	12,969	–	–	–	12,969
Other liabilities	545	96	64	–	705
Total liabilities	58,586	24,758	26,661	–	110,005

2017	**Less than 3 months B$'000**	**3 to 6 months B$'000**	**6 to 12 months B$'000**	**Over 1 years B$'000**	**Total B$'000**
Assets					
Cash and short term funds	35,853	17,800	12,000	–	65,653
Balances with AMBD	5,993	–	–	–	5,993
Group balances receivables	8,255	–	–	–	8,255
Government sukuk	2,500	5,000	5,000	–	12,500
Loans and advances	9,025	4,408	2,865	33,269	49,567
Investment securities	3,972				3,972
Total assets	65,598	27,208	19,865	33,269	145,940
Liabilities					
Deposits from customers	36,888	37,319	27,428	–	101,635
Deposits from banks and other financial institutions	640	–	–	–	640
Group balances payable	5,749	–	–	–	5,749
Other liabilities	603	76	55	–	734
Total liabilities	43,880	37,395	27,483	–	108,758

Movement in impairment allowance included within loans and advances to banks, customers and bills receivable is as follows:

IFRS 9	**12-month ECL (Stage 1) $'000**	**Lifetime ECL not credit impaired (Stage 2) B$'000**	**Lifetime ECL credit impaired (Stage 3) B$'000**	**Total B$'000**
Loans and advances to customers				
Balance as at 1 January 2018				
- As previously reported	–	–	–	–
- Effect of adoption of IFRS 9	93	48	223	364
- As restated	93	48	223	364
Changes due to financial assets recognised in the opening balance that have:				
- Transferred to 12-month ECL (Stage 1)	116	(5)	(111)	–
- Transferred to Lifetime ECL not credit impaired (Stage 2)	(1)	9	(8)	–
- Transferred to Lifetime ECL credit impaired (Stage 3)	(2)	(30)	32	–
	113	(26)	(87)	–
Allowance made/(written back) during the financial year	(159)	10	146	(3)
Bad debts written off	-	-	-	–
Derecognition	(9)	-	(14)	(23)
Balance as at 31 December 2018	38	32	268	338

IAS 39

Neither past due for impaired	42,929
Past due but not impaired	4,165
Impaired	2,473
Total gross loans & advances	49,567
Individual impairment provisions	(155)
Collective impairment provisions	(542)
Carrying amount	48,870

Charge-offs and recoveries

Allowance for impairment on loans and advances

	2018 B$'000	2017 B$'000
Charge/(Writeback)		
Loans and advances		
- Net charge	(26)	400
- Bad debt recovered	(42)	(416)
- Bad debt written off	655	196
Total	587	180

2.2.2 CREDIT RISK MITIGATION

(a) Qualitative Disclosures

Collateral
The Branch generally does not grant credit facilities solely on the basis of collateral provided. All credit facilities are granted based on the credit standing of the borrower/customer, source of repayment and debt/financing servicing ability.

Recognised collaterals where relevant, include both financial and physical assets. Financial collaterals include cash deposits, shares and unit trusts, while physical collateral includes land and buildings, and vehicles. Apart from financial collateral and physical collateral, the Group has defined standards on the acceptance of guarantors as credit risk mitigants.

Main types of collateral

1. Land and/or Buildings

   The types of land and buildings acceptable to the Bank include agricultural, industrial, commercial and residential land and buildings that have good registrable and transferable titles.

   a. Properties taken as security must be good marketable property with an adequate readily disposable value.

   b. Leasehold properties may be accepted as security if the remaining unexpired lease is for another 15 years or more after the tenor of the facility (for Term Financing) or on the facility renewal date (for revolving credits).

2. Fixed Deposits, Mudharabah General Investment Account, Commodity Murabahah Deposit-i, Negotiable Instrument of Deposits, Islamic Negotiable Instrument of Deposits, Foreign Currency Deposits, Cash deposits/margin.

   Banking facilities can be granted to customers against the deposit of their own or third party or other deposit instruments issued by the Bank. The Bank's standard Letter of Set-Off or its equivalent must be executed in perfection of the security.

3. Stand-By Letter of Credit/Financial Guarantees

   These are to be issued by banks within Country and Bank Limits approved by the Bank. The Bank must be named as the sole beneficiary of claims.

4. Vessel Financing is a specialized lending activity with its own inherent risks. Such financing is to be guided by the following guidelines:

   a. Purpose of financing - Financing could be extended for:

      - the purchase of the vessel
      - the construction of the vessel
      - working capital

   b. Valuation of vessel.

   All vessels under financing must be valued by professional valuers with extensive experience in vessel valuation. If need be, the services of insurance brokers (e.g. Lloyds) should also be engaged.

Types of Guarantor

1. Guarantees

A guarantee is an undertaking by one person (the guarantor) given to a banker (the creditor) to be answerable for the debt/financing of another person (the debtor/customer) to the banker, in event of default by the debtor/customer.

Corporate and Personal guarantees should be treated as support only and no value should be ascribed when computing the security value held. In the absence of other forms of security, facilities accorded to customers should preferably be guaranteed by suitable third parties rather than to grant the facilities on totally clean basis.

When a facility is granted solely on the strength of a guarantee without any other security taken, the true financial strength of the guarantor must be ascertained. For personal guarantees, Account Relationship Managers must ensure that the **Declaration of Networth** is furnished by the guarantor. Winding-up or bankruptcy search must be conducted on guarantors prior to drawdown of facilities.

2. Joint and Several Guarantee

For facilities granted to companies, the joint and several guarantees of all the directors should be obtained.

3. Corporate Guarantee

For facilities granted to a subsidiary, the corporate guarantee of the parent or holding company should be obtained.

In instances where the customer has requested that the corporate guarantee of its parent or holding company be only on proportionate basis (i.e. based on its shareholding ratio), then guarantees (corporate or personal guarantee) should be obtained proportionately from the other shareholders of the customer.

Credit Concentration Risk

Risk concentration refers to an exposure with the potential to produce losses that are substantial enough to threaten the financial condition of a banking institution. Risk concentrations can materialise from excessive exposures to a single counterparty or group of connected counterparties, a particular instrument or a particular market segment.

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

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

(b) Quantitative Disclosures

Total exposure (after on- or off-balance sheet netting), after the application of haircuts, that is covered by eligible financial collateral

	2018 **B$'000**	**2017** **B$'000**
Gross Loans and advances	55,262	50,264
Financial collateral	172,745	137,248

Total exposure (after on- or off-balance sheet netting) that is covered by guarantees / credit derivatives

	2018	**2017**
By industry sector:		
Agriculture	37	65
Manufacturing	7	13
Transportation	66	48
Traders	1,303	2,007
Services	999	1,084
Constructions and property financing	8	209
Personal and consumption loans	–	–
Tourism	–	–
	2,420	3,426

Collateral accepted as security for loans and advances

At 31 December, collaterals and other security enhancements held against loans and advances are as follows:

	2018 B$'000	**2017 B$'000**
Mortgage of properties	50,208	48,008
Cash	3,065	4,068
Guarantees	1,956	1,937
	55,229	54,013

Security coverage of non-performing loans:

	2018 B$'000	**2017 B$'000**
Secured by cash / mortgage of properties	5,393	2,473
	5,393	2,473

2.2.3 COUNTERPARTY CREDIT RISK

(a) Qualitative Disclosures

Counterparty Credit Risk

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

- Over-the-counter derivatives such as interest rate/profit rate swaps, FX forwards and credit default swaps.

- Securities financing transactions such as repos and reverse repos; and securities borrowing and lending.

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

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

Collateral

Collateral is taken whenever possible to mitigate the credit risk assumed, subject to the Group's policies that govern the eligibility of collateral used for credit risk mitigation. Reliance on collateral when taken is carefully assessed in the light of issues such as legal certainty and enforceability, market valuation and counterparty risk of the guarantor.
Collateral is valued in accordance with the Group's policy on collateral valuation, which prescribes the frequency of valuation for different collateral/securities types, based on liquidity and volatility of the collateral value and the underlying product or risk exposure. The value of collaterals/securities pledged is monitored periodically, analysed and updated concurrently with the annual/ periodic renewal of facilities.

The Group also accepts non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debenture and assignment of contract proceeds, subject to internal guidelines on eligibility. Currently, the Group does not employ the use of derivative credit instruments and On Balance sheet netting to mitigate its financing exposures.

(b) Quantitative Disclosures

Balances with Autoriti Monetari Brunei Darussalam ("AMBD")

	2018 B$'000	**2017 B$'000**
Balances placed with AMBD	5,381	9,091

Balances with Banks and Other Financial Institution

	2018 B$'000	2017 B$'000
Hong Leong Bank Singapore	36,200	38,800
First Abu Dhabi Bank Singapore	20,000	15,000
Maybank Singapore	10,000	-
Deposits with agents	752	307
Total	57,952	54,107

Group balances receivable

	2018 B$'000	2017 B$'000
RHB Bank Berhad – Singapore Branch	6,980	8,251
RHB Bank Berhad – Bangkok Branch	4	4
Total	6,984	8,255

All group balances receivable are expected to mature within 12 months after the reporting date.

Government sukuk

	2018 B$'000	2017 B$'000
Government sukuk held		
- Original maturity less than one year	13,000	12,500
Total	13,000	12,500

Investment securities

	2018 B$'000	2017 B$'000
Held-to-maturity	-	3,972

2.2.4 MARKET RISK

Market risk is the risk of financial loss where the value of the Branch's assets and liabilities could be adversely affected by changes in market variables such as interest rates, securities prices and foreign exchange rates. Market liquidity risk is the risk of financial loss caused by inability to secure market transactions at the required volume or price levels as a result of market turbulence or lack of trading liquidity.

The Branch is not exposed (2017: not exposed) to significant market risk except on its government sukuk.

Foreign exchange risk

Foreign exchange risk is the risk to earnings and economic value of foreign currency assets, liabilities and financial derivatives caused by fluctuations in foreign exchange rates.

The Branch's foreign exchange exposures comprise non-trading foreign exchange exposure principally derived from interbranch nostro accounts. As the majority of foreign exchange exposure is to Singapore Dollar (SGD), the Branch is not exposed to significant foreign exchange risk due to the currency Interchanged Agreement between Singapore and Brunei which interchange the two currencies at par.

2.2.5 Liquidity Risk

Liquidity risk is the inability of the Branch to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses.

Liquidity risk is addressed through various measurement techniques such as liquidity gap analysis, early warning signals and stress testings that are controlled using approved limits and benchmarks. Periodic reports are presented to various operating and management level, including the Assets Liability Committee, Risk Management Committee and Board of Directors. In addition, the Branch reviews and enhances its Contingency Funding Plan to address probable circumstances that could cause liquidity distress to the Branch.

2.2.6 Operational Risk

The risk of loss resulting from inadequate or failed internal processes, people, systems and/or external events, which also includes IT, legal and Shariah noncompliance risk but excludes strategic and reputation risk.

Moving Forward

- Continue Risk Culture awareness training to employee within the Group to enhance their understanding in managing and mitigating risks pro-actively and effectively.

- Strengthen the Business Risk and Compliance Officers (BRCO) Program to inculcate effective operational risk awareness and management.

Technology Risk

The business risk associated with the use, ownership, operation, involvement, influence and adoption of Information Technology within an enterprise. In order to mitigate cyber security threats, security tools were in place to strengthen end-point security, and the detection of suspicious network traffics. Regular vulnerability assessment and penetration testing were also performed as part of the threat hunting to assess the IT environment for areas of weaknesses.

Moving Forward

- More stringent user access control by embracing the least privilege and the need to know principles.
- Continue to focus in addressing cyber security threats by implementing the required mitigations and information security controls.

Operational Risk Management Approach

One of the Group's primary safeguards against operational risk is the existence of a sound internal control system, based on the principle of dual control checks and balances, segregation of duties, independent checks and verification processes, and a segmented system access control and authorisation process. These controls are documented through a set of policies and procedures at the respective business and operation level. Each business and support unit of the respective operating entities in the Group is responsible for understanding the operational risks inherent in its products, activities, processes and systems. They are supported in this function by the central risk coordination units which include the operational risk management function, the compliance function and the internal audit function. The Group Operational and Technology Risk Management Department within Group Risk Management has the functional responsibility for the development of operational risk framework, policies and methodologies, and for providing guidance and information to the business units on operational risk areas. Its function also includes generating a broader understanding and awareness of operational risk issues at all levels in the Group. It also ensures that operational risk from new products, processes and systems is adequately managed and mitigated. The respective business units are primarily responsible for managing operational risk on a day-to-day basis. Some of the control tools used include Risk and Control Self-Assessment, Key Control Testing, Key Risk Indicators, Incident and Loss Management, and Scenario Analysis.

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

Analysis and Enhancement

The Group has implemented a Basel II compliant operational risk management system to support its workflow and analytical capabilities.

Education and Awareness

This is aligned with the principle and requirement that the front-line business and support units of the Group are, by nature of their direct involvement in interfacing with customers and in operating the business, responsible for managing operational risk and acting as the first line of defence.

Monitoring and Intervention

This is where the principal head office risk control units actively manage operational non-compliances and incidents, as well as undertake recovery actions, including business continuity measures in cases of incidences causing disruption to business activities.

Risk mitigation tools and techniques are used to minimise risk to an acceptable level and aim to decrease the likelihood of an undesirable event and the impact on the business, should it occur. The control tools and techniques include business continuity management, outsourcing and insurance/takaful management.

Regular operational risk reporting is made to the Senior Management, the GCRC, IRMC, BRC and the Board. These reports include various operational risk aspects such as reporting of information which includes risk analysis, risk mitigation action plans, risk tools outcomes, risk appetite breaches, significant operational risk events and control failures, and lessons learnt. In addition, key operational risk incidents are reported to Senior Management daily. Such reporting enables Senior Management to identify adverse operational lapses, take prompt corrective actions, and ensure appropriate risk mitigation decision-making and action plans.

2.2.7 REGULATORY NON-COMPLIANCE RISK

Losses arising from regulatory sanctions, financial loss or reputational damage which a financial institution may suffer as a result of failure to comply with all laws, rules, standards, and regulatory requirements (including any ruling of the Shariah Advisory Council) relevant to a financial institution's activities in all jurisdictions in which the financial institution, or any of its branches or subsidiaries conducts activities.

Moving Forward

Group Compliance will continue to play its role to further strengthen its oversight responsibilities and put in place controls and measures to raise the level of compliance and awareness of all employees of the Group and ensure that compliance is incorporated as an integral component of their day-to-day activities.

2.2.8 OTHER RISK

a) Interest Rate Risk in the Banking Book/Rate of Return Risk in the Banking Book

Interest rate risk/rate of return risk in the banking book refers to the risk to the Group's earnings and economic value of equity due to the adverse movements in interest rate/benchmark rate. The risk may arise from the mismatches in the timing of repricing of assets and liabilities from both on and off-balance sheet positions in the banking book, changes in slope and shape of the yield curve, basis risk and optionality risk.

Earnings-at-Risk (EaR) and Economic Value of Equity (EVE) are used to assess interest rate risk/rate of return risk in the banking book. They are computed based on the re-pricing gap profile of the banking book using BNM's standard template. Assets and liabilities are bucketed based on their remaining tenure to maturity or next re-price dates. The measurement of EaR and EVE is conducted on a monthly basis. The Group ALCO supports IRMC and BRC in establishing policies, strategies and limits for the management of balance sheet risk exposure. The Group ALM within Group Risk Management supports the Group ALCO in the monthly monitoring and reporting of the interest rate risk/rate of return risk profile of the banking book. The primary objective in managing balance sheet risk is to manage the net interest/profit income and economic value of equity, as well as to ensure that interest rate risk/rate of return risk exposures are maintained within defined risk tolerances.

In order to achieve a balance between profitability from banking activities and minimising risk to earnings and capital from changes in interest rate/benchmark rate, interest rate risk/rate of return risk to earnings is controlled using Management Action Triggers (MATs) and identified escalation procedures. Stress testing is also performed regularly to determine the adequacy of capital in meeting the impact of extreme interest/benchmark rate movements on the balance sheet. Such tests are also performed to provide early warnings of potential extreme losses, facilitating proactive management of interest rate risk/rate of return risk in the banking book in an environment of rapid financial market changes.

b) Reputational Risk

Reputational risk is defined as the risk that negative publicity regarding the conduct of the Group or any of the entities within the Group, and its business practices or associations, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures. It also undermines public confidence in the Group, affecting the share price.

Reputational risk in the Group is managed and controlled through codes of conduct, governance practices and risk management practices, policies, procedures and training. The Group has developed and implemented a reputational risk management policy. The key elements in the management of reputational risk include:

- Practicing good corporate governance and culture of integrity to promote execution and achievement of corporate strategies and business objective.

- Manage reputational risk within a very low risk appetite with zero tolerance level reporting approach incident that affects the Group's reputation.

- Adopt sound risk management practices that include the practice of building "reputation capital" and earning the goodwill of key stakeholder.

- Maintaining proper mechanisms to monitor and escalate material lapses/ breaches of internal and regulatory policies/guidelines that may place the Group's reputation at risk.

- Maintaining proper channels of communication in dealing with internal and external stakeholders.

3.0 COMPLIANCE STATEMENT

As a prudent financial services provider, the Group is committed to upholding good corporate governance principles and regulatory requirements. These principles are outlined in the Group Compliance Framework ("Framework") and Group Compliance Policy ("Policy") which serve as important guides for the Group as it continuously evolves to meet the growing demands of implementing compliance best practices throughout the Group's businesses. The Group's compliance function, which acts as a second line of defense, operates on a group-wide basis with an appointed Group Chief Compliance Officer overseeing the compliance risk management of the Group which extends to all entities within Malaysia and its overseas branches and/or subsidiaries.

3.1 Cyber Security

Cybercrime continues to increase and become more sophisticated, more frequent and widespread. The threat to information security becomes more imminent as the Group is increasingly dependent on online channels.

Action Taken

Continuous monitoring and engagement with business units/IT team of the Group to ensure awareness on technology related regulatory requirements.

3.2 Protection of Information

The Bank has an obligation to ensure that information pertaining to its business and its client and all activities related to them remain secure, confidential and private.

Action Taken

Implementation of the Group's Secrecy and Information Protection Framework which sets out, amongst others, the minimum standards and compliance requirements vis-à-vis the management of secrecy and information protection.

3.3 Regulatory Compliance

As regulatory requirements evolve and constantly change, achieving regulatory compliance has become a daily focus for the Group.

Action Taken

- Instilling a strong compliance culture across all functions of the Group through the following compliance monitoring framework:

- Implementation of comprehensive and clear compliance policies, circulars and guidelines throughout the Bank.

- Periodic compliance risk assessment/reviews on selected areas of concern or on specific compliance related activities.

- Regular engagement sessions with business units/functional units to "reach out" and understand their compliance issues or concerns in undertaking their functions and provide solutions to address the same.

- Implementation of the Business Risk Compliance Officer ("BRCO") programme to cultivate a proactive risk and compliance management within the respective business units.

In the ever evolving financial services industry and its advancement in technology, criminals find new ways to continuously abuse reporting institutions. They adapt and develop more sophisticated methods to evade law enforcers and abuse the financial system.
While the regulators continue to update and enhance regulations as part of their effort to maintain the integrity and stability of the financial industry, reporting institutions on the other hand, are expected to continuously improve, assess potential risks and implement new measures to mitigate compliance risk.

The following are some of the key initiatives by Group Compliance for 2018 in its effort to remain vigilant:

Initiatives

- Investment in knowledge empowerment through focused compliance training and awareness programmes for employees in key areas

- Strengthening of AML/CFT monitoring through process enhancements, increased skilled resources, system upgrading and specialised training programmes.

- Strengthening of compliance, AML, secrecy risk assessment to identify key risk area.

- Increased compliance reviews and assessments on high risk areas of concerns or on specific compliance-related activities by Group Compliance and the appointed BRCOs.

- Introduction of Compliance Competency Matrix for relevant business units to assess staff level of competency vis-à-vis regulatory requirements.

- Improved processes and systems.

Outcome

- Greater understanding by employees on regulatory requirements and what is expected of them resulting in improved compliant behaviour.

- Timely compliance risk identification/assessment and solutions to address the same.

- Enhanced oversight responsibilities which consequently mitigate regulatory compliance risk.

- The results had assisted the Group to tailor a more focused training programme for each of the competency gaps identified.

- Automation of trading surveillance and reporting system which improved overall compliance risk management.

4.0 INTERNAL AUDIT FUNCTION

Group Internal Audit ("GIA") reports functionally to the BAC and is independent of the operations and activities it audits. The GIA's main responsibility is to provide an objective and independent assessment on the adequacy and effectiveness of the Group's risk management, control and governance processes implemented by the Management.

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

The areas to be audited are documented in the internal audit plan that is developed based on a risk-based approach and is approved by the BAC annually. Audit reports which include detailed audit findings, GIA's comments and recommendations, and Management's response are tabled to MACs and BAC on a monthly basis.

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

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

4.1 Internal Audit Charter.

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

The Audit Charter is reviewed by the Group CIA every two years to assess whether the GIA's purpose, authority and responsibility, as defined in the Audit Charter, continue to be adequate and relevant to enable the audit function to accomplish its objectives.

4.2 Summary of GIA's Activities

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

a) Prepared the annual risk-based audit plan for RHB Banking Group which includes the audit objectives and scope, and manpower requirements for each planned auditable unit.

b) Conducted audits as per the approved audit plan as well as ad-hoc reviews and investigations requested by Management or regulators during the year.

c) Audited key areas during the financial year which included the Branches, Credit Underwriting, Business Centres, Treasury Operations, IT Security, Head Office functions, Shariah Compliance, Investment Banking Business, Asset Management, Insurance Business and Overseas Operations.

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

e) Carried out ad-hoc compliance and validation reviews as requested by regulators.

f) Monitored and followed up through the respective MACs on the timely rectification of any reported audit findings and the underlying causes highlighted by the internal and external auditors, and regulators. The status of any outstanding audit findings is summarised and reported to the BAC on a monthly basis.

g) Reviewed new or updated policies, procedures and processes as requested by Management to provide feedback on the adequacy of internal control systems.

h) Participated in system or product development activities to provide recommendations upfront on the relevant control features to be considered by Management.

i) Assisted the BAC in the annual exercise on the reappointment of external auditors by assessing its independence and potential risk of familiarity threat at all the banking entities within the Group.

j) Attended Management meetings as permanent invitee on a consultative and advisory capacity to provide independent feedback where necessary on internal control related matters.

k) Organised the MACs meetings, preparing meeting materials and preparing minutes of meetings for submission to BAC.

l) Prepared the BAC Report and the Statement on Risk Management and Internal Control for the Bank's Annual Report

4.3 Professional Proficiency

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

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

4.4 Internal Audit Quality Assurance Review

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

The internal assessment is performed according to the approved annual Quality Assurance Review ("QAR") plan by a QAR team within GIA. The Head of QAR function reports directly to the Group CIA to maintain its independence of the internal audit activities within GIA.
In addition to the internal assessment, external quality assessment is conducted every three years by qualified professionals. The appointment of independent reviewer is subject to the Group's established procurement process and endorsed by the BAC.

The review covered a broad scope that includes conformance with the Definition of Internal Auditing, the Standards, and the Code of Ethics, and the internal audit charter, audit plan, policies and procedures in line with the requirements of the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors ("IIA") and BNM guidelines.

5.0 INTERNAL CONTROL

OVERVIEW

The Group's system of internal control is designed to manage and reduce risks that will hinder the Group from achieving its goals and objectives. It encompasses the policies, procedures, processes, organisational structures and other control aspects that are implemented for assuring the achievement of the Group's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and internal policies.

The key processes established by the Board that provide effective governance and oversight of internal control systems include:

5.1 CONTROL ENVIRONMENT AND CONTROL ACTIVITIES

5.1.1 Organisation Structure

The Group has a formal organisational structure with clearly defined lines of accountability and responsibility, authority limits and reporting. The organisational structure provides the basic framework to help the Group's operations proceed smoothly and functionally as well as depicting the span of control in ensuring effective supervision of day-to-day business conduct and accountability.

5.1.2 Policies and Procedures

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

5.1.3 Authority Limits

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

5.1.4 Information Technology (IT) Security

The Group regards IT security as a very high priority to ensure the confidentiality, integrity and availability of the Group's information assets and IT infrastructure.

IT security in the Group is achieved through the implementation of a risk based control approach which includes documented policies, standards, procedures and guidelines as well as organisational structures and, software and hardware controls.

With the increasing number of cyber threats globally as well as locally, the Group has established a Cyber Coordination and Command Centre to ensure that there is a structured process of prompt monitoring and timely response to cyber threats and incidents.

In order to strengthen and enhance the level of information security management, the Group has obtained certifications of ISO/IEC27001:2013 - Information Security Management System and ISO/IEC 20000:2011 - Information Technology Service Management, in addition to complying with various regulatory requirements on managing information technology risk holistically.

5.1.5 Budgeting Process

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

5.1.5 Human Capital Management

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

For sustainable growth, the Group places emphasis on human capital development, talent management and succession planning. To enhance employee competencies, structured and technical trainings as well as management and leadership workshops are provided to them based on their identified needs during the annual performance assessment. For talent management, initiatives such as Leadership Development Programme, Individual Development Plan and mentoring are implemented to develop identified talents in the Group to facilitate the continuous supply of high potentials and suitable successors for future leadership roles.

5.1.6 Group Code of Ethics and Conduct

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

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

5.1.7 Group Anti-Money Laundering and Counter Financing of Terrorism Policy

The Group Anti-Money Laundering and Counter Financing of Terrorism ("AML/ CFT") Policy is sets out the high level standards towards building a stronger and robust AML/CFT compliance regime within the Group, facilitates consistency in managing the AML/CFT compliance risk across the local and regional entities within the Group, and sets out the Group's policy statements in respect of the general principles and key measures to which the Group adheres to.

Pursuant to the Group AML/CFT Policy, the entities and/or employees within the Group are required to adopt Risk Based Approach ("RBA") to customer acceptance and implement the AML/CFT Compliance Programme framework which includes customer due diligence ("CDD") requirements, monitoring of customer activities/transactions, reporting of suspicious transactions, record keeping, AML/CFT training, protection of customer information, and enforcement actions for non-compliance to the requirements.

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

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

5.1.8 Group Fraud Risk Management Policy

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

5.1.9 Business Continuity Management

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

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

The Group has ongoing and actively managed BCM programmes, which include effective crisis management to deal with real life crisis. The BCP Programmes are subject to regular testing/exercising to ensure their efficacy, reliability and functionality. Simulation exercises and drills are conducted to familiarise and equip staff with the skills and techniques required to ensure that in the event of any disruption, critical business processes can continue or be recovered in a timely manner.

5.2 INFORMATION AND COMMUNICATION

5.2.1 Performance Review

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

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

The heads of the core businesses and functions in the Group present their respective management reports to the GMC at its monthly meeting, covering areas such as financial performance, key activity results and new business proposal or process for information of and deliberation by the GMC.

5.2.2 Group Whistle Blower Policy

There is an established process for reporting anyone found to be abusing or circumventing processes and controls of the Group. All employees are made aware of the Group's whistle blowing policy and its processes and are accorded the opportunity to report via the whistle-blowing mechanism with the assurance that the report will be dealt with confidentially that the complainant's identity will be protected and that the complainant will be protected from any harassment or victimisation at work due to the disclosure.

5.2.3 Incident Management Reporting

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

5.3 MONITORING

5.3.1 Board Committees

The Board has in place, Board Committees that are set up to support the Board in its oversight function. The Board Committees include the BRC, BAC, Board Nominating & Remuneration Committee, Board Credit Committee and Islamic Risk Management Committee. These Board Committees have been delegated with specific duties to review and consider all matters within their scope of responsibility as defined in their respective terms of reference ("ToR"). Detailed responsibilities of these Board Committees can be found under RHB Bank Berhad's CG Report, Board Charter and their respective ToRs available at www.rhbgroup.com.

5.3.2 Group Management Committee

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

5.3.3 Management Audit Committee

Management Audit Committees ("MACs") are established at the key operating entities in the Group to ensure timely rectification of any audit findings and the underlying causes highlighted by the internal and external auditors, and regulators. The status of rectification of all audit findings and the mitigation actions taken by Management to adequately address the underlying causes are closely monitored by the MACs at every meeting.

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

5.3.4 Group Compliance

Compliance is the collective responsibility of the Board, Senior Management and every employee of the Group. The compliance function forms an integral part of the Group's risk management and internal control framework. Because a strong compliance culture reflects a corporate culture of high integrity and ethics, everyone is expected to promote self-regulation and be accountable for his or her own activities while maintaining ethical principles and behaviour.

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

Further, the Boards and Senior Management are also apprised of the Group's state of compliance through the submission of the Group Compliance report on a periodic basis.

5.3.5 Internal Audit

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