

Growing with the nation



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Financial Highlights

	2006	2005	2004*	2003	2002
	RM'000	RM'000	RM'000	RM '000	RM '000
RESULTS					
Profit before taxation	80,220	108,157	135,932	50,676	95,911
Profit after taxation and minority interests	64,729	78,905	100,056	35,752	67,785
Net dividends	162,942	53,642	97,530	48,765	30,478
BALANCE SHEETS					
Share capital	338,646	338,646	338,646	338,646	338,646
Shareholders' equity	710,001	801,457	833,112	753,890	760,805
Total assets	6,878,451	4,317,726	4,507,414	4,229,385	3,607,779
Loans and advances	651,283	724,647	806,877	975,997	1,391,229
Total deposits	3,815,977	2,256,097	2,513,219	2,819,588	2,266,856
RATIOS					
Earnings per share (sen)	19.1	23.3	29.5	10.6	20.0
Gross dividend per share (sen)	66.7	22.0	40.0	20.0	12.5
Net tangible assets per share (sen)	158.6	185.6	195.0	171.6	224.7
Return on shareholders' equity (%)	8.6	9.7	8.4	4.7	9.1

* The Bank changed its financial year end from 30 June to 31 December with effect from the financial period ended 31 December 2004 and accordingly, the results for that financial period are for eighteen months. Certain figures have been restated arising from the retrospective application of the Revised Guidelines on Financial Reporting for Licensed Institutions (BNM / GP8) issued by Bank Negara Malaysia.

Financial Highlights (continued)

Profit before taxation (RM '000)

'06	80,220
'05	108,157
'04	135,932 *
'03	50,676
'02	96,911

Share capital (RM '000)

'06	338,646
'05	338,646
'04	338,646 *
'03	338,646
'02	338,646

Shareholders' equity (RM '000)

'06	710,001
'05	801,457
'04	833,112 *
'03	753,890
'02	760,805

Total assets (RM '000)

'06	6,878,451
'05	4,317,726
'04	4,507,414 *
'03	4,229,385
'02	3,607,779

Loans and advances (RM '000)

'06	651,283
'05	724,647
'04	806,877 *
'03	975,997
'02	1,391,229

Total deposits (RM '000)

'06	3,815,977
'05	2,256,097
'04	2,513,219 *
'03	2,8195,88
'02	2,266,856

* The Bank changed its financial year end from 30 June to 31 December with effect from the financial period ended 31 December 2004 and accordingly, the results for that financial period are for eighteen months. Certain figures have been restated arising from the retrospective application of the Revised Guidelines on Financial Reporting for Licensed Institutions (BNM / GP8) issued by Bank Negara Malaysia.

Corporate Information

as at 23 April 2007

BOARD OF DIRECTORS

YBhg Dato Abdullah Mat Noh

Non-Independent Non-Executive
Chairman

YBhg Datuk Azlan Zainol

Non-Independent Non-Executive
Director

YBhg Dato' Mohamed Khadar Merican

Independent Non-Executive
Director

YBhg Dato' Vaseehar Hassan Abdul Razack

Non-Independent Non-Executive
Director

Mr Akira Miyama

Non-Independent Non-Executive
Director

Mr Lew Foon Keong

Independent Non-Executive
Director

Encik Johari Abdul Muid

Non-Independent Non-Executive
Director

YBhg Datin Khamarzan Ahmed Meah

Independent Non-Executive
Director

SECRETARIES

Encik Azman Shah Md
Yaman

Puan Norazzah Sulaiman

BOARD COMMITTEES

AUDIT COMMITTEE

YBhg Dato' Mohamed
Khadar Merican

Chairman

Mr Lew Foon Keong

YBhg Datin Khamarzan
Ahmed Meah

EXECUTIVE COMMITTEE

YBhg Dato Abdullah
Mat Noh

Chairman

YBhg Dato' Vaseehar
Hassan Abdul Razack

Mr Akira Miyama

Corporate Information

as at 23 April 2007 (continued)

REMUNERATION AND HUMAN RESOURCE COMMITTEE

YBhg Dato' Mohamed
Khadar Merican
Chairman

YBhg Dato Abdullah
Mat Noh

Mr Akira Miyama

GROUP RISK MANAGEMENT COMMITTEE

YBhg Datin Khamarzan
Ahmed Meah
Chairperson

YBhg Dato Abdullah
Mat Noh

YBhg Dato' Mohamed
Khadar Merican

NOMINATING COMMITTEE

YBhg Dato' Mohamed
Khadar Merican
Chairman

YBhg Dato Abdullah
Mat Noh

Mr Akira Miyama

Mr Lew Foon Keong

Encik Johari Abdul Muid

MANAGEMENT

Mr Chay Wai Leong
Chief Executive Officer

BUSINESS DIVISION HEADS

Mr Chay Wai Leong
Investment Banking Group

Encik Hamdan Abd Manaf
Treasury

Mr Peter Choong Kia Woh
Debt Capital Markets

YM Tengku Nurul Azian
Shahriman
Corporate Finance

Mr Tan Kim Seng
Acquisition & Leverage Financing

Mr Tan Chuan Dyi
Equity Capital Markets

Puan Junaida Abdul Jalal
Equities Broking

Mr Lee Yew Kong
Futures Broking

Corporate Information

as at 23 April 2007 (continued)

OTHER DIVISION HEADS

Puan Rafiza Ghazali
Chief Financial Officer

Mr Patrick Ho Kwong Hoong
Group Risk Management

Mr Lam Jin Fatt
Group Internal Audit

Puan Wan Dallila Bt Bakar
Human Resources

Mr Tan Chee Hong
Credit Administration &
Rehabilitation

Mr Ng Yoke Mun
Credit Control

Ms Catherine Lam
Mr Leong Chai Kin
Information Technology

Ms Tan Kim Ping
Procurement & Administration

MANAGEMENT OF SUBSIDIARIES

RHB Unit Trust Management Berhad

Mr Michael Tan Lib Chau
Chief Executive Officer / Director

RHB Asset Management Sdn Bhd

Puan Sharifatul Hanizah
Said Ali
Managing Director

RHB Research Institute Sdn Bhd

Mr Lim Chee Sing
Executive Director

REGISTERED OFFICE

Level 10, Tower One
RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
Malaysia
Tel : 603-9287 8888
Fax : 603-9280 6507

BUSINESS ADDRESS

Head Office

Level 9, Tower Three
RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
Malaysia
Tel : 603-9287 3888
Fax : 603-9287 8000
Cable : DACMITSUI
KUALA LUMPUR
Telex : MA 34058
Answerback : RHBS

Corporate Information

as at 23 April 2007 (continued)

Melaka Branch

Lot 9 & 10, 1st Floor
Bangunan Tabung Haji
Jalan Banda Kaba
75000 Melaka
Tel : 606-283 3622

Kuching Desk Office

Suite 102, 1st Floor
Crown Tower
88 Jalan Pending
93450 Kuching
Sarawak
Tel : 082-332 898
082-342 898

Johor Bahru Desk Office

Suite 10.09, Level 10
Johor Bahru City Square
(Office Tower)
106-108, Jalan Wong Ah Fook
80000 Johor Bahru
Johor
Tel : 607-228 8111

Penang Desk Office

Level 4
44, Lebuhr Pantai
10300 Georgetown
Pulau Pinang
Tel : 604-263 1122

COMPANY NO.

19663-P

AUDITORS

PricewaterhouseCoopers
Chartered Accountants
11th Floor, Wisma Sime Darby
Jalan Raja Laut
50350 Kuala Lumpur

Profile of the Board of Directors

as at 23 April 2007

YBHG DATO ABDULLAH MAT NOH

(66 years of age – Malaysian) Non-Independent Non-Executive Chairman

YBhg Dato Abdullah Mat Noh (“YBhg Dato Abdullah”) was formerly the President/Chief Executive Officer of Bank Utama (Malaysia) Berhad. Prior to joining Bank Utama in April 1999, he was attached to Standard Chartered Bank Malaysia Berhad for 36 years where his last position was the Senior Manager of its East Malaysia operations. YBhg Dato Abdullah is a Member of the Chartered Institute of Bankers and Chartered Institute of Secretaries.

YBhg Dato Abdullah’s other directorships in public companies include RHB Bank Berhad (Deputy Chairman), RHB Islamic Bank Berhad and RHB Bank (L) Ltd (Chairman).

YBhg Dato Abdullah was appointed as a Director and formalised as Chairman of RHB INVESTBANK on 7 May 2003 and 14 December 2004, respectively, representing RHB Capital Berhad, the holding company of RHB INVESTBANK. YBhg Dato Abdullah also serves as the Chairman of the Executive Committee, as well as a Member of the Remuneration and Human Resource Committee, Group Risk Management Committee and Nominating Committee.

Profile of the Board of Directors

as at 23 April 2007 (continued)

YBHG DATUK AZLAN ZAINOL

(57 years of age – Malaysian) Non-Independent Non-Executive Director

YBhg Datuk Azlan Zainol (“YBhg Datuk Azlan”) is currently the Chief Executive Officer of the Employees Provident Fund, Malaysia (EPF). He has more than 26 years of experience in the banking and finance sector, having been appointed as the Managing Director of AmBank Berhad and prior to that, as the Managing Director of AmFinance Berhad.

YBhg Datuk Azlan is a Fellow of the Institute of Chartered Accountants of England & Wales, Member of the Malaysian Institute of Accountants and Member of the Malaysian Institute of Certified Public Accountants. He also serves as a member of the Malaysia International Islamic Financial Centre (MIFC) Executive Committee and a member of the Putrajaya Committee on GLC High Performance (PCG).

YBhg Datuk Azlan’s other directorships in public companies include Malaysian Resources Corporation Berhad (Chairman), Rashid Hussain Berhad, RHB Capital Berhad, RHB Bank Berhad (Chairman), Jardine Cycle & Carriage Limited, MCL Land Limited, ASIA Limited and Commonwealth Africa Investments Limited.

YBhg Datuk Azlan was appointed as a Director of RHB INVESTBANK on 27 July 2005, representing RHB Capital Berhad, the holding company of RHB INVESTBANK.

Profile of the Board of Directors

as at 23 April 2007 (continued)

YBHG DATO' MOHAMED KHADAR MERICAN

(50 years of age – Malaysian) Independent Non-Executive Director

YBhg Dato' Mohamed Khadar Merican ("YBhg Dato' Khadar") has had more than 20 years of experience in financial and general management. He served as an auditor and a consultant in an international accounting firm, before joining a financial services group in 1986. YBhg Dato' Khadar has held various senior managerial positions in Pernas International Holdings Berhad, a company listed on the Main Board of Bursa Malaysia Securities Berhad between 1988 and April 2003, including those of President and Chief Operating Officer. He currently manages his own financial consultancy practice.

YBhg Dato' Khadar is a Member of the Institute of Chartered Accountants in England and Wales and is also a Member of the Malaysian Institute of Accountants. He was a past President of Malaysian Association of Hotel Owners.

YBhg Dato' Khadar's other directorships in public companies include Rashid Hussain Berhad, RHB Bank Berhad, RHB Insurance Berhad, RHB Unit Trust Management Berhad and Astro All Asia Networks Plc.

YBhg Dato' Khadar was appointed as a Director of RHB INVESTBANK on 4 December 2003. He also serves as the Chairman of the Audit Committee, Remuneration and Human Resource Committee and Nominating Committee, as well as a Member of the Group Risk Management Committee.

Profile of the Board of Directors

as at 23 April 2007 (continued)

YBHG DATO' VASEEHAR HASSAN ABDUL RAZACK

(56 years of age – Malaysian) Non-Independent Non-Executive Director

YBhg Dato' Vaseehar Hassan Abdul Razack ("YBhg Dato' Vaseehar Hassan") who has a Bachelors Degree in Accounting, Masters in Business Administration as well as Specialised Masters in Consulting and Coaching is currently pursuing a Doctoral Research at the Vrije Universiteit, Amsterdam. He has more than 26 years of experience in the financial sector.

In addition to being the Chief Executive and Director of the Malaysian subsidiary of Dallah AlBaraka Group of Saudi Arabia, YBhg Dato' Vaseehar Hassan is also a Director of Rashid Hussain Berhad, RHB Capital Berhad, RHB Bank Berhad, RHB Insurance Berhad, RHB Islamic Bank Berhad (Chairman), Utama Banking Group Berhad, CMS Trust Management Berhad and Ingress Corporation Berhad. He is also a member of the International Advisory Panel of the World Islamic Economic Forum.

YBhg Dato' Vaseehar Hassan was appointed as a Director of RHB INVESTBANK on 7 May 2003, representing RHB Capital Berhad, the holding company of RHB INVESTBANK. He also serves as a Member of the Executive Committee.

Profile of the Board of Directors

as at 23 April 2007 (continued)

MR AKIRA MIYAMA

(56 years of age – Japanese) Non-Independent Non-Executive Director

Mr Akira Miyama (“Mr Miyama”) is currently the Executive Director for Japanese Business of RHB Bank Berhad. He started his career in London as Senior Vice President of the Syndicated Loan Division of The Sakura Bank [now known as Sumitomo Mitsui Banking Corporation (SMBC)] and thereafter as a Board Member of Central European International Bank in Budapest, Hungary. He held various positions including Chief Dealer of Capital Market, Head of International Financial Institutions Division and Secretary to Chairman of SMBC, Tokyo. Since 1998, he has been the Country Head of SMBC, Malaysia. He holds a Bachelor of Laws degree from Keio University, Tokyo.

Mr Miyama is a director of Japanese Chamber of Trade and Industry, Malaysia.

Mr Miyama was appointed as a Director of RHB INVESTBANK on 25 September 2000. He also serves as a Member of the Executive Committee, Nominating Committee and Remuneration and Human Resource Committee.

Profile of the Board of Directors

as at 23 April 2007 (continued)

MR LEW FOON KEONG

(50 years of age – Malaysian) Independent Non-Executive Director

Mr Lew Foon Keong (“Mr Lew”) has more than 23 years of investment banking experience. He started his career in 1983 in the City of London with Wardley James Capel (then the merchant banking and stockbroking operations of the HongKong Bank Group) and subsequently worked for British merchant bank, Robert Fleming prior to joining Credit Commercial de France in 1989. In 1990 he returned to Asia to join Hoare Govett Asia in Singapore with responsibilities for the regional corporate finance business. In 1997, following the sale of HG Asia to ABN Amro Bank, Mr Lew was appointed Managing Director of ABN Amro’s merchant banking operations in Singapore. In late 1999, Mr Lew founded Equator Capital, an investment management and advisory company which is active in US equities options and futures trading. He also has participated in a number of private equity investments in the region. Over the years, he has been involved in a wide range of investment banking work, including global Initial Public Offerings, equities placements, corporate takeovers and mergers, debt/equity restructuring and venture capital financing.

Mr Lew holds a BA (Hons) in Finance and Accounting from the University of East London and a MSc (MBA) in Management Science from Imperial College, University of London.

Mr Lew’s other directorship in public company includes RHB Capital Berhad.

Mr Lew was appointed as a Director of RHB INVESTBANK on 15 March 2004. He also serves as a Member of the Audit Committee and Nominating Committee.

Profile of the Board of Directors

as at 23 April 2007 (continued)

ENCIK JOHARI ABDUL MUID

(49 years of age - Malaysian) Non-Independent Non-Executive Director

Encik Johari Abdul Muid (Encik Johari) has more than 22 years of experience in the financial sector. He started his career as a Money Market Dealer with Asian International Merchant Bankers Berhad in 1981. From 1983 to 1994, he was with Commerce International Merchant Bankers Berhad, working in the Treasury Division and was made the Head of Treasury in 1988. He became the Senior Vice President of Institutional Sales in 1995, within a year of joining CIMB Securities Sdn Bhd (CIMB Securities), where he was responsible in setting up the Institutional Sales Team of CIMB Securities. Prior to joining Employees Provident Fund (EPF) in August 2004, he was the Chief Investment Officer of ValueCap Sdn Bhd which he joined in February 2003. He is currently the Chief Investment Officer (Equity) of EPF.

Encik Johari is an Associate Member of the Chartered Institute of Management Accountants, United Kingdom.

Encik Johari's other directorships in public companies include Rashid Hussain Berhad, RHB Capital Berhad and RHB Bank Berhad.

Encik Johari was appointed as a Director of RHB INVESTBANK on 1 April 2005, representing RHB Capital Berhad, the holding company of RHB INVESTBANK. He also serves as a Member of the Nominating Committee.

Profile of the Board of Directors

as at 23 April 2007 (continued)

YBHG DATIN KHAMARZAN AHMED MEAH

(55 years of age – Malaysian) Independent Non-Executive Director

YBhg Datin Khamarzan Ahmed Meah (“YBhg Datin Khamarzan”) was previously the Deputy Director, Privatisation Division, Economic Planning Unit from 1992 to 1995. Prior to that, she was the Principal Assistant Secretary of the Banking and International Financing Section, Ministry of Finance from 1982 until 1991.

YBhg Datin Khamarzan holds a Bachelor of Economics (Honours) Degree from University of Malaya and a Masters in Development Economics from Boston University, USA.

YBhg Datin Khamarzan’s other directorships in public companies include Rashid Hussain Berhad and RHB Bank (L) Ltd.

YBhg Datin Khamarzan was appointed as a Director of RHB INVESTBANK on 3 April 2006. She also serves as the Chairperson of the Group Risk Management Committee, as well as a Member of the Audit Committee.

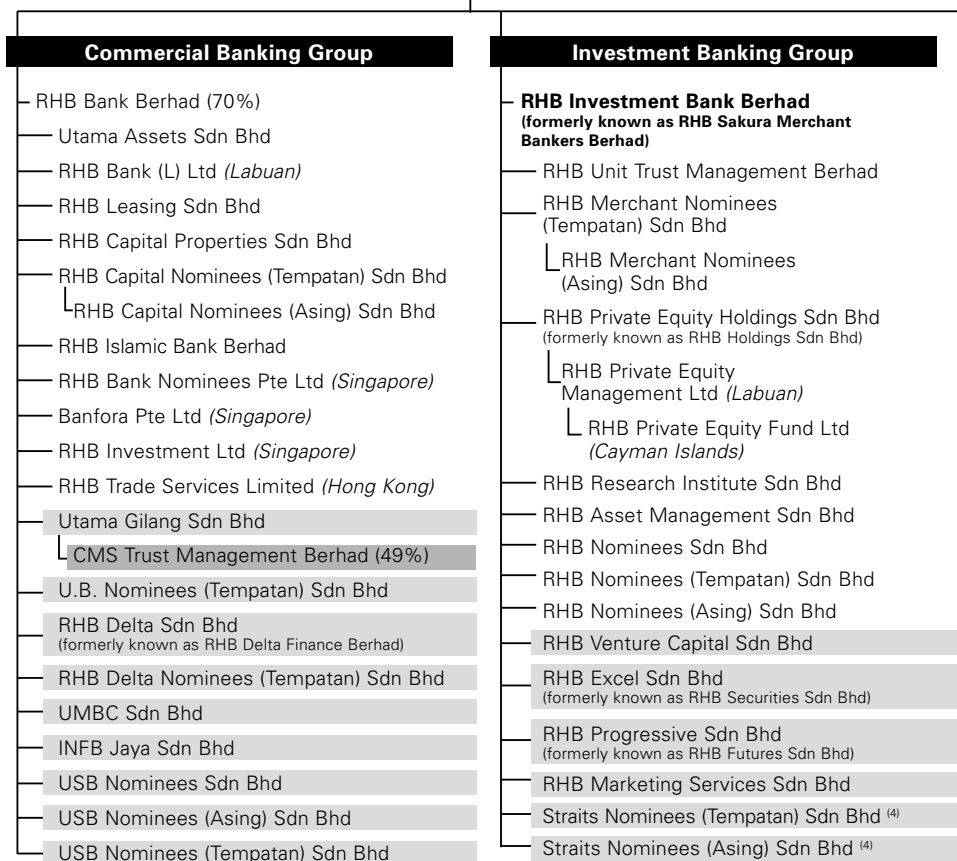
RHB Banking Group Corporate Structure

as at 31 March 2007



RASHID HUSSAIN BERHAD

RHB Capital Berhad (64.49%)



Others

- RHB Insurance Berhad (79.5%)
- RHB International Trust (L) Ltd (*Labuan*)
 - └ RHB Corporate Services Sdn Bhd
- RHB Equities Sdn Bhd ⁽¹⁾
 - └ KYB Sdn Bhd
- RHB Capital (Jersey) Limited (*Jersey, Channel Islands*)
 - └ Rashid Hussain Securities (Philippines) Inc (*Philippines*) ⁽²⁾
 - └ PT Rashid Hussain Securities (*Indonesia*) (85%) ⁽³⁾
- RHB Asia Pte Ltd (*Singapore*) ⁽⁵⁾
- Straits Asset Holdings Sdn Bhd
 - └ SSSB Services (Melaka) Sdn Bhd
 - └ SFSB Services (Melaka) Sdn Bhd
- RHB Hartanah Sdn Bhd
 - └ Positive Properties Sdn Bhd (50%)
- RHB Dynamic Technologies Sdn Bhd
- RHB Bena Sdn Bhd
- KYB Trust Management Sdn Bhd
- Kwong Yik Nominees (Asing) Sdn Bhd
- Kwong Yik Nominees (Tempatan) Sdn Bhd
- RHBF Sdn Bhd
 - └ KYF Sdn Bhd

- RHB Property Management Sdn Bhd
- Vision City (Malaysia) Sdn Bhd (*formerly known as RHB-DAEWOO Sdn Bhd*)
 - └ Bandar Wawasan Management Sdn Bhd
- RHB Kawal Sdn Bhd
- RHB Management Company Sdn Bhd
- RHB Modal-Ekuiti Sdn Bhd
- RHB Health Care Sdn Bhd
- RHB Noble 1 (L) Ltd (*Labuan*)

Notes:

The subsidiary companies are wholly-owned unless otherwise stated.

Country of Incorporation is in Malaysia unless otherwise indicated in italics

☐ Dormant company

■ Associate company

⁽¹⁾ With effect from 1 July 2001, the company's activities relate primarily to recovery of outstanding debts.

⁽²⁾ The company has ceased operations from the close of business on 10 December 2001.

⁽³⁾ The company has ceased operations on 31 July 2001 and commenced proceedings for members' voluntary dissolution.

⁽⁴⁾ The company has commenced members' voluntary winding-up on 30 March 2006.

⁽⁵⁾ The company has commenced members' voluntary winding-up on 29 November 2006.

Corporate Governance Statement

INTRODUCTION

The Board of Directors ('Board') of RHB Investment Bank Berhad (formerly known as RHB Sakura Merchant Bankers Berhad) ('RHB INVESTBANK' or 'the Bank') is pleased to report on the application by the Bank and its subsidiaries ('Group') of the principles contained in the Malaysian Code on Corporate Governance ('Code') and the extent of compliance with the best practices of the Code. The Bank was delisted from Bursa Malaysia Securities Berhad (Bursa Malaysia) on 27 November 2002 following the group restructuring exercise. Although the Bank is no longer a listed entity, the Board has endeavoured to apply the principles and comply with the relevant best practices of corporate governance as set out in the Code. The Bank is also required to comply with Bank Negara Malaysia's (BNM) Guidelines On Corporate Governance For Licensed Institutions (Revised BNM/GP1).

BOARD OF DIRECTORS

Board Responsibility

The Board subscribes to the principles of good corporate governance and as such, will always ensure that the Bank and its Group achieve best practices in the conduct of the Bank's and the Group's businesses and operational activities. An indication of the Board's commitment is reflected in the conduct of regular Board meetings by the Bank and the incorporation of various processes and systems to achieve a risk awareness culture as well as the establishment of relevant Board Committees and Management Committees at the Bank and its operating subsidiaries.

Composition of the Board

The Board currently has eight (8) members, comprising a Non-Independent Non-Executive Chairman, four (4) Non-Independent Non-Executive Directors and three (3) Independent Non-Executive Directors, as follows:-

Corporate Governance Statement (continued)

Name of Director	Designation
YBhg Dato Abdullah Mat Noh	Non-Independent Non-Executive Chairman
YBhg Datuk Azlan Zainol	Non-Independent Non-Executive Director
YBhg Dato' Mohamed Khadar Merican	Independent Non-Executive Director
YBhg Dato' Vaseehar Hassan Abdul Razack	Non-Independent Non-Executive Director
Mr Akira Miyama	Non-Independent Non-Executive Director
Mr Lew Foon Keong	Independent Non-Executive Director
Encik Johari Abdul Muid	Non-Independent Non-Executive Director
YBhg Datin Khamarzan Ahmed Meah	Independent Non-Executive Director

The Board composition is in compliance with the Revised BNM/GP1, which requires licensed institutions to ensure that at least one-third of their board members are Independent Directors.

The Board had, in 2005, conducted a pilot run on the Board Effectiveness Evaluation, to assess the effectiveness of the Board and Board Committees as a whole as well as the individual directors. The Board Effectiveness Evaluation for assessment year 2006 is currently ongoing.

The Directors bring together to the Board a wide range of business management skills as well as experience in banking, financial and securities industry which is essential for the management of an expanding Group. All Board members participate fully in the deliberation and decision making process on the key issues involving the Group.

In the Bank and the operating subsidiaries, there are clear separation between the roles of the Chairman and the Chief Executive Officer / Managing Director(s) (CEO) to ensure an appropriate balance of role, responsibility, authority and accountability. The CEO's primary responsibilities are to manage RHB INVESTBANK's day-to-day operations and together with the Non-Executive Directors ensure that the strategies and policies are fully discussed, examined and implemented, and taking into account the long-term interests of the various stakeholders including shareholders, employees, customers, suppliers and the various communities in which the Bank and the Group conduct their businesses with.

Corporate Governance Statement (continued)

In addition to the role and guidance of the Independent Non-Executive Directors, each Director nevertheless brings an independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

All decisions of the Board are based on the decision of the majority and no single Board member can make any decision on behalf of the Board, unless duly authorised by the Board of Directors. As such, no individual or a group of individuals dominate the decision making process. This enables the Board to effectively discharge its principal responsibilities as set out in the Code.

The profile of each Director is presented on page 8 to page 15 of the Annual Report.

Board Meetings And Supply of Information to Board

The Board meets on a scheduled basis at least once a month with additional meetings held when urgent issues and important decisions are required to be made between the scheduled meetings.

The Board convened fifteen (15) meetings for the financial year ended 31 December 2006. The attendance of each Director in office at the end of the financial year at the aforesaid Board meetings are set out below:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
YBhg Dato Abdullah Mat Noh	15/15	100
YBhg Datuk Azlan Zainol	14/15	93
YBhg Dato' Mohamed Khadar Merican	13/15	87
YBhg Dato' Vaseehar Hassan Abdul Razack	13/15	87
Mr Akira Miyama	14/15	93
Mr Lew Foon Keong	11/15	73
Encik Johari Abdul Muid	11/15	73
YBhg Datin Khamarzan Ahmed Meah ⁽¹⁾	9/12*	75

Notes:

(1) Appointed on 3 April 2006.

* Based on the number of Board meetings held since she was appointed to the Board.

Corporate Governance Statement (continued)

Pursuant to the Revised BNM/GP1, individual directors must attend at least 75% of the Board meetings held in each financial year. The Bank undertakes to ensure that Board Meetings are scheduled according to Directors' availability and if necessary, the participation of the Director(s) will be facilitated by means of tele-conferencing as provided in the Bank's Articles of Association.

Scheduled Board meetings are structured with a pre-set agenda. The Board's principal focus amongst others is the overall strategic direction, financial and corporate developments of the Bank. Key matters such as the Bank's business strategy, budget, annual interim results, material contracts, major capital expenditure and corporate communication programme are also reserved for the Board's deliberation and decision.

The Directors are kept abreast of the Bank's performance via the various monthly reports tabled at the Board and Board Committees' meetings. The reports include the financial reports, risk reports, compliance reports, audit reports and report on major litigation cases. Minutes of meetings of the various Committees within the Bank are tabled to the Board of the Bank, for notation. Agenda and Board papers are circulated prior to the Board meetings to give Directors appropriate time to consider and deliberate on the issues to be raised at the Board meetings.

The Directors have full access to the senior management of the Bank and the advice and services of the Company Secretaries. In addition, the Directors may also seek independent professional advice, at the Bank's expense, if required. Directors may also consult with the Chairman and other Board members prior to seeking any independent professional advice.

Directors' Training

Directors will be kept abreast with the relevant developments in banking and finance industry on an ongoing basis. Guidelines/practice notes issued by regulatory authorities are regularly extended to all Directors. The Bank also coordinates Directors' attendance at various conferences, seminars and training programmes organised by the Group and external organizers. The topics presented at these programmes are wide-ranging and provide the Directors with current updates on various business, management, compliance and legal issues.

Corporate Governance Statement (continued)

Appointment to the Board and Re-election of Directors

The proposed appointment of new Board members, as well as re-appointment of the Board members are recommended by the Nominating Committee to the Board for their approval. The appointments are further subject to regulatory authorities' approvals such as BNM, Bursa Malaysia and Securities Commission.

In accordance with the Bank's Articles of Association, one-third (1/3) of the Directors shall retire from their office at each Annual General Meeting, subject to the retirement of all Directors at least once in every three (3) years. Retiring Directors can offer themselves for re-election. Directors who are appointed by the Board during the financial year are subject to re-election by the shareholder at the next Annual General Meeting following their appointments.

Directors' Remuneration

There is a formal and transparent procedure for fixing the Directors' remuneration packages. The level of remuneration are sufficient to attract and retain Directors of calibre. As all Board members are Non-Executive Directors, their level of remuneration reflects the level of responsibilities undertaken by the particular Non-Executive Director concerned in the Bank and in the Group.

All Directors' fees are subject to the shareholder's approval at the Bank's Annual General Meeting before payment is made.

BOARD COMMITTEES

The Board has established the following Committees to assist the Board in discharging its duties, each of which has a detailed terms of reference regarding its objectives, duties and responsibilities, authority, meeting and membership:-

- I) Audit Committee;
- II) Executive Committee;
- III) Remuneration and Human Resource Committee;
- IV) Nominating Committee; and
- V) Group Risk Management Committee.

Corporate Governance Statement (continued)

I) Audit Committee

The Audit Committee of the Board has been in place since 23 June 1997. The Audit Committee currently comprises three (3) Independent Non-Executive Directors.

The Audit Committee of the Bank meets regularly with the internal auditors and whenever deemed necessary, together with the CEO and the Senior Management of the respective companies in the Group and the external auditors to review the Bank's and the Group's financial reporting, the nature, scope and results of audit reviews, and the effectiveness of the system of internal controls and compliance.

During the financial year ended 31 December 2006, the Audit Committee had met 10 times.

The composition and terms of reference and the activities of the Audit Committee during the financial year ended 31 December 2006 are set out in the Audit Committee Report on page 45 to page 52 of the Annual Report.

II) Executive Committee

The Board has established the Executive Committee since 9 September 1974. The Executive Committee presently comprises three (3) Non-Independent Non-Executive Directors, including the Chairman of the Bank.

The Executive Committee had met 13 times during the financial year ended 31 December 2006.

The Terms of Reference of the Executive Committee is as follows:-

Objective

To carry out the duties and responsibilities as delegated by the Board of Directors in, inter alia, managing the business, operational performance and credit risk of the Investment Bank.

Corporate Governance Statement (continued)

Duties and Responsibilities

1. To review and thereafter affirm or veto:-
 - (i) all applications for credit facilities, renewals and/or extensions, annual reviews and any variations to previously approved terms and conditions which has been approved by the Underwriting and Credit Committee and, where appropriate, impose additional or more stringent terms and conditions as deemed necessary; and
 - (ii) the granting/increase in credit limit/rollover of margin facilities in excess of RM5.0 million in respect of each client of the Investment Bank's stockbroking business.
2. To note the credit applications and other accommodation/commitment which have been rejected by the Underwriting and Credit Committee.
3. To review and thereafter affirm or veto the following:-
 - a. Underwriting of equities and equity related instruments;
 - b. Underwriting and subscription of PDS, including under 'bought-deal' structures; and
 - c. Disposal of such instruments arising from (a) above;as approved by the Underwriting and Credit Committee and, where appropriate, impose additional or more stringent terms and conditions so deemed necessary.
4. Matters related to Treasury and to dealing in the stockbroking/futures business:-
 - a. To consider and approve operational matters on activities which include investment, trading, broking and derivatives.
 - b. To review policies and guidelines on operations (except in respect of those relating to risk management and matters incidental thereto) and to recommend the same to the Board for approval.

Corporate Governance Statement (continued)

5. To review and thereafter affirm/veto:-
 - i. the restructuring and rescheduling of non-performing loans approved by the Underwriting and Credit Committee; and
 - ii. settlement proposals for clients' outstanding position in respect of the Investment Bank's stockbroking/futures business approved by the Securities Credit Committee.
6. To review and thereafter affirm/veto the restructuring and rescheduling of performing loans approved by the Underwriting and Credit Committee.
7. To consider and approve:-
 - i. fee discounts, the write-off of fees, invoices and / or sundry debtors of up to RM250,000.00 in respect of each client, each invoice and / or each sundry debtor in respect of the investment banking business (other than that for which approval authority is specifically conferred to the management or Underwriting and Credit Committee under the management discretionary powers provided for in the Credit Risk Management Policy);
 - ii. for share margin financing:
 - the waiver of rollover fee and other charges exceeding RM5,000.00 up to RM250,000.00 in respect of each client.
 - the waiver of client's interest (only for overdue interest on contra loss, due purchase and margin financing) exceeding RM5,000.00 up to RM250,000.00 in respect of each client.
 - settlement proposal for client's outstanding position (payment installment scheme including interest waiver only).
 - iii. the disposal of collateral quoted shares and other instruments arising from debt-to-bond/equity restructuring exercises of non-performing loan accounts under circumstances as provided for in the Credit Risk Management Policy and as recommended by the Underwriting and Credit Committee; and

Corporate Governance Statement (continued)

- iv. the write-off of any fixed assets that the value of which has been written down to RM1.00 in accordance with governing accounting principles.
8. To consider:-
- i. the restructuring and/or rescheduling of loans which require writing off of interest of up to 100% or up to RM1.0 million only, whichever is the lower, as recommended by the Underwriting and Credit Committee. For amounts of more than RM1.0 million, EXCO to consider and recommend to the Board for approval; and
 - ii. settlement proposals for clients' outstanding position in respect of the Investment Bank's stockbroking/futures business which require writing off as recommended by the Securities Credit Committee;
- and make the appropriate recommendation to the Board.
9. To consider the provisioning for non-performing loans and sundry debtors as recommended by the Underwriting and Credit Committee and Securities Credit Committee and make the appropriate recommendation to the Board.
10. To consider the Management Discretionary Powers as recommended by the Underwriting and Credit Committee and make the appropriate recommendation to the Board.
11. To provide guidance to management on customer requests that are unusual and exceptional.
12. To review the performance of every business and operational units and its plans for meeting targets.
13. To review and approve all plans and proposals for major administration matters, including operation manuals, not within the ambit of the Management Discretionary Powers or the CEO's/COO's Discretionary Powers and, if necessary, to make the necessary recommendation to the Board.

Corporate Governance Statement (continued)

14. To review strategic policies and directions, and recommend to the Board for approval.
15. To approve operational and administrative matters which are not related to the Bank's strategic business policies. This will include among others:-
 - opening of accounts with other banks where the affixation of the Bank's common seal is not required.
 - changes to the list of authorised signatories for the Bank.
 - changes to the Terms of Reference of the Bank's Management Committees only.
16. To review director-related loan cases and make the appropriate recommendation to the Board.
17. To consider and review the granting of Power of Attorney and any other authority as it deems necessary and thereafter to recommend the same for the Board's approval.
18. To approve operational expenditure and capital expenditure that are above the CEO's/ COO's approval limit and which is not budgeted with the following limitations:-
 - i. not exceeding RM200,000 per transaction; and
 - ii. subject to a cumulative amount of RM1,200,000 per annum.
19. To review the Bank's Assets and Liabilities position.
20. To perform such other functions as delegated by the Board from time to time.

Corporate Governance Statement (continued)

Meetings

At least once a month.

Quorum

Three (3) members

Membership

A minimum of 3 members and a maximum of 5 members as appointed by the Board with at least two non-executive Directors.

Minutes

Standard requirement

Secretaries

The Company Secretary or his representative.

Composition

1. YBhg Dato Abdullah Mat Noh - Chairman
(Non-Independent Non-Executive Chairman)
2. Mr Akira Miyama - Member
(Non-Independent Non-Executive Director)
3. YBhg Dato' Vaseehar Hassan Abdul Razack - Member
(Non-Independent Non-Executive Director)

By Invitation

1. Chief Executive Officer
2. Chief Operating Officer
3. Senior Management or any other persons as the EXCO deems necessary.

Corporate Governance Statement (continued)

III) Remuneration And Human Resource Committee

The Board has established the Human Resource Committee on 31 October 2001 and on 31 July 2003, the Board changed its name to Remuneration and Human Resource Committee. The Remuneration and Human Resource Committee comprises three (3) Non-Executive Directors, one (1) of whom is an Independent Non-Executive Director. The Remuneration and Human Resource Committee had met 14 times during the financial year ended 31 December 2006.

The Terms of Reference of the Remuneration and Human Resource Committee is as follows:-

Objectives

1. To provide a formal and transparent procedure for developing remuneration policy for directors, chief executive officer, deputy chief executive officer, chief operating officer and chief financial officer of RHB Investment Bank Berhad (Investment Bank) and Investment Bank Group and ensuring that compensation is competitive and consistent with the Investment Bank Group's culture, objectives and strategy.
2. To recommend to the Board on the policies, strategies and framework for the Investment Bank Group in relation to staff remuneration, rewards and benefits.
3. To oversee and review the scope and quality of human resource projects/programmes of the Investment Bank Group.

Duties and Responsibilities

The Remuneration and Human Resource Committee is responsible for:-

1. Recommending a framework of remuneration for directors, chief executive officer, deputy chief executive officer, chief operating officer and chief financial officer for the Board's approval. The remuneration framework should support the Bank's culture, objectives and strategy and should reflect the responsibility and commitment, which goes with Board membership and responsibilities of the chief executive officer, deputy

Corporate Governance Statement (continued)

chief executive officer, chief operating officer and chief financial officer. There should be a balance in determining the remuneration package, which should be sufficient to attract and retain directors of calibre, and yet not excessive to the extent of the Bank's funds are used to subsidise the excessive remuneration packages. The framework should cover all aspects of remuneration including director's fee, salaries, allowance, bonuses, options and benefit-in-kind.

2. Recommending specific remuneration packages for executive directors, the chief executive officer, deputy chief executive officer, chief operating officer and chief financial officer. The remuneration package should be structured such that it is competitive and consistent with the Bank's culture, objectives and strategy. Salary scales drawn up should be within the scope of the general business policy and not be dependant on short-term performance to avoid incentives for excessive risk-taking. As for non-executive directors and independent directors, the level of remuneration should be linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board.
3. To ensure the establishment of a formal and transparent procedure for developing policies, strategies and framework for the remuneration of executive directors, management and staff.
4. To review the succession planning programme and leadership framework.
5. To review and assess the effectiveness of the HR Division in supporting the organisation.
6. To perform any other functions as defined by the Board.

Authority

1. The Committee is authorised by the Board to investigate any matter under its terms of reference, to obtain the resources which it needs, and to have full and unrestricted access to information.

Corporate Governance Statement (continued)

2. The Committee is authorised by the Board to seek appropriate professional advice as and when necessary or engage consultants at the Bank's expense to aid the Committee in the discharge of its duties.

Meetings

1. Meetings shall be held at least four times a year with a quorum of three (3) members. Additional meetings may be called at the discretion of the Chairman of the Committee.
2. The Committee shall meet at least once a year to review the remuneration packages of the directors, chief executive officer, deputy chief executive officer, chief operating officer and chief financial officer of Investment Bank and Investment Bank Group.
3. The Committee may invite any other directors, management and staff to be in attendance during meetings to assist in its deliberation.
4. Meetings of the Committee shall be governed by the provisions of the Investment Bank's Articles of Association relating to Board meetings except in so far as the same are not amended in these terms of reference.
5. The Company Secretary shall be the Secretary of the Committee.
6. Minutes of each Committee meeting shall be kept and distributed to all Committee members. The minutes of the Committee meeting shall be presented at the Board Meeting and the Chairman of the Committee shall report on each Committee meeting to the Board.

Membership

1. The Committee shall be appointed by the Board from amongst its number and shall comprise not less than three (3) and not more than five (5) non-executive directors of the Investment Bank.
2. The Chairman of the Committee shall be an independent non-executive director appointed by the Board.

Corporate Governance Statement (continued)

3. If the number of members of the Committee is reduced to below three (3) for any reasons, the Board shall within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.
4. In order to avoid conflict of interest, a member of the Committee shall abstain from participating in discussions and decisions on matters involving him.

Composition

1. YBhg Dato' Mohamed Khadar Merican - Chairman
(Independent Non-Executive Director)
2. YBhg Dato Abdullah Mat Noh - Member
(Non-Independent Non-Executive Chairman)
3. Mr Akira Miyama – Member (appointed on 23 January 2007)
(Non-Independent Non-Executive Director)

By Invitation

Chief Executive Officer

In Attendance

Head, Human Resource Department

IV) Nominating Committee

On 7 May 2003, the Board had established the Nomination Committee which was renamed as the Nominating Committee on 31 July 2003. Currently, the Nominating Committee comprises five (5) Non-Executive Directors, two (2) of whom are Independent Non-Executive Directors. The Nominating Committee had met 6 times during the financial year ended 31 December 2006.

Corporate Governance Statement (continued)

The Terms of Reference of the Nominating Committee is as follows:-

Objectives

1. To provide a formal and transparent procedure for the appointment of directors, chief executive officer, deputy chief executive officer, chief operating officer and chief financial officer as well as assessment of effectiveness of individual directors, Board as a whole and performance of chief executive officer, deputy chief executive officer, chief operating officer and chief financial officer of the Investment Bank.
2. To assist the Board in ensuring that appointments are made on merit against an agreed specification.
3. To assist the Board in identifying and reviewing, on an annual basis, the required mix of skills, experience and other qualities, including core competencies which directors should bring to the Board and which the Board requires for it to function completely and efficiently.
4. To examine the size of the Board with a view of determining the impact of the number upon its effectiveness.

Duties And Responsibilities

The Nominating Committee is responsible for:-

1. Establishing minimum requirements for the Board i.e. required mix of skills, experience, qualification and other core competencies required of a director. The Committee is also responsible for establishing minimum requirements for the chief executive officer. The requirements and criteria should be approved by the full Board.
2. Recommending and assessing the nominees for directorship, Board committee members as well as for nominees for the chief executive officer, deputy chief executive officer, chief operating officer and chief financial officer. This includes assessing directors for reappointment, before an application for approval is submitted to Bank Negara Malaysia. The actual decision as to who shall be nominated should be the responsibility of the Board.

Corporate Governance Statement (continued)

3. Overseeing the overall composition of the Board, in terms of the appropriate size and skills, and the balance between executive directors, non-executive directors and independent directors through annual review.
4. Recommending to the Board the removal of a director/chief executive officer/deputy chief executive officer/chief operating officer/chief financial officer from the Board/management if the director/chief executive officer/deputy chief executive officer/chief operating officer/chief financial officer is ineffective, errant and negligent in discharging his responsibilities.
5. Establishing a mechanism for the formal assessment on the effectiveness of the Board as a whole and the contribution of each director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the chief executive officer, deputy chief executive officer, chief operating officer and chief financial officer. Annual assessment should be conducted based on an objective performance criterion. Such performance criteria should be approved by the Board.
6. Ensuring that all directors receive an appropriate continuous training program in order to keep abreast with the latest developments in the industry.
7. Overseeing the appointment, management succession planning and performance evaluation of the Investment Bank and the Investment Bank Group.
8. Assessing, on an annual basis, that the directors, chief executive director, deputy chief executive officer, chief operating officer and chief financial officer are not disqualified under section 56 of the Banking and Financial Institutions Act 1989.
9. To perform any other functions as defined by the Board.

Corporate Governance Statement (continued)

Authority

1. The Committee is authorised by the Board to act within its terms of reference, to obtain the resources which it requires including but not limited to obtaining advice from expert advisers, both internal and external, and to have full and unrestricted access to information to enable the Committee to fulfill its objectives.
2. Each and every member of the Committee shall be vested with such power and authority, specific or general, as may from time to time be decided upon by the Board.
3. The actual decision as to who shall be nominated should be the responsibility of the Board after considering the recommendations of the Committee.

Meetings

1. Meetings shall be held at least once a year with a quorum of two (2) members and at least one (1) member present shall be an independent non-executive director. Additional meetings may be called at the discretion of the Chairman of the Committee.
2. The Committee may invite any other directors, management and staff to be in attendance during meetings to assist in its deliberation.
3. Meetings of the Committee shall be governed by the provisions of the Investment Bank's Articles of Association relating to Board meetings except in so far as the same are not amended in these terms of reference.
4. The Company Secretary shall be the Secretary of the Committee.
5. Minutes of each Committee meeting shall be kept and distributed to all Committee members. The minutes of the Committee meeting shall be presented at the Board Meeting and the Chairman of the Committee shall report on each Committee meeting to the Board.

Corporate Governance Statement (continued)

Membership

1. The Committee shall be appointed by the Board from amongst its number and shall comprise not less than five (5), of whom at least four (4) must be non-executive directors.
2. The Chairman of the Committee shall be an independent non-executive director appointed by the Board.
3. If the number of members of the Committee is reduced to below five (5) for any reasons, the Board shall within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of five (5) members.
4. In order to avoid conflict of interest, a member of the Committee shall abstain from participating in discussions and decisions on matters involving him.

Disclosure

The activities of the Committee and its assessments should be briefly disclosed in the Directors' report of the Investment Bank's annual report as follows:-

1. Membership of the Committee.
2. Responsibilities of the Committee.
3. Number of Committee meetings and information on the number of meetings attended by each member of the Committee.
4. A statement on the Committee's assessment on the mix of skills, experience and other qualities of directors.

Corporate Governance Statement (continued)

Composition

1. YBhg Dato' Mohamed Khadar Merican – Chairman
(Independent Non-Executive Director)
2. YBhg Dato Abdullah Mat Noh – Member
(Non-Independent Non-Executive Chairman)
3. Mr Akira Miyama – Member
(Non-Independent Non-Executive Director)
4. Mr Lew Foon Keong – Member
(Independent Non-Executive Director)
5. Encik Johari Abdul Muid – Member (appointed on 23 January 2007)
(Non-Independent Non-Executive Director)

V) Group Risk Management Committee

The Board has established the Risk Management Committee on 20 December 2001 and on 16 September 2004, the Board changed its name to Group Risk Management Committee to reflect the actual function of the Committee with the revision of the Bank's Credit Risk Management Policy. The Group Risk Management Committee currently comprises three (3) Non-Executive Directors, two (2) of whom are Independent Non-Executive Directors.

The Committee is authorised by the Board to provide oversight and management of all risks in the Investment Bank Group and to ensure that the risk management process is in place and functioning, and that there is an on-going process to continuously manage the Investment Bank Group's risk, proactively.

Corporate Governance Statement (continued)

The Board has delegated the day-to-day risk management function to the Group Risk Management Department of the Bank which in turn reports to the Asset and Liability Committee, Group Risk Management Committee and the Board of Directors. The Group Risk Management Committee had met 8 times during the financial year ended 31 December 2006.

The composition and Terms of Reference of the Group Risk Management Committee are set out in the Directors' Report on page 70 to page 73 of the Annual Report.

Disclosure On Group Shariah Committee

Apart from the above Board Committees, the RHB Group has established its Group Shariah Committee, which comprise of four (4) qualified local and foreign Shariah Professionals; an assortment of knowledge, experience and approach from these mixed Shariah Professional are needed to put up the RHB Group's operations and products to be globally accepted.

The current composition of the Group Shariah Committee is as follows:-

- (i) Prof. Dr Abdul Samat Musa (Chairman)
- (ii) Prof. Madya Dr Joni Tamkin Borhan
- (iii) Dr Ahmed Mohieldin Almed
- (iv) Prof. Dr Mohd Ma'sum Billah
- (v) Dr Abdulazeem Abozaid (Appointment will take effect on 1 April 2007)

The main duties and responsibilities of the Group Shariah Committee together with RHB Group's Shariah Compliance staff are:

- (i) Advise the RHB Group on all Shariah matters in order to ensure that the business operations of the RHB Group comply with Shariah Principles.
- (ii) Endorse the Shariah Meeting Minutes and resolutions to make sure that all of the resolutions are stated in clear and specific manners based on correct Shariah foundations.

Corporate Governance Statement (continued)

- (iii) Endorse the relevant manuals, which specify the manner in which a submission or request for advice be made to the Group Shariah Committee, the conduct of the Group Shariah Committee meeting and the manner of compliance with any decision thereof.
- (iv) Endorsements and validations of the following relevant documentation:
 - (a) the terms and conditions contained in the proposal form, contract, agreement or other legal documentation used in executing the transactions;
 - (b) the product manual, marketing advertisements, sales illustrations and brochures used to describe the product; and
 - (c) providing assistance to related parties of the RHB Group such as its legal counsel, auditor or consultant on Shariah matters to ensure compliance with Shariah principles.
- (v) Preparations of written Shariah opinions particularly in the following circumstances:
 - (a) Where the RHB Group submits applications to Bank Negara Malaysia (BNM) or the National Shariah Advisory Council (NSAC) for new product approval in accordance with guidelines on product approval issued by BNM and NSAC.
 - (b) Explanation on the Shariah issues involved and the recommendations for a decision, which must be supported by relevant Shariah jurisprudential literature from the established sources to assist the NSAC on any matters referred by the RHB Group and to ensure that all Group Shariah Committee decisions are properly implemented by the RHB Group.
- (vi) Provide educational talks for both in-house Shariah training and external lecture session to the RHB Group's staff and the public (when arranged by the RHB Group) in order to equip them with related Shariah knowledge.

Corporate Governance Statement (continued)

However, the Bank mainly deals only in Islamic Securities whereby submission and approval of the structures are obtained from the Securities Commission and the framework is governed by the Guidelines on the Offering of Islamic Securities. During the financial year ended 31 December 2006, the Islamic Securities transactions were also endorsed/approved by other independent shariah advisers (who are approved by the Securities Commission) being appointed by the issuer of the Islamic Securities as per the said Guidelines.

RELATIONSHIP WITH SHAREHOLDER

The Board acknowledges the importance for the stakeholders, particularly shareholder to be informed of all material business and corporate matters affecting the Bank and the Group.

ACCOUNTABILITY AND AUDIT

Financial Reporting

In presenting the annual audited financial statements, quarterly and half-yearly results of the Investment Bank Group, the Directors take responsibility to present a balanced and understandable assessment of the Group's position and prospects. The Audit Committee assists by scrutinising the information to be disclosed, to ensure accuracy and adequacy. A Statement by Directors of their responsibilities in preparing the financial statements is set out on page 193 of the Annual Report.

Internal Control

The Statement on Internal Control set out on page 41 to page 44 of this Annual Report provides an overview of the state of internal controls within the Investment Bank Group.

Relationship with the Auditors

The Board maintains a formal and transparent professional relationship with the auditors, through the Audit Committee.

The activities and role of the Audit Committee in relation to the internal and external auditors is described in the Audit Committee Report set out on page 45 to page 47 of this Annual Report.

Statement On Internal Control

INTRODUCTION

The Malaysian Code on Corporate Governance requires listed companies to maintain a sound system of internal controls to safeguard shareholders' investments and the Group's assets. The Bursa Malaysia Securities Berhad's ("BMSB") Listing Requirements require directors of listed companies to include a statement in their annual reports on the state of their internal controls. The BMSB's Statement on Internal Control : Guidance for Directors of Public Listed Companies ("Guidance") provides guidance for compliance with these requirements.

Although RHB Investment Bank Berhad (the Bank) is no longer a listed company (delisted on 27 November 2002) on the BMSB, the Board has endeavoured to prepare its Statement On Internal Control in accordance with the Guidance.

RESPONSIBILITY OF THE BOARD

The Board recognises the importance of maintaining a sound system of internal controls and risk management practices as well as good corporate governance. The Board affirms its overall responsibility for the Group's system of internal controls and for reviewing its adequacy and integrity. Such system covers not only financial controls but also controls relating to operational, risk management and compliance with applicable laws, regulations, rules, directives and guidelines.

The system of internal controls involves each key operating company in the Group and its management, including the Board, and is designed to meet the Group's business objectives and to manage the risks to which it is exposed. The Board acknowledges that risks cannot be completely eliminated. The system, by its nature, can only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

Statement On Internal Control (continued)

RISK MANAGEMENT FRAMEWORK

The Group has in place an ongoing process for identifying, evaluating, managing and reporting on the significant risks that may affect the achievement of its business objectives throughout the financial year under review and up to the date of this report. This process is regularly reviewed by the Board to ensure proper management of risks and appropriate measures are timely taken to mitigate any identified weaknesses in the control environment.

The Board has established a Group Risk Management Committee with the objective of assisting the Board in carrying out its responsibilities in relation to managing the Bank's range of inter-related risks in an integrated manner. The Group Risk Management Committee meets regularly to oversee the development of general risk policies and procedures, monitor and evaluate the numerous risks that may arise from the various business activities in the Group including overseeing the implementation of Basel II initiatives and requirements. Risk management units have also been established within the principal operating companies in the Group while for those operating companies without specific risk management unit, the day-to-day management of the risks is undertaken by the companies themselves and monitored at the Bank's level to assist the Group Risk Management Committee in discharging its duties.

Amongst the other management committees set up in the Bank to manage specific areas of risk are the Asset & Liability Committee, the Underwriting & Credit Committee and IT Steering Committee.

CONTROL SELF-ASSESSMENT PROCESS

Central to the Group's internal control system is its Control Self-Assessment ("CSA") process which covers all key business companies in the Group. These companies are required to document the controls and processes for managing the risks arising from their activities and assess their effectiveness. Results gathered from the CSA process are reviewed by the Group internal auditors.

Statement On Internal Control (continued)

OTHER KEY ELEMENTS OF INTERNAL CONTROL

Apart from the above, the other key elements of the Group's internal control system which have been reviewed by the Board are described below : -

- The management of the Bank is delegated to its Management Committee (until 31 October 2006) and its Chief Executive Officer (commencing 1 November 2006) while for the various companies in the Group, the management is delegated to the respective chief executive officers whose role and responsibilities and authority limits are set by the respective Boards. Appointment of such officers at the companies concerned requires the approval of their respective Boards;
- Specific responsibilities have been delegated to the relevant Board committees, all of which have written terms of reference which are reviewed regularly. These committees have the authority to examine all matters within their scope of responsibility and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters however lies with the entire Board ;
- Delegation of authority including authorisation limits at various levels of management and those requiring the Board's approval are documented and designed to ensure accountability and responsibility;
- Policies and procedures manuals for key processes are documented and regularly updated for application across the Group. These are supplemented by operating standards set by the individual company, as required for the type of business or geographical location of each company ;
- Compliance units are established at principal operating companies in the Group to enhance the overall compliance framework of the Group. The Group Compliance Unit reports the Group's state of compliance with the laws, regulations, policies and procedures and internal codes to the Board on a regular basis;

Statement On Internal Control (continued)

- There is a clear procedure for investment appraisal, including equity investment or divestment and capital expenditure ;
- There are proper guidelines for hiring and termination of staff, training programmes for staff, annual performance appraisal and other relevant procedures in place to achieve the objective of ensuring staff are competent to carry out their responsibilities ;
- Regular and comprehensive information is provided to management for monitoring of performance against the strategic plan approved by the Board, covering all key financial and operational indicators ;
- A detailed budgeting process is established requiring all key operating companies in the Group to prepare budgets annually which are discussed and approved by the Board. Reporting system on actual performance against approved budgets is in place and significant variances are followed up by management and reported at the Board ;
- Ongoing reviews of the internal control system are carried out by the Group internal auditors. Results of such reviews are reported to the Audit Committee. The work of the Group internal auditors is focused on areas of priority as identified by risk analysis and in accordance with the internal audit plans approved by the Audit Committee. The Head of Group internal audit function reports to the Audit Committee ; and
- The Audit Committee holds regular meetings to deliberate on findings and recommendations for improvement by both the Group internal auditors and external auditors as well as Bank Negara Malaysia, BMSB and the Securities Commission examiners on the state of the internal control system. The minutes of the Audit Committee meetings are tabled to the Board.

Audit Committee Report

ACTIVITIES OF THE AUDIT COMMITTEE AND THE GROUP INTERNAL AUDIT FUNCTION DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

Activities Of The Audit Committee

During the financial year ended 31 December 2006 ("year"), a total of 10 Audit Committee ("Committee") meetings were held. The Committee comprises the following members and details of attendance of each member at the Committee meetings held during the year are as follows:-

Composition Of The Committee	No. Of Meetings Attended Whilst In Office
1. YBhg Dato' Mohamed Khadar Merican (Chairman / Independent Non-Executive Director)	10 out of 10 meetings
2. YBhg Dato' Vaseehar Hassan Abdul Razack (Member / Non-Independent Non-Executive Director)	6 out of 10 meetings
3. Mr Lew Foon Keong (Member / Non-Independent Non-Executive Director)	9 out of 10 meetings
4. YBhg Datin Khamarzan Ahmed Meah (Member / Independent Non-Executive Director) - appointed on 4 April 2006	5 out of 7 meetings

On 4 April 2006, YBhg Datin Khamarzan Ahmed Meah, an Independent Non-Executive Director, was appointed as a member of the Committee. YBhg Dato' Vaseehar Hassan Abdul Razack, a Non-Independent Non-Executive Director, has resigned as a member of the Committee with effect from 23 January 2007.

The Committee's activities are concentrated at the RHB Investment Bank Berhad Group excluding the RHB Securities Sdn Bhd Group which has its own audit committee prior to 30 December 2006. The main activities undertaken by the Committee during the year are as follows:-

- Reviewed the unaudited quarterly results and the audited annual financial statements of the Investment Bank and the Group, and recommended the same for approval by the Board;

Audit Committee Report (continued)

- Reviewed the adequacy of provisioning for non-performing loans, sundry debtors, and bad and doubtful debts, including write-off of bad loans and debts and recommended the same for approval by Board;
- Reviewed the related party transactions (“RPTs”) and the adequacy of the Group’s procedures for monitoring and reviewing of RPTs;
- Reviewed with the external auditors, the nature and scope of their engagement and audit plan, their fees as well as the findings emanating from their examination of the financial statements. The Committee met with the external auditors twice during the year;
- Reviewed the non-audit services rendered by the external auditors and the related fees as well as made recommendation on their reappointment to the Board for approval;
- Reviewed and approved the scope and adequacy of the internal audit plans, including manpower resource needs as well as monitored the status of completion of the internal audit plans;
- Reviewed the results of the risk-based audit work carried out and investigations by the group internal auditors as well as monitored the status of implementation of recommended actions by management in respect of the findings. The group internal auditors attended all the Committee meetings and a total of thirty eight (38) audit reports were tabled to the Committee during the year;
- Reviewed the revised Terms of Reference of the Committee and recommended the same for approval by the Board;
- Reviewed the revised Audit Charter of the group internal audit function and recommended the same for approval by the Board;
- Reviewed the inspection and examination reports issued by the regulatory authorities and monitored the status of remedial actions taken by management in respect of the findings;

Audit Committee Report (continued)

- Reviewed the minutes of meetings of the audit committee of RHB Securities Sdn Bhd Group to the extent permitted by the relevant regulatory authorities to satisfy itself that all matters arising therefrom have been appropriately addressed by such audit committee; and
- Tabled the minutes of each Committee meeting to the Board for noting, and for further action by the Board, where necessary.

Subsequent to the merger of the securities and futures businesses on December 30, 2006 with RHB Investment Bank Berhad, the Committee continued with all the above activities.

Group Internal Audit Function

The group internal audit function is guided by its Audit Charter and reports to the Committee. Its primary role is to assist the Committee to discharge its duties and responsibilities by independently reviewing and reporting on the adequacy and integrity of the Group's system of internal controls.

The group internal auditors adopt a risk-based approach towards the planning and conduct of audits. The control self-assessment exercise, rolled out by the group internal auditors for implementation throughout the principal business units in the Investment Bank and the Group, is in alignment with the practice of generating an embedded risk management capability and acceptable risk culture.

Upon completion of the audits, the group internal auditors have closely monitored the implementation progress of their audit recommendations in order to obtain assurance that all major risk and control concerns have been duly addressed by management. All audit reports on the results of work undertaken together with the recommended action plans and their implementation status were presented to management and the Committee.

The group internal auditors work closely with the external auditors to resolve any control issues as raised by them to ensure that significant issues are duly acted upon by management.

Audit Committee Report (continued)

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

Objectives

1. To assist the Board discharge its responsibilities by reviewing the adequacy and integrity of the Investment Bank's and the RHB Investment Bank Berhad Group's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.
2. To reinforce the independence of the external auditors and thereby help assure that they will have free rein in the audit process.
3. To provide, by way of regular meetings, a line of communication between the Board and the external auditors.
4. To provide emphasis on the group internal audit function by increasing the objectivity and independence of the group internal auditors and provide a forum for discussion that is independent of the management.
5. To review the quality of the audits conducted by the group internal auditors and the external auditors of the Investment Bank.
6. To enhance the perceptions held by stakeholders (including shareholders, regulators, creditors and employees) of the credibility and objectivity of financial reports.

Duties And Responsibilities

1. To review the quarterly results and year-end financial statements of the Investment Bank and the Group, and to recommend the same to the Board for approval whilst ensuring that they are prepared in a timely and accurate manner complying with all applicable accounting and regulatory requirements and are promptly published.

Audit Committee Report (continued)

2. To review the adequacy of provisioning for non-performing loans, sundry debtors, and bad and doubtful debts, including any write-off of bad loans or debts (except in respect of amounts written off pursuant to the exercise by the Investment Bank's Executive Committee of its approval authority under its Term of Reference) and to recommend the same to the Board for approval.
3. To review any related party transaction and conflict of interest situation that may arise within the Investment Bank or the Group, including any transaction, procedure or course of conduct that raises questions of management integrity.
4. To review with the external auditors and group internal auditors whether the employees of the Group have given them appropriate assistance in discharging their duties.
5. To review the adequacy of the scope, functions and resources of the group internal audit function and that it has the necessary authority to carry out its work.
6. To review the internal audit plan and processes, the results of the internal audit programme or investigation undertaken and whether or not appropriate action is taken by management on the recommendations of the group internal auditors.
7. To appraise the performance of the head of group internal audit and to review the appraisals of senior staff members of the group internal audit function.
8. To approve any appointment or termination of the head of group internal audit and senior staff members of the group internal audit function and to review any resignations of group internal audit staff members and provide resigning staff members an opportunity to submit reasons for resigning, where necessary.
9. To review with the external auditors, the nature and scope of their audit plan, their evaluation of the system of internal controls and their management letter and discuss any matter that the external auditors may wish to raise in the absence of management, where necessary.

Audit Committee Report (continued)

10. To recommend to the Board on the appointment and the annual reappointment of the external auditors and their audit fee, after taking into consideration the independence and objectivity of the external auditors and the cost effectiveness of their audit.
11. To discuss and review with the external auditors any proposal from them to resign as auditors.
12. To review the non-audit services rendered by the external auditors and the related fees, and to recommend the same to the Board for approval.
13. To review the co-ordination of the audit approach where more than one audit firm of external auditors is involved and the co-ordination between the external auditors and group internal auditors.
14. To review the minutes of meetings of other audit committees within the Group to the extent permitted by the relevant regulatory authorities and be satisfied that all matters arising therefrom are being appropriately addressed by these other audit committees.
15. To review inspection and examination reports issued by any regulatory authority and to ensure prompt and appropriate actions are taken in respect of any findings.
16. To perform any other functions as authorised by the Board.

Authority

1. The Committee is authorised by the Board to investigate any matter within its terms of reference, to obtain the resources which it needs, and to have full and unrestricted access to information. It is also authorised to seek any information it requires from any employee of the Group and all employees are directed to co-operate with any request made by the Committee and group internal auditors.
2. The Committee shall have direct communication channels with the external auditors and group internal auditors.

Audit Committee Report (continued)

3. The Committee is authorised by the Board to obtain independent professional or other advice at the Investment Bank's expense and to invite outsiders with relevant experience and expertise to attend meetings if it considers this necessary.

Meetings

1. Meetings shall be held at least four (4) times a year with a minimum quorum of two (2) members and the majority of members present shall be independent non-executive directors. Additional meetings may be called at any time at the discretion of the Chairman of the Committee.
2. The head of group internal audit shall be in attendance at meetings of the Committee. The Committee may invite the external auditors, the chief executive officer, the chief financial officer, any other directors or members of the management and employees of the Group to be in attendance during meetings to assist in its deliberations.
3. At least once a year, the Committee shall meet with the external auditors without any executive Board member present and upon the request of the external auditors, the Chairman of the Committee shall convene a meeting to consider any matter which the external auditors believe should be brought to the attention of the Board or shareholders.
4. The Investment Bank's Company Secretary shall be the Secretary of the Committee.
5. The minutes of each Committee meeting shall be tabled to the Board by the Chairman of the Committee. Thereafter, a copy of the minutes of the Committee meeting shall be submitted to Bursa Malaysia Berhad within thirty (30) days from the date of the minutes having been adopted by the Board.

Membership

1. The Committee shall be appointed by the Board from amongst its number and shall comprise not less than three (3) members, the majority of whom are independent non-executive directors.

Audit Committee Report (continued)

2. The Chairman of the Committee shall be an independent non-executive director appointed by the Board.
3. No alternate director shall be appointed as a member of the Committee.
4. At least one member of the Committee:-
 - i) shall be a member of the Malaysian Institute of Accountants; or
 - ii) if he is not a member of the Malaysian Institute of Accountants, he shall have at least three (3) years' working experience and:-
 - (a) he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act, 1967; or
 - (b) he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967.
5. The term of office and performance of the Committee and each of its members must be reviewed by the Board at least once every three (3) years.
6. If a member of the Committee resigns or for any other reason ceases to be a member with the result that the number of members is reduced to below three (3), the Board shall within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.

Services

INVESTMENT BANKING

Investment Banking Group is a one-stop centre offering insightful counsel on corporate strategy covering corporate restructuring, initial public offerings, mergers and acquisitions and structuring and distribution of both equity and debt instruments. The department has dedicated relationship managers with expertise covering across section of all industries.

TREASURY SERVICES

The Treasury Division provides services to a wide range of clients, comprising of government agencies, pension funds, mutual funds, insurance companies, corporations and inter-bank parties in meeting up their diversified need. Treasury provides an apt choice of financial solutions to the end clients to meet their requirements, which include market information dissemination, both short term and long term financing, deposit-taking, investment options as well as acts as a custodian on behalf of its clients.

Treasury also involves in the proprietary trading of various financial products that include the short-term Money Market instruments, long term Securities, Foreign Exchange and the Derivatives products. Supported by its well-established distribution network, Treasury is one of the more renowned market makers and liquidity providers in the Malaysian financial market.

DEBT CAPITAL MARKETS

Debt Capital Markets have undertaken many of the landmark transactions in Malaysia that were noted by the market for innovation and creativity. The department offers both advisory and fund raising services in the structuring and issuance of various forms of debt securities and other capital market instruments for both conventional and Islamic financing facilities.

EQUITY CAPITAL MARKETS

Equity Capital Markets is a leading participant in the primary and secondary markets for equity and equity-linked products. The firm's underwriting activities range from initial public offerings, rights issues to follow-on issues and from sell downs to private placements. It provides support in the origination, structuring of equity transactions and manages syndication, marketing, and effective distribution through a network of quality private, corporate and institutional clients.

Services (continued)

CORPORATE FINANCE

Corporate Finance delivers advisory services and transactional execution expertise to its client base across a range of product areas including corporate and debt restructuring and divestitures, mergers and acquisitions ("M&A"), take-overs, stock exchange listings, public offerings of equity and debt instruments, fund raising, private placement of securities, underwriting and valuation of securities.

EQUITIES BROKING

Equities broking offers facilities for share trading in the local stock market and in the regional markets e.g. Singapore, Thailand, Hong Kong, Indonesia and Philippines. To complement the share trading activities the following services are offered such as share margin financing, collateralised share trading, day trades, internet trading via RHB Invest, custodian and nominees services as well private placement of primary and secondary issues; both for local and foreign institutional and retail investors.

FUTURES BROKING

Futures Broking offers products and services offered by Bursa Malaysia Derivatives Berhad namely KLCI Futures Index, KLCI Option Index, 3-month Kuala Lumpur Inter-Bank Offered Rate Futures, 3-5-year and 10-year Malaysian Government Securities Futures, Crude Palm Oil Futures, Crude Palm Kernel Oil Futures and Single Stock Futures. Through our dual license holders, our clients may also hedge their funds in the equity market.

ACQUISITION AND LEVERAGE FINANCING

Acquisition and Leverage Financing offers corporate clients with a wide range of customised financing solutions for investment banking activities from structured acquisition and leverage financing, bridging for corporate fund raising exercises to arranging project finance syndication for domestic and cross-border financing deals.

Services (continued)

RESEARCH

Research provides clients with a comprehensive economic, equity and debt market research coverage. The firm looks into the policy analysis and their implications for investors; focusing on industry, economic and market outlook; financial analysis and business prospects of a broad range of listed companies in Malaysia; bond market strategy and yield curve analysis. It also provides research, valuations and credit opinions of companies relating to potential corporate deals for RHB Investment Bank Berhad.

ASSET MANAGEMENT

Asset Management provides restructuring of portfolios; managing sinking funds and structuring products to suit clients risk profile as well as managing treasury functions. The firm has products for both Conventional and Syariah mandates such as equity, fixed income securities, hybrid of equity and fixed income, cash management, unit trust and investment-linked products.

UNIT TRUST

Unit Trust has embarked on a total quality management programme in respect of the management of unit trust funds covering core activities such as sales and marketing, operations and customer servicing. The firm's maiden unit trust fund called RHB Dynamic Fund was launched in 1992 and currently manages 15 unit trust funds. Its ISO certification had been upgraded to ISO MS 9001:2000 in 2003; thus further reinforcing its commitment to quality services.

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Directors' Report

The directors submit herewith their report together with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2006.

CHANGE OF NAME

On 10 October 2006, the Bank changed its name from RHB Sakura Merchant Bankers Berhad to RHB Investment Bank Berhad.

PRINCIPAL ACTIVITIES

The principal activities of the Bank includes merchant banking business, dealing in securities, stock, debt and derivatives, stock-broking business and the business of brokers and dealers in futures and option contracts. The principal activities of the Group consist of merchant banking business, dealing in securities, stock, debt and derivatives stockbroking business and the business of brokers and dealers in futures and options contracts, unit trust management, asset management, research services and provision of nominee services.

There have been no significant changes in the nature of these activities during the financial year.

RESULTS

	Year ended 31.12.2006	
	Group	Bank
	RM'000	RM'000
Profit before taxation	80,220	81,659
Taxation	(15,491)	(16,088)
Net profit for the financial year	64,729	65,571

Directors' Report (continued)

DIVIDENDS

The dividends declared and paid by the Bank since 31 December 2005 were as follows:

	RM'000
In respect of the financial year ended 31 December 2005 as shown in the directors' report of that financial year:	
Final gross dividend of 22.00 sen per share less tax of 28% paid on 07 April 2006	<u>53,642</u>
In respect of the financial year ended 31 December 2006:	
Special gross dividend of 4.58 sen per share less tax of 28% paid on 29 June 2006	<u>11,163</u>
Second special gross dividend of 53.64 sen per share less tax of 28% paid on 22 September 2006	<u>130,779</u>

The directors now recommend the payment of a final gross dividend of 8.49 sen per share less tax of 27% amounting to RM21,000,000 in respect of the current financial year on the fully issued and paid up ordinary shares of the Bank totalling RM338,646,000 which is subject to the approval of the member at the forthcoming Annual General Meeting of the Bank.

RESERVES AND PROVISIONS

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

Directors' Report (continued)

NON-PERFORMING DEBTS

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

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

CURRENT ASSETS

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

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and the Bank misleading.

VALUATION METHODS

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

Directors' Report (continued)

CONTINGENT AND OTHER LIABILITIES

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

- (a) any charge on the assets of the Group and the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability of the Group and the Bank which has arisen since the end of the financial year other than in the ordinary course of business.

No contingent or other liability of the Group and the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Group or the Bank to meet their obligations when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Group or the Bank, which would render any amount stated in the financial statements misleading or inappropriate.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and the Bank for the financial year were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 41 to the financial statements.

Directors' Report (continued)

DIRECTORS OF THE BANK

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

Dato Abdullah Mat Noh	<i>(Chairman)</i>
Datuk Azlan Mohd Zainol	
Dato' Mohamed Khadar Merican	
Dato' Vaseehar Hassan Abdul Razack	
Akira Miyama	
Lew Foon Keong	
Johari Abdul Muid	
Datin Khamarzan Ahmed Meah	<i>(appointed on 3 April 2006)</i>

Pursuant to Article 93 of the Bank's Articles of Association, Dato Abdullah Mat Noh and Dato' Mohamed Khadar Merican retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Pursuant to Article 97 of the Bank's Articles of Association, Datin Khamarzan Ahmed Meah retires at the forthcoming Annual General Meeting and, being eligible, offer herself for re-election.

DIRECTORS' INTERESTS IN SECURITIES

According to the register of directors' shareholdings, the interests of the directors in office at the end of the financial year in the securities of the Bank and its related corporations were as follows:

	Number of ordinary shares of RM1 each			As at 31.12.2006
	As at 1.1.2006	Bought	Sold	
Ultimate Holding Company				
Rashid Hussain Berhad				
Dato' Mohamed Khadar Merican				
– Direct	5,000	–	–	5,000
Dato' Vaseehar Hassan Abdul Razack				
– Indirect ¹	238,127,000	–	–	238,127,000

Directors' Report (continued)

DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)

	Number of ordinary shares of RM1 each			
	As at 1.1.2006	Bought	Sold	As at 31.12.2006
Holding Company				
RHB Capital Berhad				
Dato' Mohamed				
Khadar Merican				
– Direct	10,000	–	–	10,000
Dato' Vaseehar Hassan				
Abdul Razack				
– Indirect ²	1,182,896,459	–	(2,000,000)	1,180,896,459

	Number of Warrants 2001/2007			
	As at 1.1.2006	Bought	Sold	As at 31.12.2006
Ultimate Holding Company				
Rashid Hussain Berhad				
Dato' Vaseehar Hassan				
Abdul Razack				
– Indirect ¹	8,000,000	–	–	8,000,000

Each warrant of Rashid Hussain Berhad ('Warrants 2001/2002') entitles the registered holder to subscribe for one new ordinary share of RM1.00 each in Rashid Hussain Berhad at any time from the date of issue on 4 April 2001 at an exercise price of RM1.90 per share. The exercise price is subject to adjustments from time to time in accordance with the conditions stipulated in the Deed Poll executed on 13 February 2001. Pursuant to a Supplemental Deed Poll dated 20 March 2002, the exercise period of the Warrants 2001/2002 has been extended by five (5) years to expire on 24 March 2007 and the Warrants 2001/2002 are now known as Warrants 2001/2007.

Directors' Report (continued)

DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)

**Nominal Amount (RM) of 2002/2012
0.5% Irredeemable Convertible Unsecured Loan Stocks
of RM1.00 each nominal value ('RHB ICULS-A')**

As at 1.1.2006	Bought	Sold/ Converted	As at 31.12.2006
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**Ultimate Holding Company
Rashid Hussain Berhad**

Dato' Vaseehar Hassan

Abdul Razack

– Indirect ¹	449,206,479	–	–	449,206,479
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The RHB ICULS-A entitle the registered holders to convert their RHB ICULS-A into new ordinary shares of RM1.00 each in Rashid Hussain Berhad ('New Share') at the conversion price of RM1.00 per New Share ('Conversion Price') at any time within a period of ten (10) years from the date of issue on 24 December 2002 in accordance with the Trust Deed constituting the RHB ICULS-A dated 24 December 2002. The Conversion Price shall be satisfied by surrendering for conversion into New Shares such nominal value of RHB ICULS-A equal to the Conversion Price.

**Nominal Amount (RM) of 2002/2012
3.0% Irredeemable Convertible Unsecured Loan Stocks
of RM1.00 each nominal value ('RHB ICULS-B')**

As at 1.1.2006	Bought	Sold/ Converted	As at 31.12.2006
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**Ultimate Holding Company
Rashid Hussain Berhad**

Dato' Vaseehar Hassan

Abdul Razack

– Indirect ¹	403,471,898	–	–	403,471,898
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Directors' Report (continued)

DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)

The RHB ICULS-B entitle the registered holders to convert their RHB ICULS-B into one (1) new ordinary shares of RM1.00 each in Rashid Hussain Berhad ('New Share') at the conversion price of RM1.13 per New Share ('Conversion Price') at any time within a period of ten (10) years from the date of issue on 24 December 2002 in accordance with the Trust Deed constituting the RHB ICULS-B dated 24 December 2002. The Conversion Price shall be satisfied by surrendering for conversion into New Shares such nominal value of RHB ICULS-B which equal to the Conversion Price or a combination of such nominal value of RHB ICULS-B and cash which aggregates to the Conversion Price, provided that at least RM1.00 nominal value of RHB ICULS-B is surrendered for conversion into one (1) New Share.

Notes

- 1 Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of his indirect substantial interest in Utama Banking Group Berhad ("UBG").
- 2 Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of his indirect substantial interest in the ultimate holding company.

By virtue of his indirect substantial interests in the shares of Rashid Hussain Berhad (RHB), Dato' Vaseehar Hassan Abdul Razack is also deemed to have an indirect substantial interest in the securities of the Bank and all the subsidiaries of RHB to the extent RHB has an interest.

Other than the above, none of the other directors holding office at the end of the financial year had any interest in the securities of the Bank or its related corporations during the financial year.

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Bank has received or become entitled to receive any benefit (other than as disclosed in Note 28 to the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Directors' Report (continued)

DIRECTORS' BENEFITS (CONTINUED)

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

DISCLOSURE OF COMMITTEES

AUDIT COMMITTEE

The Board has an Audit Committee in place since 23 June 1997. The Audit Committee currently comprises four (4) Non-Executive Directors, three (3) of whom are Independent Non-Executive Directors.

During the financial year ended 31 December 2006, a total of 10 meetings were held. The Audit Committee comprises the following members and details of attendance of each member at the Audit Committee meetings held during the year are as follows:

Composition of the Audit Committee	Attendance at the committee meetings
Current Members:	
1. Dato' Mohamed Khadar Merican <i>(Chairman/Independent Non-Executive Director)</i>	10 out of 10 meetings
2. Mr Lew Foon Keong <i>(Member/Independent Non-Executive Director)</i>	9 out of 10 meetings
3. Datin Khamarzan Ahmed Meah <i>(Member/Independent Non-Executive Director)</i> – Appointed as member on 4 April 2006	5 out of 7 meetings
4. Dato' Vaseehar Hassan Abdul Razack <i>(Member/Non-Independent Non-Executive Director)</i> – Resigned as member on 23 January 2007	6 out of 10 meetings

Directors' Report (continued)

DISCLOSURE OF COMMITTEES (CONTINUED)

EXECUTIVE COMMITTEE

The Board has established the Executive Committee since 9 September 1974. The Executive Committee comprises the Chairman of the Bank and two (2) Non-Independent Non-Executive Directors.

During the financial year ended 31 December 2006, a total of 13 meetings were held. The Executive Committee comprises the following members and details of attendance of each member at the Executive Committee meetings held during the year are as follows:

Composition of the Executive Committee	Attendance at the committee meetings
Current Members:	
1. Dato Abdullah Mat Noh <i>(Chairman/Non-Independent Non-Executive Chairman)</i>	13 out of 13 meetings
2. Dato' Vaseehar Hassan Abdul Razack <i>(Member/Non-Independent Non-Executive Director)</i>	13 out of 13 meetings
3. Mr Akira Miyama <i>(Member/Non-Independent Non-Executive Director)</i>	13 out of 13 meetings

Directors' Report (continued)

DISCLOSURE OF COMMITTEES (CONTINUED)

NOMINATING COMMITTEE

The Board has established the Nomination Committee on 7 May 2003 which was renamed as Nominating Committee on 31 July 2003. During the financial year ended 31 December 2006, a total of 6 meetings were held. The Nominating Committee of the Bank comprises the following members and details of attendance of each member of the Nominating Committee meetings held during the year are as follows:

Composition of the Nominating Committee	Attendance at the committee meetings
Current Members:	
1. Dato' Mohamed Khadar Merican <i>(Chairman/Independent Non-Executive Director)</i>	6 out of 6 meetings
2. Dato Abdullah Mat Noh <i>(Member/Non-Independent Non-Executive Chairman)</i>	6 out of 6 meetings
3. Mr Akira Miyama <i>(Member/Non-Independent Non-Executive Director)</i>	6 out of 6 meetings
4. Mr Lew Foon Keong <i>(Member/Non-Independent Non-Executive Director)</i>	5 out of 6 meetings
5. Encik Johari Abdul Muid <i>(Member/Non-Independent Non-Executive Director)</i> – Appointed as member on 23 January 2007	0 out of 0 meetings
6. Dato' Vaseehar Hassan Abdul Razack <i>(Member/Non-Independent Non-Executive Director)</i> – Resigned as member on 23 January 2007	5 out of 6 meetings

The Nominating Committee is responsible in providing a formal and transparent procedure for the appointment as well as assessment of effectiveness of individual directors, the Board and key senior management of the Bank.

Directors' Report (continued)

DISCLOSURE OF COMMITTEES (CONTINUED)

REMUNERATION AND HUMAN RESOURCE COMMITTEE

The Board has established the Human Resource Committee on 31 October 2001 which was renamed as the Remuneration and Human Resource Committee on 31 July 2003. During the financial year ended 31 December 2006, a total of 14 meetings were held. The Remuneration and Human Resource Committee comprises the following members and details of attendance of each member at the Remuneration and Human Resource Committee meetings held during the year are as follows:

Composition of the Remuneration and Human Resource Committee

Attendance at the committee meetings

Current Members:

- | | |
|--|-----------------------|
| 1. Dato' Mohamed Khadar Merican
<i>(Chairman/Independent Non-Executive Director)</i> | 14 out of 14 meetings |
| 2. Dato Abdullah Mat Noh
<i>(Member/Non-Independent Non-Executive Chairman)</i> | 14 out of 14 meetings |
| 3. Mr. Akira Miyama
<i>(Member/Non-Independent Non-Executive Director)</i>
– Appointed as member on 23 January 2007 | 0 out of 0 meetings |
| 4. Dato' Vaseehar Hassan Abdul Razack
<i>(Member/Non-Independent Non-Executive Director)</i>
– Resigned as member on 23 January 2007 | 14 out of 14 meetings |

Directors' Report (continued)

DISCLOSURE OF COMMITTEES (CONTINUED)

RISK MANAGEMENT AT RHB INVESTMENT BANK BERHAD

Risk Management Overview

The Bank's risk governance and processes are structured to ensure that the Group's risks are identified, measured, controlled, monitored and effectively managed in an integrated enterprise-wide risk management framework.

The Bank has established a formal risk governance structure based on the following principles:-

- Authority for all risk-taking activities rests with the Board of Directors and its Group Risk Management Committee, which approves risk management policies, delegates limits and reviews management's assessment of risk in risk-taking activities;
- Clearly defined risk management policies, outline principles and standards, limit escalation procedures and provide measurement guidelines for each category of risk;
- Segregation of responsibilities, control and oversight functions;
- Clearly articulated risk tolerance levels as defined by the Board and regularly reviewed to ensure that risk taking is consistent with its business strategy, capital structure and current or anticipated market conditions;
- Continuous review, analysis and valuation of all risk-taking activities by independent risk management units
- Additional dedicated risk management unit function within each of the Bank's operating subsidiaries.

Directors' Report (continued)

DISCLOSURE OF COMMITTEES (CONTINUED)

RISK MANAGEMENT AT RHB INVESTMENT BANK BERHAD (CONTINUED)

Group Risk Management Committee

The Board of Directors has delegated the risk oversight function to the Group Risk Management Committee ("GRMC") to assist the Board in its supervisory role on the management of the Bank's overall risk in an integrated manner. The day-to-day risk oversight function is performed by the Group Risk Management Department ("GRMD"). The GRMD is answerable to the GRMC and is responsible for ensuring that sound risk management policies and procedures are developed and implemented.

The management committees of the Bank that provide an executive forum for discussions and decisions on specific areas are:-

- The Underwriting and Credit Committee that oversees the credit risk management
- The Asset and Liability Committee that provides strategic direction for the management of market risk, interest rate risk and liquidity risk
- The Information Technology Steering Committee that oversees the development and maintenance of the Information Technology strategic plan and operational risk.

Terms of Reference of the Group Risk Management Committee

Objective

To provide oversight and management of all risks in the Group, and to ensure that the risk management process is in place and functioning, and that there is an on-going process to continuously manage the Bank's risks proactively. The financial risk management objectives and policies are disclosed in Note 39 of the financial statements.

Directors' Report (continued)

DISCLOSURE OF COMMITTEES (CONTINUED)

RISK MANAGEMENT AT RHB INVESTMENT BANK BERHAD (CONTINUED)

Terms of Reference of the Group Risk Management Committee (continued)

Duties and Responsibilities

1. To review, assess and recommend strategies, policies and risk tolerance relating to the management of the Group's risk for Board's approval.
2. To ensure that the risk policies and procedures of the Group are aligned to the business strategies and risk return directions of the Board.
3. To review, assess and ensure, through the GRMD, that there is adequate framework for risk identification, risk measurement, risk monitoring and control, and the extent to which these are operating effectively.
4. To ensure that infrastructure, resources and systems are in place for risk management i.e. ensuring that the staff responsible for implementing risk management systems performs those duties independently of Group's risk taking activities.
5. To ensure that there is a consistent risk management standard and practices, and a co-ordinated process of making and managing risk on an independent Group's wide risk management framework.
6. To keep the Board informed of the Group's risk profile. The GRMC shall hold regular meetings, at least once a month, and shall report regularly to the Board.
7. To review and report to the Board, management's periodic reports on risk exposures, risk portfolio composition, risk management activities, and overall bank-wide risks under stress scenario.

Directors' Report (continued)

DISCLOSURE OF COMMITTEES (CONTINUED)

Composition

The GRMC shall comprise only non-executive directors with at least three (3) members, and shall be chaired by an independent director.

During the financial year ended 31 December 2006, a total of 8 meetings were held. The GRMC comprises the following members and details of attendance of each member at the committee meetings held during the year are as follows:

Composition of GRMC	Attendance at the committee meetings
<i>Current Members:</i>	
1. Datin Khamarzan Ahmed Meah <i>(Chairperson/Independent Non-Executive Director)</i> – Appointed as member on 28 July 2006	3 out of 3 meetings
2. Dato' Mohamed Khadar Merican <i>(Member/Independent Non-Executive Director)</i> – Step down as Chairman and appointed as member on 28 July 2006	8 out of 8 meetings
3. Dato Abdullah Mat Noh <i>(Member/Non-Independent Non-Executive Chairman)</i>	8 out of 8 meetings
4. Dato' Vaseehar Hassan Abdul Razack <i>(Member/Non-Independent Non-Executive Director)</i> – Resigned as member on 23 January 2007	5 out of 8 meetings

Directors' Report (continued)

HOLDING AND ULTIMATE HOLDING COMPANY

The directors regard RHB Capital Berhad and Rashid Hussain Berhad, both companies incorporated in Malaysia, as the holding and ultimate holding company, respectively.

By virtue of being a subsidiary of RHB Capital Berhad and Rashid Hussain Berhad, the Bank is deemed related to parties related to RHB Capital Berhad and Rashid Hussain Berhad. The related parties of RHB Capital Berhad and Rashid Hussain Berhad are disclosed in the respective financial statements of those companies.

BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 AND OUTLOOK FOR 2007

Year 2006 was another vital year for the Malaysian capital markets that was primarily driven by an increase in mergers & acquisitions (M&A) activities and debt market issuances. The Bank capitalised on the vigour of the capital markets by increasing its market share in M&A and Islamic debt securities mandates for the financial year ended 31 December 2006.

In the same period, the Bank was also focused on rationalising its securities and futures businesses with its merchant bank to form an investment bank. This exercise was successfully completed and since 30 December 2006, the Bank has been operating as a fully integrated investment bank.

For the year 2007, the creation of investment banking groups is expected to stimulate competition and together with further enhancement in product innovation will lead to greater dynamism in the investment banking industry. Whilst the economy is experiencing some slowdown in the immediate term, growth is likely to gain momentum in the second half year with a bullish undertone for the equity market for 2007. Under these circumstances, the Bank shall continue to intensify efforts to enhance its fee and non-interest income in 2007.

Directors' Report (continued)

RATING BY AGENCY

The Rating Agency Malaysia Berhad in December 2005 reaffirmed the Bank's long term rating of A2 and its short term rating of P1.

A Financial institutions rated in this category are adjudged to offer adequate safety for timely payments of financial obligations. This level of rating indicates corporate entities with adequate credit profiles, but which possess one or more areas, giving rise to the possibility of future riskiness. Entities rated in this category have generally performed at industry average and are considered to be more vulnerable to changes in economic conditions than those rated in the higher categories.

P1 Financial institutions in this category have superior capacities for timely payments of obligations.

For long term ratings, RAM applies subscripts 1, 2 or 3 in each rating category from AA to C. The subscript 1 indicates that the financial institution ranks at the higher end of its generic rating category; the subscript 2 indicates a mid-ranking; and the subscript 3 indicates that the financial institution ranks at the lower end of its generic rating category.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 5 March 2007.

DATO ABDULLAH MAT NOH
CHAIRMAN

DATO' MOHAMED KHADAR MERICAN
DIRECTOR

Balance Sheet

as at 31 December 2006

	Note	Group		Bank	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
ASSETS					
Cash and short term funds	2	1,111,241	652,329	1,085,102	637,238
Securities purchased under resale agreements		165,304	85,482	152,454	77,418
Deposits and placements with banks and other financial institutions	3	443,620	101,921	443,620	101,921
Securities held-for-trading	4	3,169,990	1,567,910	3,164,443	1,563,881
Securities available-for-sale ('AFS')	5	449,496	157,441	449,496	157,441
Securities held-to-maturity	6	338,016	337,721	338,016	337,721
Loans and advances	7	651,283	724,647	651,283	724,647
Clients' and brokers' balances	8	177,027	162,220	177,027	162,220
Other assets	9	74,516	35,118	52,106	26,169
Amount due from holding company	10	–	205,180	–	61,332
Amount due from subsidiaries	11	–	–	327	54,816
Deferred tax assets	12	3,087	7,021	2,921	6,939
Tax recoverable		33,793	15,923	35,197	17,060
Statutory deposit with Bank Negara Malaysia	13	69,206	76,606	69,206	76,606
Investments in subsidiaries	14	–	–	38,172	111,590
Property, plant and equipment	15	19,028	15,363	16,106	13,596
Goodwill	16	172,844	172,844	159,280	159,280
TOTAL ASSETS		6,878,451	4,317,726	6,834,756	4,289,875

Balance Sheets

31 December 2006 (continued)

	Note	Group		Bank	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
LIABILITIES AND SHAREHOLDER'S EQUITY					
Deposits from customers	17	1,862,853	1,252,417	1,862,853	1,252,417
Deposits and placements of banks and other financial institutions	18	1,953,124	1,003,680	1,953,124	1,003,680
Obligations on securities sold under repurchase agreements		1,809,837	822,378	1,809,837	822,378
Clients' and brokers' balances	19	251,372	198,490	251,372	196,927
Other liabilities	20	107,296	70,650	75,464	57,097
Taxation		5,366	3,445	5,328	3,384
Deferred tax liabilities	12	13,602	209	13,597	186
Subordinated debt	21	165,000	165,000	165,000	165,000
TOTAL LIABILITIES		6,168,450	3,516,269	6,136,575	3,501,069
Share capital	22	338,646	338,646	338,646	338,646
Reserves	23	371,355	462,811	359,535	450,160
SHAREHOLDER'S EQUITY		710,001	801,457	698,181	788,806
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		6,878,451	4,317,726	6,834,756	4,289,875
COMMITMENTS AND CONTINGENCIES	35	6,731,183	5,750,425	6,731,183	5,750,425

Income Statement

for the financial year ended 31 December 2006

	Note	Group		Bank	
		Year ended	Year ended	Year ended	Year ended
		31.12.2006 RM'000	31.12.2005 RM'000	31.12.2006 RM'000	31.12.2005 RM'000
Interest income	24	202,728	158,537	201,644	157,449
Interest expense	25	(154,155)	(109,277)	(154,154)	(109,277)
Net interest income		48,573	49,260	47,490	48,172
Other operating income	26	194,754	225,807	250,910	200,263
		243,327	275,067	298,400	248,435
Other operating expenses	27	(121,321)	(125,501)	(91,436)	(99,949)
Operating profit before allowances		122,006	149,566	206,964	148,486
Allowances for losses on loans and other losses	29	(41,786)	(41,336)	(42,905)	(41,336)
Allowances for impairment loss	30	–	(73)	(82,400)	(6,781)
Profit before taxation		80,220	108,157	81,659	100,369
Taxation	31	(15,491)	(29,252)	(16,088)	(27,035)
Profit after taxation		64,729	78,905	65,571	73,334
Basic earnings per share (sen)	32	19.1	23.3	19.4	21.7

Statement of Changes in Shareholder's Equity

for the financial year ended 31 December 2006

	Note	Share capital RM'000	Statutory reserve RM'000	Revaluation reserve RM'000	Translation reserve RM'000	Retained profits RM'000	Total RM'000
Group							
Balance as at 31.12.2005		338,646	239,009	(9,165)	58	232,909	801,457
Currency translation differences		-	-	-	11	-	11
Unrealised gain arising in fair value of AFS securities		-	-	78,411	-	-	78,411
AFS reserve realised on disposal		-	-	(23,705)	-	-	(23,705)
AFS reserve realised on impairment		-	-	-	-	-	-
Deferred tax		-	-	(15,318)	-	-	(15,318)
Income and expense recognised directly in equity		-	-	39,388	11	-	39,399
Net profit for the financial year		-	-	-	-	64,729	64,729
Total recognised income and expenses for the financial year		-	-	39,388	11	64,729	104,128
Transfer to statutory reserve		-	16,393	-	-	(16,393)	-
Dividend for the financial year ended 31.12.2005	33	-	-	-	-	(53,642)	(53,642)
Special dividend for the year ended 31.12.2006	33	-	-	-	-	(141,942)	(141,942)
Balance as at 31.12.2006		338,646	255,402	30,223	69	85,661	710,001

Statement of Changes in Shareholder's Equity

for the financial year ended 31 December 2006 (continued)

Note	Share capital RM'000	Statutory reserve RM'000	Revaluation reserve RM'000	Translation reserve RM'000	Retained profits RM'000	Total RM'000
Balance as at 31.12.2004	338,646	220,770	3,825	98	269,773	833,112
Currency translation differences	-	-	-	(40)	-	(40)
Unrealised loss arising in fair value of AFS securities	-	-	(3,997)	-	-	(3,997)
AFS reserve realised on disposal	-	-	(14,442)	-	-	(14,442)
AFS reserve realised on impairment	-	-	397	-	-	397
Deferred tax	-	-	5,052	-	-	5,052
Income and expenses recognised directly in equity	-	-	(12,990)	(40)	-	(13,030)
Net profit for the financial year	-	-	-	-	78,905	78,905
Total recognised income and expenses for the financial year	-	-	(12,990)	(40)	78,905	65,875
Dividend for the financial year ended 31.12.2004	33	-	-	-	(97,530)	(97,530)
Transfer to statutory reserve	-	18,239	-	-	(18,239)	-
Balance as at 31.12.2005	338,646	239,009	(9,165)	58	232,909	801,457

Statement of Changes in Shareholder's Equity

for the financial year ended 31 December 2006 (continued)

	Note	Share capital RM'000	Statutory reserve RM'000	Revaluation reserve RM'000	Retained profits RM'000	Total RM'000
Bank						
Balance as at 31.12.2005		338,646	239,009	(9,165)	220,316	788,806
Unrealised gain arising in fair value of AFS securities		-	-	78,411	-	78,411
AFS reserve realised on disposal		-	-	(23,705)	-	(23,705)
AFS reserve realised on impairment		-	-	-	-	-
Deferred tax		-	-	(15,318)	-	(15,318)
Income and expense recognised directly in equity		-	-	39,388	-	39,388
Net profit for the financial year		-	-	-	65,571	65,571
Total recognised income and expenses for the financial year		-	-	39,388	65,571	104,959
Transfer to statutory reserve		-	16,393	-	(16,393)	-
Dividend for the financial year ended 31.12.2005	33	-	-	-	(53,642)	(53,642)
Special dividend for the year ended 31.12.2006	33	-	-	-	(141,942)	(141,942)
Balance as at 31.12.2006		338,646	255,402	30,223	73,910	698,181

Statement of Changes in Shareholder's Equity

for the financial year ended 31 December 2006 (continued)

Note	Share capital RM'000	Statutory reserve RM'000	Revaluation reserve RM'000	Retained profits RM'000	Total RM'000
Balance as at 31.12.2004	338,646	220,770	3,825	262,751	825,992
Unrealised loss arising in fair value of AFS securities	-	-	(3,997)	-	(3,997)
AFS reserve realised on disposal	-	-	(14,442)	-	(14,442)
AFS reserve realised on impairment	-	-	397	-	397
Deferred tax	-	-	5,052	-	5,052
Income and expense recognised directly in equity	-	-	(12,990)	-	(12,990)
Net profit for the financial year	-	-	-	73,334	73,334
Total recognised income and expenses for the financial year	-	-	(12,990)	73,334	60,344
Dividend for the financial year ended 30.12.2004	33	-	-	(97,530)	(97,530)
Transfer to statutory reserve	-	18,239	-	(18,239)	-
Balance as at 31.12.2005	338,646	239,009	(9,165)	220,316	788,806

Cash Flow Statements

for the financial year ended 31 December 2006

Note	Group		Bank	
	Year ended	Year ended	Year ended	Year ended
	31.12.2006 RM'000	31.12.2005 RM'000	31.12.2006 RM'000	31.12.2005 RM'000
OPERATING ACTIVITIES				
Profit before taxation	80,220	108,157	81,659	100,369
Adjustments for items not involving movements of cash and cash equivalents:				
Property, plant and equipment				
– depreciation	8,070	6,005	7,324	5,248
– written off	20	63	20	58
– gain on disposal	(206)	(249)	(181)	(161)
Accretion of discount less amortisation of premium	(8,596)	(3,467)	(8,596)	(3,467)
Allowances for losses on loans	44,164	42,343	44,164	42,343
Allowances for other losses	(1,356)	5,626	(237)	5,626
Bad debts written off	5	117	5	117
Interest suspended	177	2,640	177	2,640
Allowances for impairment loss	–	73	82,400	6,781
Interest income from securities held-to-maturity	(9,138)	(18,970)	(9,138)	(18,970)
Other income from securities held-to-maturity	(3,636)	(3,636)	(3,636)	(3,636)
Gain from early redemption of securities held-to-maturity	(2,128)	(13,192)	(2,128)	(13,192)
Gross dividend income	(3,623)	(809)	(3,623)	(809)
Dividend income from subsidiaries	–	–	(9,647)	(7,000)
Unrealised (gain)/loss on revaluation of securities held for trading	(25,047)	(4,045)	(25,047)	(4,045)
Unrealised loss/(gain) on revaluation of derivatives	13,313	(1,086)	13,313	(1,086)
Operating profit before working capital changes	92,239	119,570	166,829	110,816

Cash Flow Statements

for the financial year ended 31 December 2006 (continued)

	Group		Bank	
	Year ended	Year ended	Year ended	Year ended
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Note	RM'000	RM'000	RM'000	RM'000
(Increase)/Decrease in operating assets:				
Securities purchased under resale agreements	(79,822)	63,361	(75,036)	58,137
Deposits and placements with banks and other financial institutions	(341,699)	(101,921)	(341,699)	(101,921)
Securities held-for-trading	(1,577,033)	(842,808)	(1,575,515)	(847,112)
Securities available-for-sale	(237,349)	557,255	(237,349)	559,720
Loans and advances	29,023	106,592	29,023	106,592
Clients' and brokers' balances	(13,139)	35,742	(13,139)	35,742
Other assets	171,040	(6,894)	89,289	(4,952)
Statutory deposit with Bank Negara Malaysia	7,400	12,950	7,400	12,950
Increase/(Decrease) in operating liabilities:				
Deposits from customers	610,436	(117,598)	610,436	(117,598)
Deposits and placements of banks and other financial institutions	949,444	(139,524)	949,444	(139,524)
Obligations on securities sold under repurchase agreements	987,459	225,071	987,459	225,071
Clients' and brokers' balances	52,882	(99,043)	54,445	(94,209)
Other liabilities	25,200	(20,560)	6,921	(2,719)
Cash generated from/ (used in) operations	583,842	(327,377)	491,679	(309,823)
Tax paid	(9,787)	(9,045)	(7,932)	(5,138)
Tax recovered	–	697	–	–
Net cash generated from/ (used in) operating activities	574,055	(335,725)	483,747	(314,961)

Cash Flow Statements

for the financial year ended 31 December 2006 (continued)

Note	Group		Bank	
	Year ended	Year ended	Year ended	Year ended
	31.12.2006 RM'000	31.12.2005 RM'000	31.12.2006 RM'000	31.12.2005 RM'000
INVESTING ACTIVITIES				
Proceeds from sale net of purchase of securities held-to-maturity	10,429	110,482	10,429	110,482
Other income from securities held-to-maturity	(14,994)	(14,994)	(14,994)	(14,994)
Interest received from securities held-to-maturity	1,707	21,645	1,707	21,645
Purchase of property, plant and equipment	(11,757)	(4,950)	(9,855)	(3,911)
Proceeds from sale of property, plant and equipment	208	301	182	186
Dividend income received	2,609	583	2,609	583
Dividend income received from subsidiaries	–	–	7,053	5,040
Dividend received from a subsidiary (from its pre-acquisition earnings)	–	–	9,041	–
Subscription of shares in a subsidiary	–	–	(13,300)	–
Net cash (used in)/generated from investing activities	(11,798)	113,067	(7,128)	119,031

Cash Flow Statements

for the financial year ended 31 December 2006 (continued)

Note	Group		Bank	
	Year ended 31.12.2006 RM'000	Year ended 31.12.2005 RM'000	Year ended 31.12.2006 RM'000	Year ended 31.12.2005 RM'000
FINANCING ACTIVITIES				
Repayment of borrowings	–	(5,001)	–	(5,001)
Dividends paid to shareholder	(195,584)	(97,530)	(195,584)	(97,530)
Net cash used in financing activities	(195,584)	(102,531)	(195,584)	(102,531)
Net increase/(decrease) in cash and short-term funds	458,912	(205,619)	447,864	(187,645)
Cash and cash equivalents at beginning of the financial year	652,329	857,948	637,238	824,883
Cash and cash equivalents at end of the financial year	1,111,241	652,329	1,085,102	637,238
ANALYSIS OF CASH AND CASH EQUIVALENTS:				
Cash and short-term funds	2 1,111,241	652,329	2 1,085,102	637,238

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements except as disclosed below:

1 Basis of preparation of the financial statements

The financial statements of the Group and the Bank have been prepared under the historical cost convention except as disclosed in the summary of significant accounting policies and are in accordance with Financial Reporting Standards ('FRS'), the Malaysian Accounting Standards Board ('MASB') approved accounting standards in Malaysia for entities other than private entities, together with directives and guidelines issued by Bank Negara Malaysia ('BNM') and comply with the provisions of the Companies Act, 1965.

- (a) During the financial year, the Bank, its stockbroking and futures broking subsidiaries obtained a vesting order from the High Court of Malaya for the transfer of business operations and net assets of RHB Excel Sdn Bhd (formerly known as RHB Securities Sdn Bhd) ('RHB Excel') and RHB Progressive Sdn Bhd (formerly known as RHB Futures Sdn Bhd) ('RHB Progressive') to the Bank. This transfer of business and net assets has been accounted for using merger method of accounting and as such, the Bank's financial results and position have been presented as if the transfer of net assets has been in effect since the previous financial years. The details of assets and liabilities transferred are disclosed in Note 41 (a).
- (b) The comparatives have been restated to reflect the merger method of accounting adopted.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation of the financial statements (continued)

The preparation of financial statements in conformity with the provisions of the Companies Act, 1965, FRS, the MASB approved accounting standards in Malaysia for entities other than private entities and BNM's guidelines requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported year. It also requires directors to exercise their judgement in the process of applying the Bank's accounting policies. Although these estimates are based on the directors' best knowledge of current events and actions, actual results may differ from estimates.

Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement and complexity are disclosed in section B.

During the financial year, the Group and the Bank adopted the following new and revised FRS issued by MASB that are relevant and effective for financial statements commencing 1 January 2006:

- FRS 3 Business Combinations
- FRS 5 Non-current Assets Held for Sale and Discontinued Operations
- FRS 101 Presentation of Financial Statements
- FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors
- FRS 110 Events after the Balance Sheet Date
- FRS 116 Property, Plant and Equipment
- FRS 121 The Effects of Changes in Foreign Exchange Rates
- FRS 127 Consolidated and Separate Financial Statements
- FRS 128 Investments in Associates
- FRS 132 Financial Instruments: Disclosure and Presentation
- FRS 133 Earnings Per Share
- FRS 136 Impairment of Assets
- FRS 138 Intangible Assets

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation of the financial statements (continued)

All changes in accounting policies have been made in accordance with the transition provisions in the respective standards and amendments to published standards. All standards and amendments adopted by the Group and the Bank require retrospective application other than the following:

- FRS 3 Prospectively for business combinations for which the agreement date is or on after 1 January 2006
- FRS 5 Prospectively to non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and to operations that meet the criteria to be classified as continued on/after 1 April 2006
- FRS 116 The exchange of property, plant and equipment is accounted at fair value prospectively
- FRS 121 Prospective accounting for goodwill and fair value adjustments as part of foreign operations

The adoption of the above new FRS and other interpretations do not have any significant financial impact on the results of the Group and the Bank other than the effect of restatement of the comparative figures as disclosed in Note 42 to the financial statements.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation of the financial statements (continued)

The new standards, amendments to published standards and interpretations that are mandatory for the Group and the Bank's financial periods beginning on or after 1 January 2007 or later periods, but which the Group and the Bank have not adopted earlier, are as follows:

- * FRS 124 Related Party Disclosures (effective for accounting periods beginning on or after 1 October 2006). This standard will affect the identification of related parties and some other related party disclosures.
- * FRS 139 Financial Instrument: Recognition and Measurement (effective date yet to be determined by Malaysian Accounting Standard Board). This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Group and the Bank will apply this standard when effective. Nevertheless, the accounting policies of the Group incorporate revised BNM/GP8 which includes selected principles of FRS 139.

2 Basis of consolidation

Subsidiaries

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries made up to the end of the financial year.

Subsidiaries are consolidated using the purchase method of accounting except for business combinations involving entities or businesses under common control with agreement dates on/after 1 January 2006 which, the merger method of accounting were used.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2 Basis of consolidation (continued)

Subsidiaries (continued)

Under the merger method of accounting, the results of businesses merged are presented as if the merger had been effected throughout the current and previous years. The assets and liabilities are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer.

Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. The cost of an acquisition is measured as fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, the excess of the cost of acquisition over the fair value is reflected as goodwill. See the accounting policy Note 4 on goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

All material inter-company and intra-group transactions and balances are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

The gain or loss on disposal of a subsidiary is the difference between the net disposal proceeds and the Group's share of its net assets together with the goodwill on acquisition is recognised in the consolidated income statement.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3 Investments in subsidiaries

Subsidiaries are those corporations or other entities in which the Group has the power to exercise control over the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than one half of the voting rights.

Investments in subsidiaries are stated at cost less any impairment loss. At each balance sheet date, the Bank assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount. See accounting policy Note 17 on impairment of non-financial assets.

4 Goodwill

Goodwill arising on consolidation represents the excess of the purchase price over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of subsidiaries at the date of acquisition.

Goodwill is retained in the consolidated balance sheet and is stated at cost less any impairment loss and is tested at least annually for impairment. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ('CGU') for the purpose of impairment testing. The allocation is made to those CGU or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose. See accounting policy Note 17 on impairment of non-financial assets.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5 Securities

The Group and the Bank classify its securities portfolio into the following categories: securities held-for-trading, securities held-to-maturity or securities available-for-sale. Classification of the securities is determined at initial recognition.

(a) Securities held-for-trading

Securities are classified as held-for-trading if it is acquired principally for the purpose of selling or repurchasing in the near term or is part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Securities held-for-trading are stated at fair value at initial recognition. Any gain or loss arising from a change in the fair value or arising from derecognition of such securities is recognised in the income statement.

Interest calculated using the effective interest method is recognised in the income statement.

(b) Securities held-to-maturity

Securities held-to-maturity are securities with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. Securities held-to-maturity are measured at fair value at initial recognition and then at amortised cost using the effective interest method. Any gain or loss is recognised in the income statement when the securities are derecognised or impaired and through the amortisation process.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Securities available-for-sale

Securities available-for-sale are securities that are not classified as held-for-trading or held-to-maturity. Securities available-for-sale are measured at fair value at initial recognition. Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost. Any gain or loss arising from a change in fair value is recognised directly in equity through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses. Until the financial assets are derecognised, at which time the cumulative gain or loss previously recognised in equity shall be transferred to the income statement.

Interest calculated using the effective interest method is recognised in the income statement.

Dividends on available-for sale equity instruments are recognised in the income statement when the right to receive payment has been established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair values using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

6 Receivables

Receivables are carried at anticipated realisable values. An estimate is made for doubtful debts based on the review of all outstanding amounts at the end of the financial year. Bad debts are written off during the financial year in which they are identified.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7 Repurchase agreements

Securities purchased under resale agreements are securities which the Group has purchased with a commitment to resell at a future date. The commitment to resell the securities is reflected as an asset on the balance sheet.

Conversely, obligations on securities sold under repurchase agreements are securities which the Group has sold from its portfolio, with a commitment to repurchase at a future date. Such financing and the obligation to repurchase the securities is reflected as a liability on the balance sheet.

8 Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated to write down the costs of the property, plant and equipment on a straight line basis over their estimated useful lives of the assets concerned. The principal annual depreciation rates are as follows:

Renovations	10%
Computer equipment and software	20% to 33 $\frac{1}{3}$ %
Furniture, fittings and equipment	20%
Motor vehicles	20%

Depreciation on property, plant and equipment under work-in-progress commences when the assets are ready for their intended use.

Gains or losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8 Property, plant and equipment and depreciation (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each balance sheet date.

At each balance sheet date, the Group assess whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is written down immediately to its recoverable amount. See accounting policy Note 17 on impairment of non-financial assets.

9 Derivative financial instruments and hedge accounting

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

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

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9 Derivative financial instruments and hedge accounting (continued)

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

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

(a) Fair value hedge

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

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to income statement over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9 Derivative financial instruments and hedge accounting (continued)

(b) Cash flow hedge

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

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Derivatives that do not qualify for hedge accounting

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

10 Operating lease

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10 Operating lease (continued)

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

11 Other provisions

Provisions are recognised when all the following conditions have been met:

- (i) the Group has a present legal or constructive obligation as a result of past events;
- (ii) it is probable that an outflow of resources will be required to settle the obligation; and
- (iii) a reliable estimate of the amount can be made.

12 Borrowings

Borrowings are initially recognised based on the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

13 Contingent liabilities and contingent assets

The Group does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group 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.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

13 Contingent liabilities and contingent assets (continued)

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

14 Income recognition

- (a) Interest income is recognised on accruals basis.

Where a loan becomes non-performing, interest accrued and recognised as income prior to the date the loans are classified as non-performing are reversed out of the income statement and set off against the accrued interest receivable account in the balance sheet. Subsequently, the interest earned on the non-performing loans shall be recognised as income on cash basis.

- (b) Interest income from margin financing, clients' overdue outstanding purchases and contra losses are recognised on an accrual basis and where an account is classified as non-performing, recognition of interest income is suspended until it is realised on a cash basis. The stockbroking's policy of classifying an account as non-performing conforms with the requirements of Chapter 11, Schedule 7, Rule 1104.1 laid down in the Rules of the Bursa Malaysia Securities Berhad.
- (c) Loan arrangement, management and participation fees, acceptance and underwriting commissions are recognised as income when all conditions precedent are fulfilled.
- (d) Brokerage is recognised when contracts are executed.
- (e) Guarantee fees are recognised as income upon issuance of guarantees.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14 Income recognition (continued)

- (f) Commitment fees are recognised as income based on time apportionment.
- (g) Corporate advisory fees are recognised as income on completion of each stage of the engagement and issuance of invoice.
- (h) Management fees of the unit trust management company are recognised on accruals basis. Sales value of trust units is recognised on the approval of a unitholder's application. Value from the cancellation of trust units is recognised upon approval of the trustee.
- (i) Dividends from all investments are recognised when the shareholders' right to receive payment is established.

15 Allowance for non-performing debts

Specific allowances are made for non-performing debts which have been individually reviewed and specifically identified as bad, doubtful or substandard.

A general allowance for banking operations based on a percentage of the loan portfolio is also made to cover possible losses which are not specifically identified. A general allowance for securities operations is made based on a percentage of the total amounts due from clients after deducting the amount of interest-in-suspense and specific allowance for bad and doubtful debts. These percentages are reviewed annually in the light of past experience and prevailing circumstances and an adjustment is made on the overall general allowance, if necessary.

An uncollectible loan or portion of a loan classified as bad is written off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15 Allowance for non-performing debts (continued)

The Group's allowance for non-performing debts is in conformity with the minimum requirements of BNM's guidelines on the Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts ('BNM/GP3'), which is deemed as in conformity with the requirement on the allowance for loan impairment under the Revised Guidelines on Financial Reporting for Licensed Institutions ('BNM/GP8').

The policy of stockbroking operations classifying an account as a non-performing debt is in conformity with the requirements of Chapter 11, Schedule 7, Rule 1104.1 of Rules of the Bursa Malaysia Securities Berhad ('Bursa Securities').

16 Employee benefits

(a) Short term employee benefits

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

(b) Defined contribution plans

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

(c) Termination benefits

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

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

17 Impairment of non-financial assets

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

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows/cash-generating units ('CGU'). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the income statement. Impairment losses on goodwill are not reversed. In respect of the other assets, any subsequent increase in recoverable amount is recognised in the income statement.

18 Impairment of securities

The Group assesses at each balance sheet date whether there is objective evidence that a security is impaired. A security is impaired and impairment loss are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the securities that can be reliably estimated.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

18 Impairment of securities (continued)

(a) Securities carried at amortised cost

If there is objective evidence that an impairment loss on securities held-to-maturity carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a security held-to-maturity has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(b) Securities carried at fair value

In the case of securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised, is removed from equity and recognised in the income statement. Impairment loss recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as securities available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

19 Income taxes

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group operates and include all taxes based upon the taxable profits, including withholding taxes payable by foreign subsidiaries and arising from distributions of retained earnings to companies in the Group, and real property gains taxes payable on disposal of properties.

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

Tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax.

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

Deferred tax is recognised on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference will not reverse in the foreseeable future.

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

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

20 Currency conversion and translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

21 Dividends

Dividends on ordinary shares are recognised as liabilities when shareholders' right to receive the dividends are established.

22 Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances and short term deposits, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the cash flow statements, cash and cash equivalents are presented net of bank overdrafts.

Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006 (continued)

(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group and the Bank make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Allowance for losses on loans and advances

The Bank makes allowances for losses based on assessment of recoverability which is guided by the relevant BNM guidelines.

(b) Impairment of goodwill

The Group performs an impairment review on an annual basis to ensure that the carrying value of the goodwill does not exceed its recoverable amount from the CGU to which the goodwill is allocated. The recoverable amount represents the present value of the estimated future cash flows expected to arise from continuing operations. Therefore, in arriving at the recoverable amount, management exercise judgement in estimating the future cash flows, growth rate and discount rate.

If the estimated pre-tax discount rate applied to the discounted cash flows has been 5% higher than management's estimates, there will not be any allowance for goodwill impairment.

If the projected cash flows had been 5% lower than the management's estimates, there will not be any allowance for goodwill impairment.

Notes to the Financial Statements

for the financial year ended 31 December 2006

1 GENERAL INFORMATION

RHB Investment Bank Berhad is a public limited company, incorporated and domiciled in Malaysia.

On 10 October 2006, the Bank changed its name from RHB Sakura Merchant Bankers Berhad to RHB Investment Bank Berhad.

The principal activities of the Bank includes merchant banking business, dealing in securities, stock, debt and derivatives, stock-broking business and the business of brokers and dealers in futures and option contracts. The principal activities of the Group consist of merchant banking business, dealing in securities, stock, debt and derivatives, stock-broking business and the business of brokers and dealers in futures and options contracts, unit trust management, asset management, research services and provision of nominee services.

There have been no significant changes in these principal activities during the financial year.

The number of employees at end of the financial year was 609 (2005: 642) in the Group and 486 (2005: 514) in the Bank.

The directors regard RHB Capital Berhad and Rashid Hussain Berhad, both companies incorporated in Malaysia as the holding company and ultimate holding company respectively.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

2 CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	52,882	28,531	34,147	15,068
Money at call and deposit placements maturing within one month	1,058,359	623,798	1,050,955	622,170
	1,111,241	652,329	1,085,102	637,238

Included in cash and balances with banks and other financial institutions of the Group and the Bank are trust accounts totalling RM6,628,000 (2005: RM7,625,000) maintained by the stockbroking and futures broking divisions in trust for clients.

Included in money at call and deposit placements of the Group and the Bank are trust accounts totalling RM91,974,000 (2005: RM49,454,000) held by stockbroking and futures broking divisions in trust for clients and remisiers.

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2006	2005
	RM'000	RM'000
Licensed banks	443,620	101,921

Included in deposits and placements of the Group and the Bank is RM120,000 (2005: RM120,000) pledged to a licensed bank concerned as collateral for facility granted to its stockbroking division.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

4 SECURITIES HELD-FOR-TRADING

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
At fair value				
Money market instruments:				
Khazanah bonds	219,268	77,970	219,268	77,970
Bank Negara bills	172,665	–	172,665	–
Government investment issue	271,404	–	271,404	–
Malaysian Government securities	50,013	–	50,013	–
Malaysia Government treasury bills	–	846	–	846
Bankers' acceptances	687,916	743,290	687,916	743,290
Negotiable instruments of deposits	955,019	59,994	955,019	59,994
Private debt securities	808,158	681,781	808,158	681,781
Quoted securities:				
In Malaysia				
Unit trust	5,547	4,029	–	–
	3,169,990	1,567,910	3,164,443	1,563,881

5 SECURITIES AVAILABLE-FOR-SALE

	Group and Bank	
	2006 RM'000	2005 RM'000
At fair value		
Money market instruments:		
Private debt securities	427,981	138,430
Quoted securities:		
In Malaysia		
Shares	10,105	12,378
Private debt securities	9,210	4,433
Unquoted securities:		
In Malaysia		
Shares	2,200	2,200
	449,496	157,441

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

6 SECURITIES HELD-TO-MATURITY

	Group and Bank	
	2006	2005
	RM'000	RM'000
At amortised cost		
Money market instruments:		
Malaysian Government securities	54,742	54,985
Khazanah bonds	51,926	49,922
Prasarana bonds	98,232	97,941
Private debt securities	196,853	198,610
Unquoted securities:		
In Malaysia		
Shares	2,200	2,200
Bonds	23	23
	403,976	403,681
Accumulated impairment losses	(65,960)	(65,960)
	338,016	337,721

Included in unquoted shares is RM1,000,000 (2005: RM1,000,000) of a third party redeemable preference shares with a nominal value of RM1.00 each which were charged to a third party as part of a financing transaction facilitated by the Bank.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

7 LOANS AND ADVANCES

	Group and Bank	
	2006	2005
	RM'000	RM'000
(i) By type:		
Term loans	388,192	394,954
Claims on customers under acceptance credits	23,202	20,272
Revolving credits	236,756	274,837
Margin financing	102,795	91,048
Staff loans	7,284	7,995
	758,229	789,106
Unearned interest	(56)	(79)
Gross loans and advances	758,173	789,027
Allowance for bad and doubtful debts		
– specific	(96,458)	(52,324)
– general	(10,432)	(12,056)
Net loans and advances	651,283	724,647
(ii) By purpose:		
Purchase of securities	205,598	233,813
Purchase of transport vehicles	3,307	2,989
Purchase of landed property	3,889	4,911
Purchase of non-residential property	21,045	30,472
Purchase of fixed assets other than land & building	88,560	90,617
Personal use	88	15,911
Construction	67,052	16,659
Working capital	280,360	312,572
Others	88,274	81,083
	758,173	789,027

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

7 LOANS AND ADVANCES (CONTINUED)

	Group and Bank	
	2006 RM'000	2005 RM'000
(iii) By type of customer:		
Domestic business enterprises		
– small medium enterprise	55	150
– others	671,497	698,180
Individuals	84,487	88,774
Foreign entities	2,134	1,923
	758,173	789,027
(iv) By interest/profit rate sensitivity:		
Fixed rate		
Other fixed rate loans	10,103	12,209
Variable rate		
Cost plus	645,275	685,770
Other variable rates	102,795	91,048
	758,173	789,027
(v) Movements in the non-performing loans are as follows:		
Balance as at beginning of the financial year	187,360	253,711
Classified as non-performing during the financial year	20,908	54,276
Amount converted to securities	–	(416)
Amount recovered	(9,799)	(47,745)
Amount written off	(1,655)	(72,466)
Balance as at end of the financial year	196,814	187,360
Specific allowance on non-performing loans	(96,458)	(52,197)
Net non-performing loans	100,356	135,163
Ratio of net non-performing loans to net loans	15.17%	18.34%

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

7 LOANS AND ADVANCES (CONTINUED)

	Group and Bank	
	2006	2005
	RM'000	RM'000
(vi) Movements in the allowances for bad and doubtful debts are as follows:		
General allowance		
Balance as at beginning of the financial year	12,056	15,209
Written back during the year	(1,624)	(3,153)
Balance as at end of the financial year	10,432	12,056
% of total gross loans and advances less specific allowance	1.58%	1.64%
Specific allowance		
Balance as at beginning of the financial year	52,324	79,461
Allowance made during the year	48,135	47,548
Transferred to accumulated impairment loss in value of securities	–	(167)
Amount recovered	(2,347)	(2,052)
Amount written off	(1,654)	(72,466)
Balance as at end of the financial year	96,458	52,324

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

7 LOANS AND ADVANCES (CONTINUED)

	Group and Bank	
	2006	2005
	RM'000	RM'000
(vii) Non-performing loans by purpose:		
Purchase of securities	37,153	39,278
Purchase of transport vehicles	4	–
Purchase of landed property	266	–
Purchase of non-residential property	7,666	7,665
Personal use	9	–
Construction	7,758	12,449
Working capital	114,900	72,593
Others	29,058	55,375
	196,814	187,360

8 CLIENTS' AND BROKERS' BALANCES

	Group and Bank	
	2006	2005
	RM'000	RM'000
Performing accounts	166,026	152,296
Non-performing accounts	20,721	21,317
	186,747	173,613
Less: Allowance for bad and doubtful debts		
– Specific	(8,590)	(10,419)
– General	(1,130)	(974)
	177,027	162,220

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

8 CLIENTS' AND BROKERS' BALANCES (CONTINUED)

	Group and Bank	
	2006 RM'000	2005 RM'000
Movements in the allowances for bad and doubtful debts are as follows:		
Special allowance		
Balance as at beginning of the financial year	10,419	5,833
Allowance made during the financial year	1	4,589
Amount recovered	(1,830)	(3)
Balance as at end of the financial year	8,590	10,419
General allowance		
Balance as at beginning of the financial year	974	905
Allowance made during the financial year	156	69
Balance as at end of the financial year	1,130	974

9 OTHER ASSETS

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Amounts due from related companies (i)	1,031	1,439	803	851
Other debtors, deposits and prepayments	43,846	18,331	21,664	9,983
Derivatives assets (ii)	1,775	3,716	1,775	3,716
Accrued interest receivable	27,864	11,632	27,864	11,619
	74,516	35,118	52,106	26,169

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

9 OTHER ASSETS (CONTINUED)

The other debtors, deposits and prepayments balances for the Group and the Bank are stated net of allowance for doubtful debts of RM1,012,795 (2005: RM696,047).

- (i) Amounts due from related companies are unsecured, interest-free and not subject to fixed repayment terms.
- (ii) Derivatives assets

	Group and Bank	
	Contract or underlying principal amount RM'000	Year-end positive fair value RM'000
2006		
Foreign exchange related contracts:		
– forwards	35,680	–
Interest rate related contracts:		
– futures	4,470,000	1,645
– swaps	360,000	130
	4,865,680	1,775
2005		
Foreign exchange related contracts:		
– forwards	19,314	130
Interest rate related contracts:		
– futures	3,180,000	2,541
– swaps	320,000	1,045
	3,519,314	3,716

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

10 AMOUNT DUE FROM HOLDING COMPANY

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Amounts due from holding company	-	205,180	-	61,332

Amounts due from holding company are unsecured, interest free and not subject to fixed repayment terms except an amount of RM76,352,000 in the last financial year which bears interest ranging from 3.6% to 4.2% per annum.

11 AMOUNT DUE FROM SUBSIDIARIES

	Bank	
	2006 RM'000	2005 RM'000
Amount due from subsidiaries	327	54,816

Amount due from subsidiaries is unsecured, interest-free and not subject to fixed repayment terms.

12 DEFERRED TAX ASSETS/LIABILITIES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when the deferred taxes relate to the same authority. The following amounts determined after approximate set-off are shown in the balance sheet:

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Deferred tax assets	3,087	7,021	2,921	6,939
Deferred tax liabilities	(13,602)	(209)	(13,597)	(186)
	(10,515)	6,812	(10,676)	6,753

The deferred tax assets and liabilities have been adjusted to take into account the reduction in tax rate to 27% in Year of Assessment 2007, 26% in Year of Assessment 2008 and thereafter, adjustments are made based on amounts of temporary differences expected to be reversed in the prospective years.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

12 DEFERRED TAX ASSETS/LIABILITIES (CONTINUED)

The movements during the financial year relating to deferred tax are as follows:

	Property plant and equipment RM'000	General allowance on loans and advances RM'000	Unabsorbed tax losses RM'000	Other temporary differences RM'000	AFS reserve RM'000	Total RM'000
Group						
2006						
Balance as at beginning of the financial year	(1,017)	3,375	480	410	3,564	6,812
(Charged)/credited to income statement	(980)	(454)	(480)	(95)	-	(2,009)
Charged to AFS reserve	-	-	-	-	(15,318)	(15,318)
Balance as at end of the financial year	(1,997)	2,921	-	315	(11,754)	(10,515)
2005						
Balance as at beginning of the financial year	(740)	4,258	413	451	(1,488)	2,894
(Charged)/ credited to income statement	(277)	(883)	67	(41)	-	(1,134)
Charged to AFS reserve	-	-	-	-	5,052	5,052
Balance as at end of the financial year	(1,017)	3,375	480	410	3,564	6,812

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

12 DEFERRED TAX ASSETS/LIABILITIES (CONTINUED)

	Property plant and equipment RM'000	General allowance on loans and advances RM'000	Unabsorbed tax losses RM'000	Other temporary differences RM'000	AFS reserve RM'000	Total RM'000
Bank						
2006						
Balance as at beginning of the financial year	(1,068)	3,375	480	402	3,564	6,753
(Charged)/credited to income statement	(775)	(454)	(480)	(402)	-	(2,111)
Charged to AFS reserve	-	-	-	-	(15,318)	(15,318)
Balance as at end of the financial year	(1,843)	2,921	-	-	(11,754)	(10,676)
2005						
Balance as at beginning of the financial year	(887)	4,258	413	451	(1,488)	2,747
(Charged)/ credited to income statement	(181)	(883)	67	(49)	-	(1,046)
Charged to AFS reserve	-	-	-	-	5,052	5,052
Balance as at end of the financial year	(1,068)	3,375	480	402	3,564	6,753

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

13 STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act 1958 (revised 1994), the amount of which is determined as a set percentage of total eligible liabilities.

14 INVESTMENTS IN SUBSIDIARIES

	Bank	
	2006 RM'000	2005 RM'000
Unquoted shares at cost	122,557	118,298
Less: Allowance for impairment loss	<u>(84,385)</u>	<u>(6,708)</u>
	38,172	111,590

The subsidiaries of the Bank are as follows:

Name of Company	Country of incorporation	Paid-up share capital RM	Effective equity interest		Principal activities
			2006 %	2005 %	
RHB Unit Trust Management	Malaysia	2,000,000	100	100	Management of unit trust funds
RHB Merchant Nominees (Tempatan) Sdn Bhd	Malaysia	10,000	100	100	Nominee services for Malaysian beneficial shareholders
RHB Merchant Nominees(Asing) Sdn Bhd	Malaysia	10,000	100	100	Nominee services for foreign beneficial shareholders

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

14 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Country of incorporation	Paid-up share capital RM	Effective equity interest		Principal activities
			2006 %	2005 %	
RHB Venture Capital Sdn Bhd	Malaysia	2	100	100	Dormant
RHB Private Equity Holdings Sdn Bhd (formerly known as RHB Holdings Sdn Bhd)	Malaysia	6,650,002	100	100	Private equity business and venture capital management
RHB Private Equity Management Ltd ²	Labuan, Malaysia	USD1	100	–	Investment advisor, investment consultant and other ancillary services only for private equity funds
RHB Private Equity Fund Ltd ³	Cayman Island	USD10,001	100	–	Investment company
RHB Excel Sdn Bhd (formerly known as RHB Securities Sdn Bhd) ¹	Malaysia	200,000,000	100	100	Dormant
RHB Nominees Sdn Bhd	Malaysia	25,000	100	100	Nominee and custodian services

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

14 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Country of incorporation	Paid-up share capital RM	Effective equity interest		Principal activities
			2006 %	2005 %	
RHB Nominees (Tempatan) Sdn Bhd	Malaysia	25,000	100	100	Nominee and custodian services for Malaysian beneficial shareholders Malaysian beneficial shareholders
RHB Nominees (Asing) Sdn Bhd	Malaysia	25,000	100	100	Nominee and custodian services for foreign beneficial shareholders
Straits Nominees (Tempatan) Sdn Bhd	Malaysia	25,000	100	100	Dormant
Straits Nominees (Asing) Sdn Bhd	Malaysia	25,000	100	100	Dormant
RHB Marketing Services Sdn Bhd	Malaysia	100,000	100	100	Dormant
Straits Asset Holdings Sdn Bhd	Malaysia	48,240,000	-	100	Investment holding
SSSB Services (Melaka) Sdn Bhd	Malaysia	40,000,000	-	100	Dormant
SFSB Services (Melaka) Sdn Bhd	Malaysia	5,000,000	-	100	Dormant

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

14 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Country of incorporation	Paid-up share capital RM	Effective equity interest		Principal activities
			2006 %	2005 %	
RHB Research Institute Sdn Bhd	Malaysia	500,000	100	100	Research services
RHB Asset Management Sdn Bhd	Malaysia	2,000,000	100	100	Asset management services
RHB Progressive Sdn Bhd ¹ (formerly known as RHB Futures Sdn Bhd)	Malaysia	13,500,000	100	100	Dormant
RHB Management Services(Jersey) Limited ⁴	Jersey, Channel Islands	GBP 12	100	100	Management services

1 Pursuant to the vesting order granted by the High Court of Malaya on 12 December 2006, the business of the Company including its assets and liabilities were transferred to the Bank with effect from 30 December 2006.

2 The Company was incorporated on 15 September 2006 under the Offshore Companies Act 1990.

3 The Company was incorporated on 29 September 2006 under the Companies Law CAP 22.

4 The Company has been dissolved on 23 January 2007

All subsidiaries are audited by PricewaterhouseCoopers, Malaysia.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

15 PROPERTY, PLANT AND EQUIPMENT

	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
Group					
2006					
Cost					
Balance as at beginning of the financial year	19,701	21,498	42,186	4,484	87,869
Additions	235	104	10,761	658	11,758
Disposal	(133)	-	(220)	(743)	(1,096)
Write-offs	(1,456)	(597)	(3,524)	-	(5,577)
Transfer from/(to) related companies	11,831	-	(13)	-	11,818
Balance as at end of the financial year	30,178	21,005	49,190	4,399	104,772
Accumulated depreciation					
Balance as at beginning of the financial year	17,308	20,233	29,655	2,385	69,581
Charge for the financial year	662	395	6,285	728	8,070
Disposal	(132)	-	(218)	(743)	(1,093)
Write-offs	(1,456)	(588)	(3,513)	-	(5,557)
Transfer from/to related companies	11,831	-	(13)	-	11,818
Balance as at end of the financial year	28,213	20,040	32,196	2,370	82,819
Impairment losses					
Balance as at beginning and end of the financial year	-	-	2,925	-	2,925
Net book value as at end of the financial year	1,965	965	14,069	2,029	19,028

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
Group					
2005					
Cost					
Balance as at beginning of the financial year	20,482	26,020	57,103	4,437	108,042
Additions	1,907	236	1,845	962	4,950
Disposal	(324)	(14)	(194)	(904)	(1,436)
Write-offs/transfer	(2,364)	(4,744)	(16,568)	(11)	(23,687)
Balance as at end of the financial year	19,701	21,498	42,186	4,484	87,869
Accumulated depreciation					
Balance as at beginning of the financial year	19,408	24,271	42,361	2,544	88,584
Charge for the financial year	583	707	3,996	719	6,005
Disposal	(320)	(12)	(180)	(872)	(1,384)
Write-offs/transfer	(2,363)	(4,733)	(16,522)	(6)	(23,624)
Balance as at end of the financial year	17,308	20,233	29,655	2,385	69,581
Impairment losses					
Balance as at beginning and end of the financial year	–	–	2,925	–	2,925
Net book value as at end of the financial year	2,393	1,265	9,606	2,099	15,363

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
Bank					
2006					
Cost					
Balance as at beginning of the financial year	17,278	17,608	38,096	3,093	76,075
Additions	158	5	9,158	534	9,855
Disposal	(84)	-	(215)	(631)	(930)
Write-offs	(1,456)	(596)	(3,524)	-	(5,576)
Transfer from/(to) related companies	11,831	-	(13)	-	11,818
Balance as at end of the financial year	27,727	17,017	43,502	2,996	91,242
Accumulated depreciation					
Balance as at beginning of the financial year	15,151	16,820	26,254	1,329	59,554
Charge for the financial year	576	297	5,863	588	7,324
Disposal	(84)	-	(215)	(631)	(930)
Write-offs	(1,456)	(588)	(3,511)	-	(5,555)
Transfer from/(to) related companies	11,831	-	(13)	-	11,818
Balance as at end of the financial year	26,018	16,529	28,378	1,286	72,211
Impairment losses					
Balance as at beginning and end of the financial year	-	-	2,925	-	2,925
Net book value as at end of the financial year	1,709	488	12,199	1,710	16,106

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
Bank					
2005					
Cost					
Balance as at beginning of the financial year	18,140	22,324	53,230	3,295	96,989
Additions	1,726	31	1,555	599	3,911
Disposal	(158)	–	(177)	(795)	(1,130)
Write-offs	(2,372)	(4,734)	(16,509)	(6)	(23,621)
Transfer (to)/from related companies	(58)	(13)	(3)	–	(74)
Balance as at end of the financial year	17,278	17,608	38,096	3,093	76,075
Accumulated depreciation					
Balance as at beginning of the financial year	17,257	20,989	39,219	1,583	79,048
Charge for the financial year	460	576	3,670	542	5,248
Disposal	(158)	–	(166)	(790)	(1,114)
Write-offs	(2,357)	(4,733)	(16,467)	(6)	(23,563)
Transfer (to)/from related companies	(51)	(12)	(2)	–	(65)
Balance as at end of the financial year	15,151	16,820	26,254	1,329	59,554
Impairment losses					
Balance as at beginning and end of the financial year	–	–	2,925	–	2,925
Net book value as at end of the financial year	2,127	788	8,917	1,764	13,596

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

16 GOODWILL ON CONSOLIDATION

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Balance as at beginning and end of the financial year	172,844	172,844	159,280	159,280

The carrying amounts of goodwill allocated to the Group's and the Bank's cash-generating units (CGUs) are as follows:

	Group 2006 RM'000	Bank 2006 RM'000
Cash generating units		
Corporate banking and debt capital market	8,124	8,124
Financial advisory and underwriting	8,124	8,124
Treasury and money market	105,615	105,615
Stockbroking and other securities related business	50,981	37,417
	172,844	159,280

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets/forecasts approved by directors covering a five-year period. Cash flows beyond the five year period are assumed to remain the same from year five to infinity.

The cash flow projection is derived on a number of key factors including the past performance and the management's expectations of the market developments. The discount rate used in determining the business segment is 10.35%. The 10.35% discount rate is pre-tax and reflects risks relating to the relevant CGUs.

No impairment charge was required for goodwill arising from all the business segments. Management believes that any reasonable possible change to the assumptions applied is not likely to cause the recoverable amount of all the business segments to be lower than its carrying amount.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

17 DEPOSITS FROM CUSTOMERS

	Group and Bank	
	2006 RM'000	2005 RM'000
Fixed deposits	1,862,853	1,252,417
(i) Maturity structure of fixed deposits is as follows:		
Due within six months	1,577,062	1,252,417
Six months to one year	85,791	–
More than one year	200,000	–
	1,862,853	1,252,417
(ii) The deposits are sourced from the following customers:		
Business enterprises	1,416,442	880,256
Others	446,411	372,161
	1,862,853	1,252,417

18 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2006 RM'000	2005 RM'000
Licensed banks	765,300	725,000
Other financial institutions	1,187,824	278,680
	1,953,124	1,003,680

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

19 CLIENTS' AND BROKERS' BALANCES

Included in clients' and brokers' balances are clients' trust balances, held in trust for clients of RM121,060,000 (2005: RM43,894,000).

20 OTHER LIABILITIES

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Accrued interest payable	23,667	14,798	23,667	14,798
Amount due to related companies (i)	674	620	576	570
Amount due to immediate holding company (ii)	817	1,481	95	436
Amount payable for creation of units due to funds	3,729	865	–	–
Amount payable for redemption units	18,651	2,826	–	–
Derivatives liabilities (ii)	14,564	3,192	14,564	3,192
Remisiers' trust deposits	11,188	8,690	11,188	8,955
Accrued personnel costs	13,587	15,866	11,935	15,407
Other accruals and payables	20,419	22,312	13,439	13,739
	107,296	70,650	75,464	57,097

(i) Amounts due to related companies and immediate holding company are unsecured, interest free and not subject to fixed repayment terms.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

20 OTHER LIABILITIES (CONTINUED)

(ii) Derivatives liabilities

	Group and Bank	
	Contractor underlying principal amount RM'000	Year-end negative fair value RM'000
2006		
Foreign exchange related contracts:		
– forwards	35,680	1,378
Interest rate related contracts:		
– futures	4,470,000	9,162
– swaps	360,000	4,024
	4,865,680	14,564
2005		
Foreign exchange related contracts:		
– forwards	19,314	70
Interest rate related contracts:		
– futures	3,180,000	1,232
– swaps	320,000	1,890
	3,519,314	3,192

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

21 SUBORDINATED BONDS

	Group and Bank	
	2006	2005
	RM'000	RM'000
Subordinated bonds	165,000	165,000

On 9 December 2002, the Bank issued a 10 year non-callable 5-year Subordinated Bonds for an aggregate nominal value of RM165 million at par ('Sub Bonds'). The Sub Bonds are redeemable unsecured subordinated obligations of the Bank and qualify as Tier II capital for the purpose of BNM's capital adequacy requirements.

The Sub Bonds constitute redeemable unsecured obligations of the Bank, subordinate in right and priority of payment, to the extent and in the manner provided in the terms of the Sub Bonds, to all deposit liabilities and other liabilities of the Bank except those liabilities which by their terms rank pari-passu in right of priority of payment with or subordinate to the Sub Bonds. The Sub Bonds are, in the event of a distribution of assets in the winding-up or liquidation of the Bank, rank senior to the share capital of the Bank.

The Sub Bonds was used as part settlement of the transfer consideration paid by the Bank for the proposed Transfer of the Securities and Securities Related Business Entities from RHB Capital to the Bank pursuant to the Group Restructuring Scheme of the RHB Group.

The coupon for Sub Bonds shall be accrued at the rate of 8.20% per annum ('p.a') and commencing from the beginning of the sixth year from the issue date, the coupon rate shall be stepped up to 10.70% p.a. to the maturity date. Coupon payments are payable semi-annually in arrears, with the last payment to be made on the maturity date.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

22 SHARE CAPITAL

	Group and Bank	
	2006	2005
	RM'000	RM'000
Ordinary shares of RM1 each:		
Authorised	1,000,000	1,000,000
Issued and fully paid	338,646	338,646

23 RESERVES

The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and is not distributable as cash dividends.

Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and tax exempt income under Section 12 of the Income Tax (Amendment) Act 1999 to pay dividends out of its entire retained profits as at 31 December 2006.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

24 INTEREST INCOME

	Group		Bank	
	Year ended	Year ended	Year ended	Year ended
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	RM'000	RM'000	RM'000	RM'000
Loans and advances				
– interest income other than recoveries from NPLs	38,819	48,103	38,819	48,103
– recoveries from NPLs	2,565	5,193	2,565	5,193
Money at call and deposit placements with banks and other financial institutions	35,803	28,998	35,125	28,498
Securities held-for-trading	89,313	38,048	89,313	38,048
Securities available-for-sale	15,040	13,690	15,040	13,690
Securities held-to-maturity	9,138	18,970	9,138	18,970
Others	3,631	4,708	3,225	4,120
	194,309	157,710	193,225	156,622
Amortisation of premium less accretion of discount	8,596	3,467	8,596	3,467
Interest suspended clawback	(177)	(2,640)	(177)	(2,640)
	202,728	158,537	201,644	157,449

25 INTEREST EXPENSE

	Group		Bank	
	Year ended	Year ended	Year ended	Year ended
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	RM'000	RM'000	RM'000	RM'000
Deposits and placements of banks and other financial institutions	90,654	56,204	90,654	56,204
Deposits from customers	46,987	35,854	46,987	35,854
Subordinated bonds	13,530	13,530	13,530	13,530
Others	2,984	3,689	2,983	3,689
	154,155	109,277	154,154	109,277

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

26 OTHER OPERATING INCOME

	Group		Bank	
	Year ended 31.12.2006 RM'000	Year ended 31.12.2005 RM'000	Year ended 31.12.2006 RM'000	Year ended 31.12.2005 RM'000
Fee income:				
Brokerage	60,717	51,171	60,717	51,171
Fund management fees	7,142	6,941	–	–
Fees on loans and advances	2,821	4,761	2,821	4,761
Corporate advisory fees	8,927	7,849	8,927	7,849
Guarantee fees	2,770	2,777	2,770	2,777
Underwriting fees	2,669	4,140	2,669	4,140
Unit trust fee income	26,638	24,433	–	–
Other fee income	6,004	17,501	5,384	16,968
	117,688	119,573	83,288	87,666
Net gain/(loss) arising from sale/redemption of securities and derivatives:				
Net gain from sale of				
– Securities held-for-trading	26,716	67,433	26,716	67,433
– Securities available-for-sale	23,705	14,442	23,705	14,442
Net gain/(loss) from redemption of				
– Securities held-to-maturity	2,128	13,192	2,128	13,192
Derivatives	2	(33)	2	(33)
	52,551	95,034	52,551	95,034
Unrealised gain/(loss) on revaluation of securities held-for-trading and derivatives:				
Securities held-for-trading	25,047	4,045	25,047	4,045
Derivatives	(13,313)	1,086	(13,313)	1,086
	11,734	5,131	11,734	5,131
Gross dividend income from:				
Securities held-for-trading	2,437	–	2,437	–
Securities held-to-maturity	680	680	680	680
Securities available for sale	506	129	506	129
Subsidiaries	–	–	9,647	7,000
	3,623	809	13,270	7,809

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

26 OTHER OPERATING INCOME (CONTINUED)

	Group		Bank	
	Year ended	Year ended	Year ended	Year ended
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	RM'000	RM'000	RM'000	RM'000
Other income:				
Foreign exchange gain				
– Realised	(137)	317	(135)	317
– Unrealised	3,201	–	3,201	–
Gain on disposal of property, plant and equipment	206	249	181	162
(Loss)/gain from disposal of a subsidiary	(33)	–	82,349	–
Others	5,921	4,694	4,471	4,144
	9,158	5,260	90,067	4,623
Other operating income	194,754	225,807	250,910	200,263

27 OTHER OPERATING EXPENSES

	Group		Bank	
	Year ended	Year ended	Year ended	Year ended
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	RM'000	RM'000	RM'000	RM'000
Personnel costs				
Salaries, allowances and bonus	53,172	54,635	42,644	44,796
Defined contribution plans	6,335	7,327	5,027	6,263
Other staff costs	5,453	9,116	4,062	7,454
	64,960	71,078	51,733	58,513

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

27 OTHER OPERATING EXPENSES (CONTINUED)

	Group		Bank	
	Year ended 31.12.2006 RM'000	Year ended 31.12.2005 RM'000	Year ended 31.12.2006 RM'000	Year ended 31.12.2005 RM'000
Establishment costs				
Property, plant and equipment				
– written off	20	63	20	58
– depreciation	8,070	6,005	7,324	5,248
Rental of premises	9,501	10,623	7,972	9,062
Information technology expenses	3,368	2,838	2,691	2,353
Others	4,888	9,211	4,435	8,911
	25,847	28,740	22,442	25,632
Marketing expenses				
Sales commission	9,412	9,079	–	–
Advertising and publicity	1,584	2,390	1,519	1,839
Others	3,767	3,961	2,048	2,270
	14,763	15,430	3,567	4,109
Administration and general expenses				
Auditors' remuneration				
– statutory audit fees	282	284	208	208
Communication expenses	3,404	3,529	2,579	2,562
Legal and professional fees	2,365	1,273	2,196	910
Others	9,700	5,167	8,711	8,015
	15,751	10,253	13,694	11,695
	121,321	125,501	91,436	99,949

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

28 DIRECTORS' REMUNERATION

The Directors of the Bank in office during the financial year are as follows:

Dato Abdullah Mat Noh (Chairman)

Dato' Mohamed Khadar Merican

Dato' Vaseehar Hassan Abdul Razack

Akira Miyama

Lew Foon Keong

Datuk Azlan Mohd Zainol

Johari Abdul Muid

Datin Khamarzan Ahmed Meah (appointed on 3 April 2006)

The aggregate remuneration of the Directors of the Bank is as follows:

	Group		Bank	
	Year ended	Year ended	Year ended	Year ended
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	RM'000	RM'000	RM'000	RM'000
Non-executive				
– Fees	511	202	405	163
– Allowances	788	725	749	698
	1,299	927	1,154	861

The remuneration attributable to the Chief Executive Officer of the Bank, including benefits-in-kind during the financial year amounted to RM466,424 (2005: Nil).

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

28 DIRECTORS' REMUNERATION (CONTINUED)

The remuneration of the Directors of the Bank is within the following bands:

	Group		Bank	
	2006 No. of Directors	2005 No. of Directors	2006 No. of Directors	2005 No. of Directors
Non-Executive				
RM				
0 – 50,000	–	3	–	4
50,001 – 100,000	3	3	3	2
101,001 – 150,000	2	2	2	2
150,001 – 200,000	–	–	2	–
200,001 – 250,000	2	–	–	–
250,001 – 300,000	–	–	–	–
300,001 – 350,000	–	–	–	–
350,001 – 400,000	1	1	1	1
	8	9	8	9

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

29 ALLOWANCES FOR LOSSES ON LOANS AND OTHER LOSSES

	Group		Bank	
	Year ended 31.12.2006 RM'000	Year ended 31.12.2005 RM'000	Year ended 31.12.2006 RM'000	Year ended 31.12.2005 RM'000
Allowance for losses on loans				
Specific allowance				
– Made during the financial year	48,135	47,548	48,135	47,548
– Written back	(2,347)	(2,052)	(2,347)	(2,052)
	45,788	45,496	45,788	45,496
– General allowance	(1,624)	(3,153)	(1,624)	(3,153)
Allowance for losses on clients' and brokers' balances				
– Specific allowance	(1,829)	4,586	(1,829)	4,586
– General	156	69	156	69
Bad debts				
– recovered	(240)	(104)	(240)	(104)
– written off	5	117	5	117
Amount recovered from Danaharta	(787)	(6,646)	(787)	(6,646)
Specific allowance for other debtors	317	971	1,436	971
	41,786	41,336	42,905	41,336

The Bank has evaluated its portfolio of non-performing loans that had been in default and remained uncollected for more than 7 years and also those non-performing loans in default for more than 5 years but less than 7 years. For the loans in default for more than 7 years, no value is assigned as the realisable value of collateral. For the loans in default for more than 5 years but less than 7 years, 50% of the realisable value of asset held has been assigned as collateral value. The effect of this exercise amounted to RM16,483,337 (2005: RM11,780,000).

In addition, during the financial year, the Group's basis for specific allowances has changed from default period of 6 months to 3 months, in line with its non-performing classification of loans and financing. The change has no effect to the financial statements for the year ended 31 December 2006.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

30 ALLOWANCES FOR IMPAIRMENT LOSS

	Group		Bank	
	Year ended	Year ended	Year ended	Year ended
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	RM'000	RM'000	RM'000	RM'000
Charge/(reversal) for the financial year				
– Securities available-for-sale	–	397	–	397
– Securities held-to-maturity	–	(324)	–	(324)
– Investment in a subsidiary	–	–	82,400	6,708
	–	73	82,400	6,781

31 TAXATION

	Group		Bank	
	Year ended	Year ended	Year ended	Year ended
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	RM'000	RM'000	RM'000	RM'000
Income tax based on profit for the financial year				
– Malaysian income tax	20,922	28,121	21,394	25,989
Deferred taxation	2,009	1,134	2,111	1,046
Over provision in respect of prior years				
– Malaysian income tax	(7,440)	(3)	(7,417)	–
Tax expense	15,491	29,252	16,088	27,035

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

31 TAXATION (CONTINUED)

The numeric reconciliation between the average tax rate and the applicable tax rate is as follows:

	Group		Bank	
	Year ended 31.12.2006	Year ended 31.12.2005	Year ended 31.12.2006	Year ended 31.12.2005
	%	%	%	%
Group and Bank average applicable tax rate	28.0	28.0	28.0	28.0
Tax effects in respect of:				
Non allowable expenses	4.2	0.4	2.7	0.2
Non-taxable income	(1.8)	(1.3)	(0.1)	(1.3)
Effect of different tax rate	(0.1)	(0.1)	–	–
Reversal of unutilised capital allowances brought forward	(1.4)	–	(1.4)	–
Current year's tax losses	(0.4)	–	(0.4)	–
Overprovision in respect of prior years	(9.2)	–	(9.1)	–
Average effective tax rate	19.3	27.0	19.7	26.9

Group and Bank	
Year ended 31.12.2006	Year ended 31.12.2005
RM'000	RM'000

Tax losses are analysed as follows:

Tax savings recognised during the financial year arising from from utilisation of tax losses brought forward from previous years	369	–
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Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

32 BASIC EARNINGS PER SHARE

The basic earnings per share has been calculated by dividing the net profit for the financial year of the Group and the Bank of RM64,729,000 (2005:RM78,905,000) and RM65,571,000 (2005: RM73,334,000) by the weighted average number of ordinary shares in issue during the financial year of 338,646,000 (2005: 338,646,000).

33 DIVIDENDS ON ORDINARY SHARES

Dividends declared or proposed in respect of the financial year ended 31 December 2006 are as follows:

	Group and Bank			
	Year ended 31.12.2006		Year ended 31.12.2005	
	Gross dividend per share Sen	Amount of dividend; net of tax RM'000	Gross dividend per share Sen	Amount of dividend; net of tax RM'000
Ordinary shares				
Special dividend	4.58	11,163	–	–
Second special dividend	53.64	130,779	–	–
Proposed final dividend	8.49	21,000	22.00	53,642
	66.71	162,942	22.00	53,642

The directors now recommend the payment of a final gross dividend of 8.49 sen per share less tax of 27% amounting to RM21,000,000 in respect of the current financial year on the fully issued and paid up ordinary shares of the Bank totalling RM338,646,000 which is subject to the approval of the member at the forthcoming Annual General Meeting of the Bank.

These financial statements do not reflect final dividends as accrued liabilities.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

34 SIGNIFICANT RELATED PARTY DISCLOSURES

(a) The related parties of and their relationships with the Bank are as follows:

Related parties	Relationship
Rashid Hussain Berhad	Parent of holding company
Subsidiaries and associates of Rashid Hussain Berhad as disclosed in its financial statements	Subsidiaries and associates of parent of holding company
RHB Capital Berhad	Holding company
Subsidiaries and associates of RHB Capital Berhad as disclosed in its financial statements	Subsidiaries and associates of holding holding company

As at 31 December 2006, Utama Banking Group Berhad ('UBG') held 32.6% of the ordinary shares of RM1.00 each in Rashid Hussain Berhad ('RHB') and 449,206,479 of ICULS-A and 403,471,898 of ICULS-B that are presently convertible into ordinary shares of RHB. Pursuant to FRS127₂₀₀₅ which requires the consideration of these potential ordinary shares, UBG's interest in RHB would amount to 61.2%. The related parties of UBG are disclosed in UBG's financial statements.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

34 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Significant related party transactions and balances

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

	Holding companies RM'000	Other related companies RM'000
Financial year ended 31.12.2006		
Significant related party transactions of the Group:		
Income		
Interest on deposits	–	5,061
Interest on loans and advances	1,415	–
Brokerage fees	–	6
Fund management fees	–	391
	1,415	5,458
Expenditure		
Insurance premium	–	269
Interest on deposits	–	14,131
Rental of premises	52	9,139
Security services	–	75
Personnel expenses	–	632
Marketing expenses	24	861
Administration and general expenses	144	101
	220	25,208

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

34 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)**(b) Significant related party transactions and balances (continued)**

	Holding companies RM'000	Other related companies RM'000
As at 31.12.2006		
Related party balances of the Group:		
Amount due from		
Cash and short term funds	–	65,711
Securities purchased under resale agreements	–	165,304
Other assets	7	1,024
	<u>7</u>	<u>232,039</u>
Amount due to		
Deposits and placements of financial institutions	–	250,000
Others	817	2,232
	<u>817</u>	<u>252,232</u>
Financial year ended 31.12.2005		
Significant related party transactions of the Group:		
Income		
Interest on deposits	–	1,432
Interest on loans and advances	2,822	–
Brokerage fees	–	4
Fund management fees	–	374
	<u>2,822</u>	<u>1,810</u>

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

34 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	Holding companies RM'000	Other related companies RM'000
Financial year ended 31.12.2005 (continued)		
Expenditure		
Insurance premium	–	35
Interest on deposits	–	13,847
Rental of premises	–	10,391
Security services	–	103
Personnel expenses	30	263
Marketing expenses	–	3,159
Administration and general expenses	–	618
	30	28,416
As at 31.12.2005		
Related party balances of the Group:		
Amount due from		
Cash and short term funds	–	79,462
Securities purchased under resale agreements	–	85,482
Other assets	205,180	1,432
	205,180	166,376
Amount due to		
Deposits and placements of financial institutions	–	500,000
Other liabilities	1,481	5,986
	1,481	505,986

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

34 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)**(b) Significant related party transactions and balances (continued)**

	Holding companies RM'000	Subsidiaries RM'000	Other related companies RM'000
Financial year ended 31.12.2006			
Significant related party transactions of the Bank:			
Income			
Interest on deposits	-	-	4,490
Dividends	-	9,647	-
Interest on loans and advances	1,073	-	-
Brokerage fee	-	-	6
	1,073	9,647	4,496
Expenditure			
Insurance premium	-	-	113
Interest on deposits	-	-	14,130
Rental of premises	52	-	7,701
Security services	-	-	75
Personnel expenses	-	-	570
Administration and general expenses	144	-	40
	196	-	22,629

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

34 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	Holding companies RM'000	Subsidiaries RM'000	Other related companies RM'000
As at 31.12.2006			
Related party balances of the Bank:			
Amount due from			
Cash and short term funds	-	-	41,780
Securities purchased under resale agreements	-	-	152,454
Other assets	-	327	803
	-	327	195,037
Amount due to			
Deposits and placements of financial institutions	-	-	251,558
Other liabilities	95	-	575
	95	-	252,133

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

34 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	Holding companies RM'000	Subsidiaries RM'000	Other related companies RM'000
Financial year ended 31.12.2005			
Significant related party transactions of the Bank:			
Income			
Interest on deposits	–	–	944
Dividends	–	7,000	–
Interest on loans and advances	2,234	–	–
Brokerage fee	–	–	4
	2,234	7,000	948
Expenditure			
Insurance premium	–	–	101
Interest on deposits	–	–	13,847
Rental of premises	–	–	8,797
Security services	–	–	87
Personnel expenses	29	–	200
Marketing expenses	–	–	306
Administration and general expenses	–	–	416
	29	–	23,754

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

34 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	Holding companies RM'000	Subsidiaries RM'000	Other related companies RM'000
As at 31.12.2005			
Related party balances of the Bank:			
Amount due from			
Cash and short term funds	–	–	69,382
Securities purchased under resale agreements	–	–	77,418
Other assets	61,332	54,816	851
	61,332	54,816	147,651
Amount due to			
Deposits and placements of financial institutions	–	–	505,336
Other liabilities	436	–	570
	436	–	505,906

Other related parties comprise related companies, being subsidiaries of the holding and/or parent of holding company.

Transactions with other related companies are aggregated because these transactions are similar in nature and no single transaction with those parties is significant enough to warrant separate disclosure.

Interest rates on all related party transactions are at normal commercial rates (except as indicated otherwise in the financial statements). All other fee income or expenditure incurred is in the Group and/or Bank's ordinary course of business with related parties at terms negotiated and agreed upon between the parties.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

35 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group 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.

Risk Weighted Exposures of the Group and Bank as at 31 December 2006

	←———— Group and Bank —————→					
	←———— As at 31.12.2006 —————→			←———— As at 31.12.2005 —————→		
	Principal amount RM'000	Credit equivalent* RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent* RM'000	Risk weighted amount RM'000
Direct credit substitutes	243,083	243,083	243,083	185,160	185,160	185,160
Transaction-related contingent items	764,829	32,415	32,415	1,229,520	31,260	31,260
Obligations under underwriting agreements	177,000	-	-	248,113	-	-
Irrevocable commitments to extend credit:						
– maturity not exceeding one year	460,573	-	-	360,518	-	-
– maturity exceeding one year	121,651	60,826	60,686	186,484	93,243	93,136
Foreign exchange- related contracts:						
– less than one year	35,680	1,871	374	19,314	417	165
– one to less than five years	-	-	-	-	-	-
Interest rate related contracts:						
– less than one year	1,360,000	147	30	810,000	33	6
– one to less than five years	3,470,000	8,282	1,656	2,690,000	10,330	2,066
Miscellaneous	98,367	19,673	3,935	21,316	21,079	21,032
	6,731,183	366,297	342,179	5,750,425	341,522	332,825

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

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

35 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies

The Bank's subsidiary, RHB Excel Sdn Bhd (formerly known as RHB Securities Sdn Bhd) ('RHB Excel'), is the second defendant to a suit for damages and for the return of shares pledged by the plaintiff as third party collateral for margin finance facilities initially provided by its related company which were subsequently transferred to RHB Excel together with the third party collateral. The plaintiff claimed that the transfer was made without the plaintiff's consent and has obtained an interim injunction to restrain the disposal of the collateral and has claimed for unspecified damages. RHB Excel has filed a defence and counterclaim against the said suit.

On 19 May 2005, the Kuala Lumpur High Court dismissed the plaintiff's claims against RHB Excel. The plaintiff filed a Notice of Appeal against the dismissal on 30 May 2005. With the dismissal, the injunction previously obtained against RHB Excel to deal with the collateral lapses. On 14 June 2005, the plaintiff filed an application for a stay of execution.

RHB Excel won in its counterclaim against the plaintiff with costs on 24 June 2005. On 4 August 2005, the plaintiff's stay application was allowed with costs. As such, RHB Excel is prohibited from disposing the shares until the hearing and disposal of appeal to the Court of Appeal.

Pursuant to the vesting order as stated in Note 41, all legal proceedings which have not been completed and in which or where RHB Excel is a party, will be continued by the Bank as if the Bank is party instead of RHB Excel.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

36 LEASE COMMITMENTS

The Group has lease commitments in respect of rented premises which are classified as operating leases. A summary of the non-cancellable long-term commitments, net of sub-leases is as follows:

	Group	
	2006 RM'000	2005 RM'000
Future minimum lease payments		
Not later than 1 year	-	1,486
More than 5 years	-	-
	-	1,486

37 CAPITAL COMMITMENTS

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Capital expenditure for property, plant and equipment:				
- authorised and contracted for	82	8,250	82	8,250
- authorised and not contracted for	654	-	-	-

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

38 CAPITAL ADEQUACY

The capital adequacy ratios of the Bank are as follows:

	2006 RM'000	2005 RM'000
Tier I Capital		
Paid-up share capital	338,646	338,646
Other reserves	359,535	450,160
	698,181	788,806
AFS revaluation reserve	(30,223)	9,165
Deferred tax assets	(2,921)	(6,939)
Deferred tax liabilities	13,597	186
Goodwill	(159,280)	(159,280)
Total Tier I Capital	519,354	631,938
Tier II Capital		
General allowance for bad and doubtful debts	11,562	12,056
Subordinated bonds	165,000	165,000
Total Tier II capital	176,562	177,056
Total capital	695,916	808,994
Less: Investments in subsidiaries	(38,172)	(111,590)
Total capital base	657,744	697,404
Before deducting proposed dividends		
Core capital ratio	16.02%	22.63%
Risk-weighted capital adequacy ratio	20.29%	24.97%
After deducting proposed dividends		
Core capital ratio	15.37%	20.71%
Risk-weighted capital adequacy ratio	19.64%	23.05%

BNM's guidelines on capital adequacy requires banking institutions to maintain adequate level of capital to withstand losses which may result from credit and risk associated with the financial statements.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

38 CAPITAL ADEQUACY (CONTINUED)

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

	2006	2005
	RM'000	RM'000
0%	1,371,590	825,090
10%	15,017	14,956
20%	642,016	309,920
50%	4,167	5,398
100%	1,909,109	1,702,194
	<u>3,941,899</u>	<u>2,857,558</u>
Total risk-weighted assets for credit risk	2,041,097	1,768,373
Total risk-weighted assets for market risk *	1,199,475	1,024,404
Total risk-weighted assets	<u>3,240,572</u>	<u>2,792,777</u>

* The capital adequacy ratios have incorporated market risk pursuant to BNM's guidelines on Market Risk Capital Adequacy Framework which is effective from 1 April 2005.

Pursuant to BNM's circular, "Recognition of Deferred Tax Assets ('DTA') and Treatment of DTA for RWCR Purposes" dated 8 August 2003, deferred tax income/(expense) is excluded from the computation of Tier 1 capital and deferred tax assets are excluded from the calculation of risk weighted assets.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS

The Group is a full-fledged investment bank that offers an extensive range of on and off balance sheet financial instruments.

A Financial risk management objectives and policies

The Group's financial risk management policies are adopted by its main operating units involved in merchant banking, securities and futures related businesses.

The Group's policies in respect of the major areas of financial risk management activities are set out as follows:

Market risk

Market risk is the risk of loss relating to the change in values of financial instruments or portfolio due to volatility of market variables such as interest rates, foreign exchange rates, credit spreads and equity prices.

Within the Investment Bank, market risk arising from the Group's trading activities may result from either client-related business or proprietary positions.

Market risk is managed through policies and limits approved by the Board of Directors. Group Risk Management Department is responsible for the development and implementation of risk management policies and measurement techniques, and monitors limit utilisation on a daily basis.

Since no single risk statistic can reflect all aspects of market risk, a variety of techniques, both statistical and non-statistical are used to measure and control the market risks it assumes in its various activities. The value-at-risk ("VAR") statistical method is used to measure the amount of potential loss from adverse market movement in an ordinary market environment. Back-testing of VAR against actual financial results, based on daily market risk-related revenue is conducted on a yearly basis.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

A Financial risk management objectives and policies (continued)

Market risk (continued)

While VAR measures the Bank's potential losses in normal market movements, extreme market movements are simulated under stress testing scenarios. Stress testing examines the impact that abnormally large swings in market factors, and years of prolonged inactivity, might have on portfolios. The Bank performs stress tests on its portfolios using multiple scenarios that are continually reviewed and updated to reflect changes in economic events.

Stress results are provided on a monthly basis to Management and Group Risk Management Committee for better understanding of event risk and to ascertain the Bank's tolerance to extreme market turmoil.

In addition, non-statistical risk measures such as net open position, sensitivity analysis and simulation models are also used to measure and provide additional information on market risk exposures and the direction in which the risk factors are moving.

Credit risk

Credit risk is the potential loss when the counterparty to a transaction does not fulfil its financial obligations in a timely manner. Credit risk arises in the Bank's various business activities. In lending activities, credit risk arises primarily through loans and advances and guarantees. Credit risk also occurs in the Bank's funding, investment, trading and derivatives activities, where counterparties may not be able to fulfil their obligations when they fall due.

In view of the significance of credit risk and the changing landscape of the capital market with the introduction of new and innovative products, the Bank has implemented several initiatives, which is consistent with BNM's Best Practices for the Management of Credit Risk.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

A Financial risk management objectives and policies (continued)

Credit risk (continued)

The credit approving authority has been delegated to the Underwriting and Credit Committee comprising senior executives of the Bank. The Bank uses an Internal Risk Rating System to ensure credits are objectively measured and rated using a consistent methodology. All credit facilities are assigned an internal rating on a scale of one to thirteen for non-performing loans based on a standard set of qualitative and quantitative factors. The internal rating process is a two-tier approach that assign ratings to obligor and facility separately. In addition, an independent Credit Administration & Rehabilitation Department performs pre-approval credit review to ensure that credit proposals are independently evaluated and adheres to the Bank's Credit Policy. Credit Administration & Rehabilitation Department is also responsible for managing problem credits.

Credit exposures are reviewed at least once a year for signs of deterioration in financial condition, which could affect the client's ability to meet its obligation to the Bank. Frequency of credit review is dependent on the internal rating assigned whereby higher risk credits are reviewed more than once a year.

Credit Administration & Rehabilitation Department works in tandem with Group Risk Management Department to formulate policies, limits, guidelines and risk measurement methodologies. These models are subject to ongoing review and back-testing to ensure the continuing validity of their parameters.

In stockbroking activities, credit risk is mitigated through the establishment of appropriate approving authority structure for the extension of trading/credit limits. Within clearly defined guidelines approved by the Board and in line with applicable laws and regulations, credit risk management also encompasses the systematic credit assessment, close monitoring of limits, exposures and concentration risk to counterparties or issuer, through timely management reporting procedures.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

A Financial risk management objectives and policies (continued)

Netting arrangements

The Group also enters into master agreements that provide for close-out and settlement netting with counterparties. A master agreement that governs all transactions between two parties, creates the greatest legal certainty that credit exposure will be netted. In effect, it enables the netting of outstanding obligations upon termination of outstanding transactions if an event of default occurs.

The extent to which the Group's overall exposure to credit risk is reduced through a master netting arrangement may change substantially within a short period following the balance sheet date because the exposure is affected by each transaction subject to the agreement.

Liquidity and funding risk

Liquidity risk management is concentrated on the management of liquidity structure of the Investment Bank's assets, liabilities and commitments so that cash flows are appropriately balanced to ensure the Bank is able to fulfil its current and future payment obligations in full when due.

The Bank's liquidity risk management focuses on analysing the cash flows of assets, liabilities and potential off-balance sheet funding requirements under specific normal behaviour assumptions to ensure that the Investment Bank has sufficient liquidity to meet potential future cash requirements over a 30-day forward horizon.

In addition, the Bank also uses a blend of complementary qualitative and quantitative tools and techniques to manage and control liquidity risk. These include 'what-if' scenario analysis under hypothetical crisis situations and liquidity indicators to monitor deposit concentration.

The Bank has a Liquidity Contingency Plan that could be implemented on a timely basis so that appropriate action can be taken to remedy any dramatic change in market conditions.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

A Financial risk management objectives and policies (continued)

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, controls, fraud, unauthorised activities, errors and omissions, inefficiencies, systems and technology failures or external event. The impact of operational risk can be financial loss, reputation impairment, loss of competitive position or legal and regulatory proceedings.

The Group has implemented an Enterprise-wide Operational risk management system to enable on-line submission and mapping of loss event dates, key risks indicators as well as self-assessment exercises. In addition, the Bank has established and maintains a comprehensive system of policies and internal controls based on the principles of checks and balances, segregation of duties, independent checks and verification processes.

In addition, the Bank's internal auditors have implemented the Control Self-Assessment ("CSA") and adopted a risk-based approach to the internal audit function. Internal audit performs regular audits to ensure adherence to policies and procedures, and evaluates and assesses the adequacy of internal control systems, new products and systems, and the reliability and integrity of data processing operations.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

A Financial risk management objectives and policies (continued)

Stockbroking

Market risk

Market risk relates to the risk of an adverse fluctuation in equity prices.

Market risk arising from trading activities can result from either client-related business or proprietary positions. Market risk is managed as follows:-

- Assignment of appropriate trading limits.
- Daily monitoring of large exposure risk to single equity to manage the concentration risk.
- Requirement of collateral or upfront payment for purchase of volatile stocks with “designated” status and “PN4” condition stocks under trading restriction prior to the execution of the transaction. Exposures to such counters are being monitored closely.
- In compliance with the Business Rules of Bursa Securities, clients must settle all positions on the 3rd market day following the transaction date (i.e. T+3), otherwise the positions will be force sold by the Bank on the following market day. Hence, the market risk is contained within 4 market days following the transaction date.
- The Business Rules of Bursa Securities on Capital Adequacy Requirements (CAR) restrict stockbroking companies’ exposure in relation to position risk, large exposure risk and underwriting risk.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

A Financial risk management objectives and policies (continued)

Stockbroking (continued)

Credit Risk

Credit and counterparty risk refer to the potential losses attributable to an unexpected default or deterioration in client's creditworthiness.

In trading activities, credit risk arises from the possibility that the counterparty is not able or willing to fulfil its obligation on a transaction on or before settlement date.

The Credit Control Division in the Bank ensures that credit risk is mitigated by:-

- Structured and systematic credit checking and processing based on approved policies, procedures and guidelines.
- Proper trading limit structure for dealer's representatives and clients are in place in line with the credit policies.
- Daily review and monitoring of exposure and adequacy of collateral.
- Requirement of upfront payment for purchase positions prior to the execution of any exposure which is beyond acceptable risk tolerance level.
- Internal policy on suspension of clients from trading once their accounts are overdue. Clients' losses are reviewed regularly and recovery action initiated when appropriate.
- All losses incurred by clients are secured against the dealer representatives' collaterals and/or commissions/incentives.

B Interest rate risk

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at their full carrying amounts, categorised by the earlier of contractual repricing or maturity dates. As interest rates and yield curves change over time the Group may be exposed to a loss in earnings due to the effects of interest rates on the structure of the balance sheet. Sensitivity to interest rates arises from mismatches in the repricing dates, cash flows and other characteristics of the assets and their corresponding liability funding.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Group							Effective average interest rate %	
	31.12.2006								
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000	Trading book RM'000	Total RM'000	
Liabilities									
Deposits from customers	872,569	509,288	280,996	200,000	-	-	-	1,862,853	3.67
Deposits and placements of banks and other financial institutions	424,513	935,312	500,253	93,046	-	-	-	1,953,124	3.68
Obligations on securities sold under repurchase agreements	1,780,599	29,238	-	-	-	-	-	1,809,837	3.49
Clients' and brokers' balances	56,973	-	-	-	-	194,399	-	251,372	2.84
Other liabilities	491	9,167	-	-	-	83,075	14,563	107,296	3.10
Taxation	-	-	-	-	-	5,366	-	5,366	-
Deferred tax liabilities	-	-	-	-	-	13,602	-	13,602	-
Subordinated bonds	-	-	-	165,000	-	-	-	165,000	8.20
Total liabilities	3,135,145	1,483,005	781,249	458,046	-	296,442	14,563	6,168,450	
Net interest rate gap	(1,424,097)	(934,184)	(737,857)	56,918	289,661				

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	←———— Group —————→								
	←———— 31.12.2005 —————→								
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000	Trading book RM'000	Total RM'000	Effective average interest rate %
Liabilities									
Deposits from customers	667,970	562,647	21,800	-	-	-	-	1,252,417	2.85
Deposits and placements of banks and other financial institutions	159,359	291,321	303,000	250,000	-	-	-	1,003,680	3.14
Obligations on securities sold under repurchase agreements	822,378	-	-	-	-	-	-	822,378	2.86
Amount due to Cagamas Berhad	-	-	-	-	-	-	-	-	-
Clients' and brokers' balances	35,794	-	-	-	-	162,696	-	198,490	2.60
Other liabilities	-	-	-	-	-	67,458	3,192	70,650	-
Taxation	-	-	-	-	-	3,445	-	3,445	-
Deferred tax liabilities	-	-	-	-	-	209	-	209	-
Subordinated bonds	-	-	-	165,000	-	-	-	165,000	8.20
Total liabilities	1,685,501	853,968	324,800	415,000	-	233,808	3,192	3,516,269	
Net interest rate gap	(457,696)	(538,693)	(314,882)	(99,457)	169,091				

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**B Interest rate risk (continued)**

	← Bank → ← 31.12.2006 →								Effective average interest rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000	Trading book RM'000	Total RM'000	
Assets									
Cash and short-term funds	1,050,955	-	-	-	-	34,147	-	1,085,102	3.53
Securities purchased under resale agreements	152,454	-	-	-	-	-	-	152,454	3.00
Deposits and placements with banks and other financial institutions	-	443,500	120	-	-	-	-	443,620	3.66
Securities held-for-trading	-	-	-	-	-	-	3,164,443	3,164,443	4.21
Securities available-for-sale	-	-	40,346	159,219	237,626	12,305	-	449,496	8.08
Securities held-to-maturity	-	-	2,681	351,748	47,324	(63,737)	-	338,016	5.55
Loans and advances									
– performing	448,763	105,321	-	3,386	3,889	-	-	561,359	7.40
– non-performing	-	-	-	-	-	89,924	-	89,924	-
Clients' and brokers' balances	36,824	-	-	-	-	140,203	-	177,027	0.66
Other assets	1,798	-	-	-	-	48,533	1,775	52,106	1.35
Amount due from subsidiaries	-	-	-	-	-	327	-	327	-
Deferred tax assets	-	-	-	-	-	2,921	-	2,921	-
Tax recoverable	-	-	-	-	-	35,197	-	35,197	-
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	69,206	-	69,206	-
Investments in subsidiaries	-	-	-	-	-	38,172	-	38,172	-
Property, plant and equipment	-	-	-	-	-	16,106	-	16,106	-
Goodwill	-	-	-	-	-	159,280	-	159,280	-
Total assets	1,690,794	548,821	43,147	514,353	288,839	582,584	3,166,218	6,834,756	

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Bank							Effective average interest rate %	
	← 31.12.2006 →								
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000	Trading book RM'000	Total RM'000	
Liabilities									
Deposits from customers	872,569	509,288	280,996	200,000	-	-	-	1,862,853	3.67
Deposits and placements of banks and other financial institutions	424,513	935,312	500,253	93,046	-	-	-	1,953,124	3.68
Obligations on securities sold under repurchase agreements	1,780,599	29,238	-	-	-	-	-	1,809,837	3.49
Clients' and brokers' balances	56,973	-	-	-	-	194,399	-	251,372	2.84
Other liabilities	491	9,167	-	-	-	51,243	14,563	75,464	3.10
Taxation	-	-	-	-	-	5,328	-	5,328	
Deferred tax liabilities	-	-	-	-	-	13,597	-	13,597	
Subordinated bonds	-	-	-	165,000	-	-	-	165,000	8.20
Total liabilities	3,135,145	1,483,005	781,249	458,046	-	264,567	14,563	6,136,575	
Net interest rate gap	(1,444,351)	(934,184)	(738,102)	56,307	288,839				

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	← Bank → ← 31.12.2005 →								Effective average interest rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000	Trading book RM'000	Total RM'000	
Assets									
Cash and short-term funds	622,170	-	-	-	-	15,068	-	637,238	3.01
Securities purchased under resale agreements	77,418	-	-	-	-	-	-	77,418	2.70
Deposits and placements with banks and other financial institutions	1,798	100,000	123	-	-	-	-	101,921	3.04
Securities held-for-trading	-	-	-	-	-	-	1,563,881	1,563,881	4.04
Securities available-for-sale	25,021	37,025	5,006	61,058	14,753	14,578	-	157,441	6.33
Securities held-to-maturity	-	-	2,098	250,894	148,466	(63,737)	-	337,721	5.55
Loans and advances									
– performing	412,898	178,250	2,524	3,084	4,911	(127)	-	601,540	6.68
– non-performing	-	-	-	-	-	123,107	-	123,107	-
Clients' and brokers' balances	-	-	-	-	-	162,220	-	162,220	-
Other assets	-	-	-	-	-	22,453	3,716	26,169	-
Amount due from holding company	61,257	-	-	-	-	75	-	61,332	3.66
Amounts due from subsidiaries	-	-	-	-	-	54,816	-	54,816	-
Deferred tax assets	-	-	-	-	-	6,939	-	6,939	-
Tax recoverable	-	-	-	-	-	17,060	-	17,060	-
Statutory deposit with Bank	-	-	-	-	-	76,606	-	76,606	-
Negara Malaysia Investments in subsidiaries	-	-	-	-	-	111,590	-	111,590	-
Property, plant and equipment	-	-	-	-	-	13,596	-	13,596	-
Goodwill	-	-	-	-	-	159,280	-	159,280	-
Total assets	1,200,562	315,275	9,751	315,036	168,130	713,524	1,567,597	4,289,875	

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Bank							Effective average interest rate %	
	← 31.12.2005 →								
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000	Trading book RM'000	Total RM'000	
Liabilities									
Deposits from customers	667,970	562,647	21,800	-	-	-	-	1,252,417	2.85
Deposits and placements of banks and other financial institutions	159,359	291,321	303,000	250,000	-	-	-	1,003,680	3.14
Obligations on securities sold under repurchase agreements	822,378	-	-	-	-	-	-	822,378	2.86
Clients' and brokers' balances	35,794	-	-	-	-	161,133	-	196,927	2.60
Other liabilities	-	-	-	-	-	53,905	3,192	57,097	-
Taxation	-	-	-	-	-	3,384	-	3,384	-
Deferred tax liabilities	-	-	-	-	-	186	-	186	-
Subordinated bonds	-	-	-	165,000	-	-	-	165,000	8.20
Total liabilities	1,685,501	853,968	324,800	415,000	-	218,608	3,192	3,501,069	
Net interest rate gap	(484,939)	(538,693)	(315,049)	(99,964)	168,130				

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

Actual repricing dates may differ from contractual dates as contractual terms do not reflect the actual behavioural patterns of assets and liabilities. Assets and liabilities are assumed to be held until the earlier of contractual repricing or maturity dates. The Bank uses this contractual repricing information as a base, which is then altered to incorporate consumer behaviour, in managing its interest rate risk.

Derivative financial instruments

The Bank has entered into interest rate swap contracts that entitle it to receive interest at fixed rates (vice-versa) on notional principal amounts and obliges it to pay interest (vice-versa) at floating rates on the same amounts. Under the interest rate swaps, the Bank agrees with other parties to exchange, at quarterly intervals, the differences between fixed rate and floating rate interest amounts calculated by reference to the agreed notional principal amounts. The floating rates of the Bank's interest rate swap contracts are linked to the Kuala Lumpur Inter Bank Offer Rate.

The remaining terms and notional principal amounts of the outstanding interest rate swap contracts of the Bank at the balance sheet date, which are denominated in Ringgit Malaysia are as follows:

	Group and Bank	
	2006	2005
	RM'000	RM'000
One to five years	360,000	320,000

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

The interest basis of interest rate swap contracts used and the weighted average interest rates are shown below:

	Group and Bank	
	Average interest receivable rate %	Average interest payable rate %
2006		
Pay variable interest and receive fixed interest	3.78	3.76
Pay fixed interest and receive floating	3.75	4.34
2005		
Pay variable interest and receive fixed interest	3.78	2.93
Pay fixed interest and receive floating	2.95	4.23

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**C Credit risk**

The following table sets out the credit risk concentrations of the Group by asset class:

	Group								
	31.12.2006								
	Short term funds and placements with financial institutions RM'000	Securities purchased under resale agreements RM'000	Securities held-for- trading RM'000	Securities available- for-sale RM'000	Securities held-to- maturity RM'000	Loans and advances RM'000	Clients' and brokers' balances and other financial assets RM'000	On- balance sheet total RM'000	Commitments and contingencies* RM'000
Agricultural	-	-	5,082	8,898	39,462	22,209	1,130	76,781	18,094
Mining and quarrying	-	-	-	-	-	41,123	-	41,123	-
Manufacturing	-	-	149,046	212,372	88,654	107,546	9,565	567,183	122,518
Electricity, gas and water	-	-	245,879	114,680	-	2,028	2,922	365,509	876,059
Construction	-	-	-	-	-	41,740	265	42,005	133,606
Real estate	-	-	43,917	50,846	-	221,759	959	317,481	208,166
General commerce	-	-	49,879	24,909	-	14,654	498	89,940	102,462
Transport, storage and communication	-	-	179,371	-	98,233	1,254	1,299	280,157	88,637
Finance, insurance and business services	457,661	165,304	1,642,935	15,017	-	-	22,165	2,303,082	4,865,680
Government and government agencies	1,097,200	-	713,350	-	106,668	-	2,885	1,920,103	-
Purchase of landed property	-	-	-	-	-	3,889	1,678	5,567	192
Purchase of securities	-	-	-	-	-	97,813	177,027	274,840	-
Purchase of transport vehicles	-	-	-	-	-	3,307	-	3,307	350
Consumption credit	-	-	-	-	-	88	-	88	15
Others	-	-	134,984	10,469	3,776	104,305	31,150	284,684	315,404
Total	1,554,861	165,304	3,164,443	437,191	336,793	661,715	251,543	6,571,850	6,731,183
Assets not subject to credit risk	-	-	5,547	12,305	1,223	(10,432) [^]	-	8,643	-
	1,554,861	165,304	3,169,990	449,496	338,016	651,283	251,543	6,580,493	6,731,183

[^] Excludes general allowance amounting to RM10,432,000.

* Comprises credit equivalent balances of credit related contracts and derivatives amounting to RM355,997,000 and RM10,300,000 respectively.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

C Credit risk (continued)

The following table sets out the credit risk concentrations of the Group by asset class:

	← Group → ← 31.12.2005 →								
	Short term funds and placements with financial institutions RM'000	Securities purchased under resale agreements RM'000	Securities held-for-trading RM'000	Securities available-for-sale RM'000	Securities held-to-maturity RM'000	Loans and advances RM'000	Clients' and brokers' balances and other financial assets RM'000	On-balance sheet total RM'000	Commitments and contingencies* RM'000
Agricultural	-	-	-	4,142	33,287	20,305	334	58,068	-
Mining and quarrying	-	-	-	-	-	33,081	-	33,081	130
Manufacturing	-	-	217,600	11,850	94,768	135,573	3,001	462,792	228,031
Electricity, gas and water	-	-	159,478	-	-	4,113	3,811	167,402	1,383,378
Construction	-	-	34,848	-	-	35,320	254	70,422	246,998
Real estate	-	-	29,577	86,719	-	118,503	2,183	236,982	47,500
General commerce	-	-	29,963	24,905	-	31,034	606	86,508	88,289
Transport, storage and communication	-	-	75,715	-	97,942	-	799	174,456	107,300
Finance, insurance and business services	208,950	85,482	817,993	14,956	-	-	233,866	1,361,247	3,570,359
Government and government agencies	545,300	-	78,815	-	104,907	-	886	729,908	-
Purchase of landed property	-	-	-	-	-	15,342	1,558	16,900	256
Purchase of securities	-	-	-	-	-	227,411	141,928	369,339	23,549
Purchase of transport vehicles	-	-	-	-	-	2,989	-	2,989	165
Consumption credit	-	-	-	-	-	15,911	-	15,911	887
Others	-	-	119,892	291	5,594	97,121	13,292	236,190	53,583
Total	754,250	85,482	1,563,881	142,863	336,498	736,703	402,518	4,022,195	5,750,425
Assets not subject to credit risk	-	-	4,029	14,578	1,223	(12,056) [^]	-	7,774	-
	754,250	85,482	1,567,910	157,441	337,721	724,647	402,518	4,029,969	5,750,425

[^] Excludes general allowance amounting to RM12,056,000.

* Comprises credit equivalent balances of credit related contracts and derivatives amounting to RM331,016,000 and RM10,506,000 respectively.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)**C Credit risk (continued)**

The following table sets out the credit risk concentrations of the Group by asset class:

	← Bank →						← 31.12.2006 →			
	Short term funds and placements with financial institutions	Securities purchased under resale agreements	Securities held-for-trading	Securities available-for-sale	Securities held-to-maturity	Loans and advances	Clients' and brokers' balances and other financial assets	On-balance sheet total	Commitments and contingencies*	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Agricultural	-	-	5,082	8,898	39,462	22,209	1,130	76,781	18,094	
Mining and quarrying	-	-	-	-	-	41,123	-	41,123	-	
Manufacturing	-	-	149,046	212,372	88,654	107,546	9,565	567,183	122,518	
Electricity, gas and water	-	-	245,879	114,680	-	2,028	2,922	365,509	876,059	
Construction	-	-	-	-	-	41,740	265	42,005	133,606	
Real estate	-	-	43,917	50,846	-	221,759	959	317,481	208,166	
General commerce	-	-	49,879	24,909	-	14,654	498	89,940	102,462	
Transport, storage and communication	-	-	179,371	-	98,233	1,254	1,299	280,157	88,637	
Finance, insurance and business services	431,522	152,454	1,642,935	15,017	-	-	22,492	2,264,420	4,865,680	
Government and government agencies	1,097,200	-	713,350	-	106,668	-	2,885	1,920,103	-	
Purchase of landed property	-	-	-	-	-	3,889	-	3,889	192	
Purchase of securities	-	-	-	-	-	97,813	177,027	274,840	-	
Purchase of transport vehicles	-	-	-	-	-	3,307	-	3,307	350	
Consumption credit	-	-	-	-	-	88	-	88	15	
Others	-	-	134,984	10,469	3,776	104,305	10,418	263,952	315,404	
Total	1,528,722	152,454	3,164,443	437,191	336,793	661,715	229,460	6,510,778	6,731,183	
Assets not subject to credit risk	-	-	-	12,305	1,223	(10,432) [^]	-	3,096	-	
	1,528,722	152,454	3,164,443	449,496	338,016	651,283	229,460	6,513,874	6,731,183	

[^] Excludes general allowance amounting to RM10,432,000.

* Comprises credit equivalent balances of credit related contracts and derivatives amounting to RM355,997,000 and RM10,300,000 respectively.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

C Credit risk (continued)

The following table sets out the credit risk concentrations of the Group by asset class:

	← Bank →							On- balance sheet total	Commitments and contingencies*
	← 31.12.2005 →								
	Short term funds and placements with financial institutions RM'000	Securities purchased under resale agreements RM'000	Securities held-for- trading RM'000	Securities available- for-sale RM'000	Securities held-to- maturity RM'000	Loans and advances RM'000	Clients' and brokers' balances and other financial assets RM'000		
Agricultural	-	-	-	4,142	33,287	20,305	334	58,068	-
Mining and quarrying	-	-	-	-	-	33,081	-	33,081	130
Manufacturing	-	-	217,600	11,850	94,768	135,573	3,001	462,792	228,031
Electricity, gas and water	-	-	159,478	-	-	4,113	3,811	167,402	1,383,378
Construction	-	-	34,848	-	-	35,320	254	70,422	246,998
Real estate	-	-	29,577	86,719	-	118,503	2,183	236,982	47,500
General commerce	-	-	29,963	24,905	-	31,034	606	86,508	88,289
Transport, storage and communication	-	-	75,715	-	97,942	-	799	174,456	107,300
Finance, insurance and business services	193,859	77,418	817,993	14,956	-	-	147,192	1,251,418	3,570,359
Government and government agencies	545,300	-	78,815	-	104,907	-	886	729,908	-
Purchase of landed property	-	-	-	-	-	15,342	-	15,342	256
Purchase of securities	-	-	-	-	-	227,411	141,927	369,338	23,549
Purchase of transport vehicles	-	-	-	-	-	2,989	-	2,989	165
Consumption credit	-	-	-	-	-	15,911	-	15,911	887
Others	-	-	119,892	291	5,594	97,121	3,544	226,442	53,583
Total	739,159	77,418	1,563,881	142,863	336,498	736,703	304,537	3,901,059	5,750,425
Assets not subject to credit risk	-	-	-	14,578	1,223	(12,056) [^]	-	3,745	-
	739,159	77,418	1,563,881	157,441	337,721	724,647	304,537	3,904,804	5,750,425

[^] Excludes general allowance amounting to RM12,056,000.

* Comprises credit equivalent balances of credit related contracts and derivatives amounting to RM331,016,000 and RM10,506,000 respectively.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

C Credit risk (continued)

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 35.

40 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets, financial liabilities and off-balance sheet financial instruments. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents the estimates of fair values as at the balance sheet date.

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

In addition, fair value information for non-financial assets and liabilities is excluded as they do not fall within the scope of Financial Reporting Standards ('FRS') 132₂₀₀₁ (formerly known as MASB 24) which requires the fair value information to be disclosed. These include property, plant and equipment, investments in subsidiaries and intangible.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

A range of methodologies and assumptions has been used in deriving the fair values of the Group's and the Bank's financial instruments at balance sheet date. The total fair value of each financial instrument is not materially different from the total carrying value, except for the following financial assets and liabilities:

	Group		Bank	
	2006		2006	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial assets				
Securities held-to-maturity	338,016	341,198	338,016	341,198
Financial liabilities				
Deposits from customers	1,862,853	1,864,622	1,862,853	1,864,622
Deposits and placements of banks and other financial institutions	1,953,124	1,954,413	1,953,124	1,954,413
Subordinated bonds	165,000	171,007	165,000	171,007

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	Group		Bank	
	2005		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
	RM'000	RM'000	RM'000	RM'000
Financial assets				
Securities held-to-maturity	337,721	339,107	337,721	339,107
Financial liabilities				
Deposits and placements of banks and other financial institutions	1,003,680	1,003,230	1,003,680	1,003,230
Subordinated bonds	165,000	175,676	165,000	175,676

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

Deposits and placements with banks and other financial institutions

For deposits and placements with banks and other financial institutions with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair values. For deposits and placements with maturities one year and above, fair value is estimated based on discounted cash flows using prevailing money market interest rates at which similar deposits and placements would be made with banks and other financial institutions of similar credit risks and maturities.

Securities portfolio

The estimated fair value is generally based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been estimated by reference to market indicative yields or net tangible asset backing of the investee. Where discounted cash flow technique is used, the estimated cash flows are discounted using the prevailing market rates for a similar instrument as at balance sheet date.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Loans and advances

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

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

The fair values of impaired floating and fixed rate loans are represented by their carrying amounts, net of specific allowance, being the expected recoverable amount.

Deposits from customers

For deposits from customers with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair values. For deposit with maturities of one year or more, fair values are estimated using discounted cash flows based on prevailing market rates for similar deposits from customers.

Deposits and placements of banks and other financial institutions

The estimated fair values of deposits and placements of banks and other financial institutions with maturities of less than one year approximate the carrying amounts. For deposits and placements with maturities one year or more, the fair values are estimated based on discounted cash flows using prevailing money market interest rates for deposits and placements with similar maturities.

Long term debts

Long term debts comprise negotiable certificates of deposits issued by the Bank. The estimated fair values are estimated based on discounted cash flows using prevailing market rates for similar negotiable certificates of deposits. Where there are no ready market rates, fair values are estimated by reference to corporate bond indicative yields taking into consideration the credit rating of the Bank.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Amount due to Cagamas Berhad/Housing loans acquired for sale to Cagamas Berhad

For amounts with maturities of less than one year, the fair values approximate their carrying amounts. For amounts with maturities of more than one year, the fair values have been estimated based on discounted cash flows using prevailing rates offered by Cagamas Berhad for similar contract type and maturities.

Amounts due from/to subsidiaries and immediate holding company

The amounts due from/to subsidiaries and immediate holding company have no fixed terms of repayment and deemed repayable on demand. These balances are not materially sensitive to changes in market interest rates and the fair values approximate their carrying amounts as at balance sheet date.

Subordinated Bonds

The fair value has been estimated by reference to market indicative yields for similar credit risk profile and remaining maturity as at balance sheet date.

Credit risk related contracts

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

Foreign exchange rate, interest rate and equity contracts

The fair values of foreign exchange rate, interest rate and equity contracts are the estimated amounts the Group or the Bank would receive or pay to terminate the contracts as at balance sheet date.

Other financial instruments

The fair values of other financial instruments approximate their carrying amounts as at balance sheet date due to their short term tenure of less than one year.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

41 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

(a) Creation of an Investment Bank

RHB Capital Berhad ('RHB Capital'), the Bank's holding company, announced on 4 July 2006 that BNM and the Securities Commission ('SC') had approved the proposed establishment of an investment bank by its subsidiary, RHB Investment Bank, by way of the proposed acquisition of the assets and liabilities of RHB Excel and RHB Progressive ('Proposed IB Merger')

The said approval is conditional upon, amongst others, the following:

- (i) the implementation of the Proposed IB Merger is to be completed within a period of one year from 30 June 2006; and
- (ii) RHB Investment Bank shall comply with all requirements of the guidelines issued by BNM and SC in relation to the Investment Bank framework at all times.

RHB Excel and RHB Progressive are wholly-owned subsidiaries of RHB Investment Bank, which in turn is a wholly-owned subsidiary of RHB Capital.

RHB Capital announced on 13 October 2006 that RHB Sakura changed its name to RHB Investment Bank on 10 October 2006 in line with RHB Group's plan to transform the merchant bank into an investment bank.

On the 28 December 2006, RHB Capital announced that the vesting orders for the transfer of the business, assets and liabilities of RHB Excel and RHB Progressive respectively which was obtained on 12 December 2006, to RHB Investment Bank shall take effect on 30 December 2006, thereby completing the transformation of RHB Investment Bank into a full fledged investment bank.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

41 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (CONTINUED)

(a) Creation of an Investment Bank (continued)

The assets and liabilities of RHB Excel and RHB Progressive which were transferred to the Bank are set out below:

	RHB Excel RM'000	RHB Progressive RM'000	Total RM'000
Assets transferred			
Cash and short term funds	42,361	531	42,892
Securities purchased under resale agreements	112,504	39,950	152,454
Deposits and placements with banks and other financial institutions	120	–	120
Securities available-for-sale ('AFS')	5,123	2,200	7,323
Loans and advances	97,822	–	97,822
Clients' and brokers' balances	140,203	36,824	177,027
Other assets	2,866	1,981	4,847
Investment in subsidiary companies	63	–	63
Amount due from subsidiary companies	94	–	94
Tax recoverable	743	–	743
Property, plant and equipment	12,007	178	12,185
Goodwill	36,497	–	36,497
Total assets	450,403	81,664	532,067
Liabilities transferred			
Clients' and brokers' balances	187,285	64,087	251,372
Other liabilities	23,241	539	23,780
Taxation	5,026	302	5,328
Deferred tax liabilities	1,091	31	1,122
Total liabilities	216,643	64,959	281,602
Net assets transferred	233,760	16,705	250,465

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

41 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (CONTINUED)

(b) Acquisition and disposal of Straits Asset Holdings Sdn Bhd ('Straits Asset')

As at 31 December 2005, RHB Capital had an amount owing to certain subsidiaries of the Bank amounting to RM204.86 million, out of which approximately RM127.74 million was owing to SSSB Services (Melaka) Sdn Bhd ('SSSB'), a wholly-owned subsidiary of Straits Asset, whose ultimate holding company is the Bank. Pursuant to the letter from BNM to the Bank dated 4 October 2005, the said inter-company balances granted by the subsidiaries of the Bank to RHB Capital must be fully settled by 1 July 2006. In this regard, the Board of RHB Capital had on 30 March 2006 approved the Proposed Inter-Company Settlement which will be funded by the cash dividend of RM203.55 million declared and paid by the Bank to RHB Capital. The proceeds from the dividend payment was utilised by RHB Capital to acquire the entire equity interest in the Straits Asset pursuant to the transfer Straits Asset, as well as to settle the inter-company balances owing by RHB Capital to the subsidiaries of the Bank.

The Transfer involves the following steps:

- (i) Acquisition by the Bank of the entire issued and paid-up share capital of Straits Asset from RHB Marketing for a purchase consideration of RM48.43 million and satisfied via the setting off of an amount owing by RHB Marketing to the Bank; and
- (ii) Disposal of the entire issued and paid-up share capital of Straits Asset by the Bank to RHB Capital for a purchase consideration of RM130.78 million.

The above inter-company balances were fully settled on 22 September 2006.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

41 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (CONTINUED)

(b) Acquisition and disposal of Straits Asset Holdings Sdn Bhd ('Straits Asset') (continued)

The disposal of Straits Asset gave rise to a gain on disposal of a subsidiary of RM82.35 million.

There is no material effect of the disposal on the results of the Group for the financial period up to the date of disposal.

The effect of the disposal on the financial position of the Group was as follow:

	At the date of disposal RM'000
Cash and short term fund	3,042
Amount due from holding company	127,744
Other assets	5
Other liabilities	(12)
Net assets	<u>130,779</u>
Net disposal proceeds	<u>130,779</u>
	<u>–</u>

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

41 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (CONTINUED)

(c) Writ of Summons filed at the High Court of Malaya in Kuala Lumpur

On 28 January 2005, a Writ of Summons had been filed at the High Court of Malaya in Kuala Lumpur by RHB Excel, RHB Capital and RHB Equities Sdn Bhd ("RHB Equities") against the following individuals:-

- Tan Sri Dato' Abdul Rashid bin Hj Mohamed Hussain in his capacity as former Executive Chairman of RHB Capital and of the Company and in his capacity as former Director of RHB Equities;
- Mr Chong Kin Leong in his capacity as former Director of RHB Capital and RHB Equities;
- Mr Seah Fook Chin in his capacity as former Director of RHB Capital and RHB Equities;
- Tuan Haji Tajul Ariffin bin Mohd Tahir in his capacity as former Executive Director of the Company and in his capacity as former Director of RHB Equities;
- Mr Ong Tiang Lock in his capacity as former Director of RHB Equities; and
- Encik Rosley bin Ahmad in his capacity as former principal legal advisor and former Company Secretary of RHB Capital, RHB Equities and the Company;

for a total sum of RM1,430,410,355.96 on the grounds of breach of fiduciary duties, breach of trust, breach of contracts of employment and/or negligence in relation to certain margin finance facilities granted by RHB Equities during the abovenamed individuals' tenure as Directors and/or officers of RHB Capital and/or RHB Equities and/or RHB Excel.

On 2 March 2005, RHB Capital, RHB Equities and RHB Excel filed a fresh Writ of Summons ("New Writ") on the additional grounds of dishonest breach of fiduciary duties and fraudulent breach of trust. The earlier Writ of Summons was discontinued upon filing of the New Writ.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

41 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (CONTINUED)

(c) Writ of Summons filed at the High Court of Malaya in Kuala Lumpur (continued)

The defendants, the amount claimed from them, and the grounds of claim as stated in the New Writ remains the same as in the earlier Writ of Summons filed on 28 January 2005, save and except for the addition of the grounds of dishonest breach of fiduciary duties and fraudulent breach of trust.

The defendants filed their defences on 12 May 2005. On 23 June 2005, RHB Capital, RHB Equities and RHB Excel filed replies to the defences.

The hearing of the suit will continue on 29, 30 and 31 January 2007 as earlier scheduled.

Pursuant the vesting order pertaining to the transfer of business to the Bank, all legal proceedings which have not been completed and in which or where RHB Excel is a party, will be continued by the Bank as if RHB the Bank is party instead of RHB Excel.

42 COMPARATIVE FIGURES

On 30 December 2006, RHB Excel and RHB Progressive, wholly-owned subsidiaries of the Bank transferred the entire stockbroking and futures broking businesses together with prescribed assets and liabilities to the Bank pursuant to a Vesting Order granted from High Court of Malaya. The transfer of businesses has been accounted for using merger method of accounting.

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

42 COMPARATIVE FIGURES (CONTINUED)

The results prior to the date of the merger that are included in the net profit of the merged Bank were as follows:

	As previously reported RM'000	Bank Effect of the change RM'000	As restated RM'000
2005			
INCOME STATEMENT			
Interest income	145,649	11,800	157,449
Interest expense	(107,379)	(1,898)	(109,277)
Net interest income	38,270	9,902	48,172
Other operating income	147,649	52,614	200,263
Net income	185,919	62,516	248,435
Other operating expenses	(46,159)	(53,790)	(99,949)
Operating profit before allowances	139,760	8,726	148,486
Allowances for losses on loans and other losses	(31,613)	(9,723)	(41,336)
Allowances for impairment loss	(6,781)	–	(6,781)
Profit before taxation	101,366	(997)	100,369
Taxation	(28,411)	1,376	(27,035)
Net profit for the financial year	72,955	379	73,334

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

42 COMPARATIVE FIGURES (CONTINUED)

The following comparative figures have been restated arising from the acquisition of assets and liabilities of RHB Excel and RHB Progressive:

	As previously reported RM'000	Bank Effect of the change RM'000	As restated RM'000
2005			
ASSETS			
Cash and short term funds	608,864	28,374	637,238
Securities purchased under resale agreements	–	77,418	77,418
Deposits and placements with banks and other financial institutions	100,000	1,921	101,921
Securities held-for-trading	1,563,881	–	1,563,881
Securities available-for-sale ('AFS')	153,402	4,039	157,441
Securities held-to-maturity	337,721	–	337,721
Loans and advances	639,599	85,048	724,647
Clients' and brokers' balances	–	162,220	162,220
Other assets	23,811	2,358	26,169
Amount due from holding company	–	61,332	61,332
Amount due from subsidiary companies	53,153	1,663	54,816
Deferred tax assets	6,939	–	6,939
Tax recoverable	16,936	124	17,060
Statutory deposit with Bank Negara Malaysia	76,606	–	76,606
Investments in subsidiaries	482,866	(371,276)	111,590
Property, plant and equipment	4,468	9,128	13,596
Goodwill	–	159,280	159,280
TOTAL ASSETS	4,068,246	221,629	4,289,875

Notes to the Financial Statements

for the financial year ended 31 December 2006 (continued)

42 COMPARATIVE FIGURES (CONTINUED)

	As previously reported RM'000	Bank Effect of the change RM'000	As restated RM'000
2005 (continued)			
LIABILITIES AND SHAREHOLDER'S EQUITY			
Deposits from customers	1,252,417	–	1,252,417
Deposits and placements of banks and other financial institutions	1,003,680	–	1,003,680
Obligations on securities sold under repurchase agreements	822,378	–	822,378
Clients' and brokers' balances	–	196,927	196,927
Other liabilities	36,382	20,715	57,097
Taxation	–	3,384	3,384
Deferred tax liabilities	–	186	186
Subordinated debt	165,000	–	165,000
TOTAL LIABILITIES	3,279,857	221,212	3,501,069
Share capital	338,646	–	338,646
Reserves	449,743	417	450,160
SHAREHOLDER'S EQUITY	788,389	417	788,806
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	4,068,246	221,629	4,289,875

43 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 5 March 2007.

Statement by Directors

pursuant to Section 169(15) of the Companies Act, 1965

We, Dato Abdullah Mat Noh and Dato' Mohamed Khadar Merican, being two of the directors of RHB Investment Bank Berhad, state that, in the opinion of the directors, the financial statements set out on pages 76 to 192 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Bank as at 31 December 2006 and of the results and cash flows of the Group and the Bank for the financial year ended 31 December 2006 in accordance with the MASB approved accounting standards in Malaysia for entities other than private entities, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with their resolution dated 5 March 2007.

DATO ABDULLAH MAT NOH

CHAIRMAN

DATO' MOHAMED KHADAR MERICAN

DIRECTOR

Statutory Declaration

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

I, Rafiza Ghazali, the officer primarily responsible for the financial management of RHB Investment Bank Berhad, do solemnly and sincerely declare that the financial statements set out on pages 76 to 192 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true by virtue of the provisions of the Statutory Declarations Act, 1960.

RAFIZA GHAZALI

Subscribed and solemnly declared by the abovenamed Rafiza Ghazali at Kuala Lumpur on 5 March 2007, before me.

MOHD RADZI BIN YASIN

COMMISSIONER FOR OATHS

Report of the Auditors

to the Members of RHB Investment Bank Berhad

We have audited the financial statements set out on pages 76 to 192. These financial statements are the responsibility of the Bank's directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We have conducted our audit in accordance with approved auditing standards in Malaysia. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965, MASB approved accounting standards in Malaysia for entities other than private entities and Bank Negara Malaysia Guidelines so as to give a true and fair view of:
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
 - (ii) the state of affairs of the Group and Bank as at 31 December 2006 and of the results and cash flows of the Group and Bank for the financial year ended 31 December 2006; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Bank and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

PRICEWATERHOUSECOOPERS

(No. AF: 1146)

Chartered Accountants

SOO HOO KHOON YEAN

(No. 2682/10/07 (J))

Partner of the firm

Kuala Lumpur
5 March 2007

