



RHB INVESTMENT BANK BERHAD  
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Jalan Tun Razak  
50400 Kuala Lumpur  
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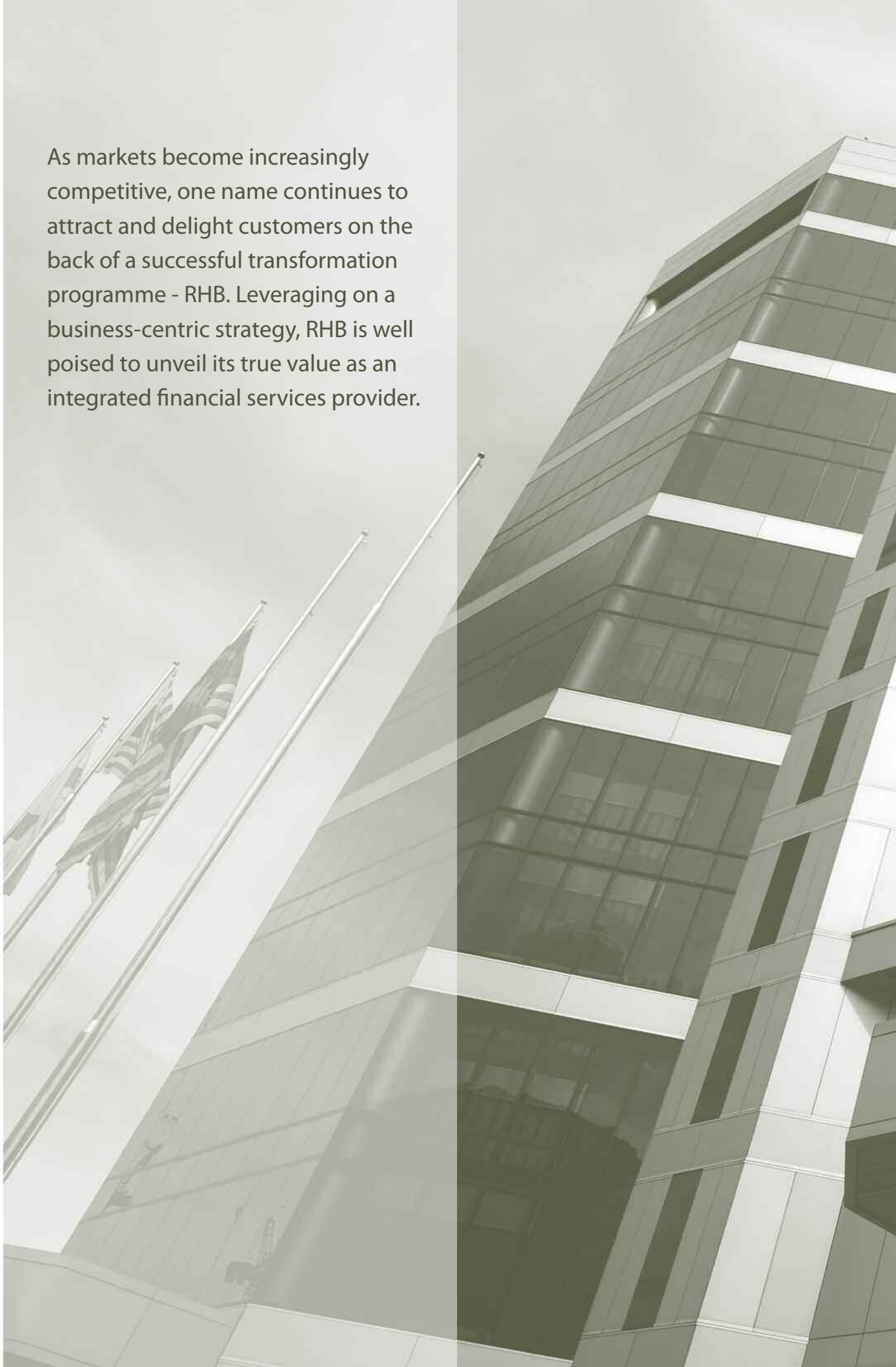
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**RHB INVESTMENT BANK BERHAD**  
ANNUAL REPORT **2007**



As markets become increasingly competitive, one name continues to attract and delight customers on the back of a successful transformation programme - RHB. Leveraging on a business-centric strategy, RHB is well poised to unveil its true value as an integrated financial services provider.





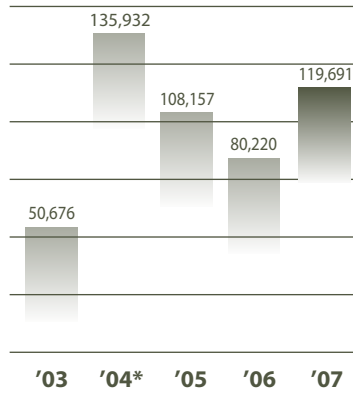
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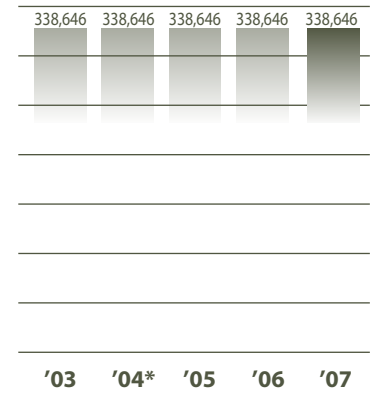
# financial highlights

	<b>Group</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004 *</b>	<b>2003</b>
	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>
<b>RESULTS</b>					
Profit before taxation	119,691	80,220	108,157	135,932	50,676
Profit after taxation and minority interests	83,870	64,729	78,905	100,056	35,752
Net dividends	52,910	162,942	53,642	97,530	48,765
<b>BALANCE SHEETS</b>					
Share capital	338,646	338,646	338,646	338,646	338,646
Shareholder's equity	696,690	710,001	801,457	833,112	753,890
Total assets	8,233,798	6,878,451	4,317,726	4,507,414	4,229,385
Loans and advances	851,544	651,283	724,647	806,877	975,997
Total deposits	6,872,435	3,815,977	2,256,097	2,513,219	2,819,588
<b>RATIOS</b>					
Earnings per share (sen)	24.8	19.1	23.3	29.5	10.6
Gross dividends per share (sen)	21.4	66.7	22.0	40.0	20.0
Net tangible assets per share (sen)	154.7	158.6	185.6	195.0	171.6
Return on shareholder's equity (%)	11.9	8.6	9.7	8.4	4.7

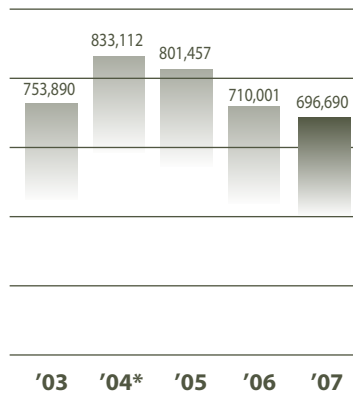
\* The Bank changed its financial year end from 30 June to 31 December with effect from the financial period ended 31 December 2004 and accordingly, the results for that financial period are for eighteen months. Certain figures have been restated arising from the retrospective application of the Revised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



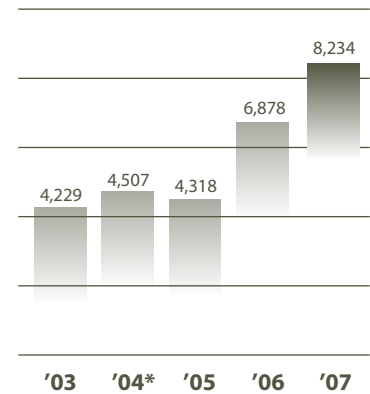
**Profit Before Taxation**  
(RM '000)



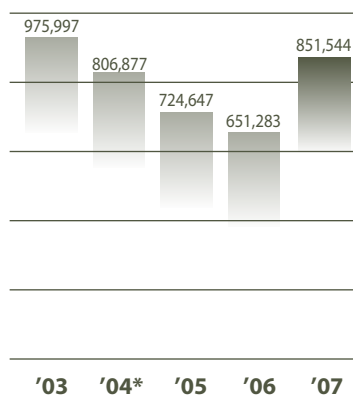
**Share Capital**  
(RM '000)



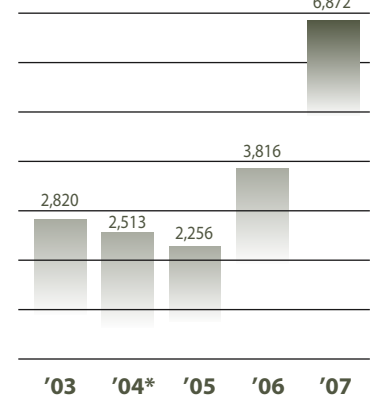
**Shareholder's Equity**  
(RM '000)



**Total Assets**  
(RM million)



**Loans and Advances**  
(RM '000)



**Total Deposits**  
(RM million)

\* 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 31 March 2008

## BOARD OF DIRECTORS

YBhg Dato Abdullah Mat Noh  
Independent Non-Executive Chairman

YBhg Datuk Azlan Zainol  
Non-Independent Non-Executive Director

YBhg Dato' Mohamed Khadar Merican  
Independent Non-Executive Director

Mr Akira Miyama  
Non-Independent Non-Executive Director

Mr Lew Foon Keong  
Independent Non-Executive Director

YBhg Datin Khamarzan Ahmed Meah  
Independent Non-Executive Director

Mr Patrick Chin Yoke Chung  
Independent Non-Executive Director

Mr Chay Wai Leong  
Managing Director

## COMPANY SECRETARY

Encik Azman Shah Md Yaman

## BOARD COMMITTEES

### AUDIT COMMITTEE

Mr Patrick Chin Yoke Chung  
Chairman

Mr Lew Foon Keong

YBhg Datin Khamarzan Ahmed Meah

### EXECUTIVE COMMITTEE

YBhg Dato Abdullah Mat Noh  
Chairman

Mr Akira Miyama

Mr Chay Wai Leong

YBhg Dato' Mohamed Khadar Merican

### GROUP REMUNERATION AND HUMAN RESOURCE COMMITTEE\*

YBhg Datuk Tan Kim Leong  
Chairman

YBhg Datuk Azlan Zainol

YBhg Datuk Haji Faisal Siraj

Encik Johari Abdul Muid

Encik Ismael Fariz Ali

## GROUP RISK MANAGEMENT COMMITTEE\*

YBhg Dato' Mohd Salleh Hj Harun  
Chairman

Tuan Haji Khairuddin Ahmad

Mr Patrick Chin Yoke Chung

YBhg Datin Khamarzan Ahmed Meah

YBhg Datuk Tan Kim Leong

## GROUP NOMINATING COMMITTEE\*

YBhg Datuk Haji Faisal Siraj  
Chairman

YBhg Datuk Azlan Zainol

YBhg Datuk Tan Kim Leong

Encik Johari Abdul Muid

Encik Ismael Fariz Ali

## CENTRAL LOANS COMMITTEE #

YBhg Dato Abdullah Mat Noh  
Chairman

Encik Ismael Fariz Ali

Encik Johari Abdul Muid

YBhg Dato' Mohamed Khadar Merican

Tuan Haji Khairuddin Ahmad

\* The Committee resides at RHB Capital Berhad and is shared with relevant subsidiaries of the Group.

# The Committee is established at RHB Bank Berhad and is shared with relevant subsidiaries of the Group.



## GROUP CENTRAL MANAGEMENT

Mr Michael J. Barrett  
Group Managing Director, RHB Capital Berhad

Puan Norazzah Sulaiman  
Chief Operating Officer, RHB Capital Berhad

Mr Kellee Kam Chee Khiong  
Chief Financial Officer, RHB Capital Berhad

Mr Chay Wai Leong  
Head, Corporate & Investment Banking

Puan Jamelah Jamaluddin  
Head, Islamic Banking

Mr Renzo Viegas  
Head, Retail Banking

Mr Michael Lim Kheng Boon  
Chief Operating Officer

Mr Rupert Koh Hock Joo  
Head, Central Finance

Puan Nik Hasniza Nik Ibrahim  
Head, Human Resources

## MANAGEMENT

Mr Chay Wai Leong  
Managing Director

## MANAGEMENT OF SUBSIDIARIES

**RHB Investment Management Sdn Bhd**  
(Formerly known as RHB Asset Management Sdn Bhd)

Puan Sharifatul Hanizah Said Ali  
Managing Director

### RHB Research Institute Sdn Bhd

Mr Lim Chee Sing  
Managing Director

## REGISTERED OFFICE

Level 10, Tower One  
RHB Centre  
Jalan Tun Razak  
50400 Kuala Lumpur  
Malaysia

Tel : 603-9287 8888  
Fax : 603-9280 6507

## COMPANY NO.

19663-P

## BUSINESS ADDRESS

### Head Office

Level 10, Tower One  
RHB Centre  
Jalan Tun Razak  
50400 Kuala Lumpur  
Malaysia

Tel : 603-9287 3888  
Fax : 603-2142 7568

### 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 : 6082-332 898, 342 898

## AUDITORS

PricewaterhouseCoopers  
Chartered Accountants  
Level 10, 1 Sentral  
Jalan Travers  
Kuala Lumpur Sentral  
50470 Kuala Lumpur  
Malaysia

# profile of the board of directors

## YBHG DATO ABDULLAH MAT NOH

**(67 years of age – Malaysian)  
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 and RHB Islamic Bank Berhad.

YBhg Dato Abdullah was appointed as a Director and formalised as Chairman of RHB Investment Bank on 7 May 2003 and 14 December 2003, respectively, representing RHB Capital Berhad, the holding company of RHB Investment Bank. YBhg Dato Abdullah was re-designated as Independent Non-Executive Chairman of RHB Investment Bank on 6 September 2007 after Utama Banking Group Berhad ceased to be a substantial shareholder of Rashid Hussain Berhad on 22 May 2007. YBhg Dato Abdullah also serves as the Chairman of the Executive Committee and Central Loans Committee.

## YBHG DATUK AZLAN ZAINOL

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

YBhg Datuk Azlan Zainol (“YBhg Datuk Azlan”) is currently the Chief Executive Officer of Employees Provident Fund Board (“EPF”). He has more than 27 years of experience in the financial 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 in England & Wales, Member of the Malaysian Institute of Accountants and Member of the Malaysian Institute of Certified Public Accountants.

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 Investment Bank on 27 July 2005, representing RHB Capital Berhad, the holding company of RHB Investment Bank. He also serves as a Member of the Group Nominating Committee and Group Remuneration and Human Resource Committee.

## YBHG DATO’ MOHAMED KHADAR MERICAN

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

YBhg Dato’ Mohamed Khadar Merican (“YBhg Dato’ Mohamed 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’ Mohamed Khadar has held various senior management positions in Pernas International Holdings Berhad (now known as Tradewinds Corporation 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.

YBhg Dato’ Mohamed 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.

YBhg Dato’ Mohamed Khadar’s other directorships in public companies include Rashid Hussain Berhad, RHB Capital Berhad, AirAsia Berhad and Astro All Asia Networks Plc.

YBhg Dato’ Mohamed Khadar was appointed as Independent Non-Executive Director of RHB Investment Bank on 4 December 2003. He also serves as a Member of the Central Loans Committee and Executive Committee.

## MR AKIRA MIYAMA

**(57 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 Investment Bank on 25 September 2000. He also serves as a Member of the Executive Committee.

## MR LEW FOON KEONG

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

Mr Lew Foon Keong (“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 has more than 25 years of investment banking experience. He started his career in 1983 in London with Wardley James Capel (then the merchant banking and stockbroking operations of the HongKong Bank Group) and subsequently worked for a 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, where he was responsible for the regional corporate finance business. In 1997, following the sale of Hoare Govett Asia to ABN AMRO Bank, Mr Lew was appointed as the Managing Director of ABN AMRO’s merchant banking operations in Singapore. In late 1999, Mr Lew founded Equator Capital Pte Ltd, 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’s other directorship in public company includes RHB Capital Berhad.

Mr Lew was appointed as an Independent Non-Executive Director of RHB Investment Bank on 15 March 2004. He also serves as a Member of the Audit Committee.

## YBHG DATIN KHAMARZAN AHMED MEAH

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

YBhg Datin Khamarzan Ahmed Meah (“YBhg Datin Khamarzan”) holds a Bachelor of Economic (Honours) Degree from University of Malaya and a Masters in Development Economics from Boston University, USA. She 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’s other directorships in public companies include Rashid Hussain Berhad, RHB Insurance Berhad and RHB Bank (L) Ltd.

YBhg Datin Khamarzan was appointed as an Independent Non-Executive Director of RHB Investment Bank on 3 April 2006. She also serves as a Member of the Group Risk Management Committee as well as the Audit Committee.

## profile of the board of directors

### MR PATRICK CHIN YOKE CHUNG

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

Mr Patrick Chin Yoke Chung (“Mr Patrick Chin”) was previously the Chairman of Schroders Malaysia Sdn Bhd. Prior to that, he was the Chief Representative/Country Head of Bankers Trust Company, Kuala Lumpur from 1995 to 1999. From 1994 to 1995, he was the Chief Representative of Morgan Grenfell responsible for co-ordinating the Company’s activities and business interests in Malaysia. He was also an Executive Director of Morgan Grenfell Asia-Kenanga Sdn Bhd and Head of Corporate Finance in Kuala Lumpur. From 1973 to 1993, he was with Asian International Merchant Bankers Berhad as Deputy Chief Executive Officer and Head of Corporate Finance.

Mr Patrick Chin is a Fellow Member of The Institute of Chartered Accountants in England and Wales. He also attended the Management Development Program at Harvard Business School.

Mr Patrick Chin’s other directorships in public companies include Muda Holdings Berhad and Leader Universal Holdings Berhad.

Mr Patrick Chin was appointed as a Director of RHB Investment Bank on 2 August 2007. He also serves as the Chairman of Audit Committee as well as a Member of the Group Risk Management Committee.

### MR CHAY WAI LEONG

**(44 years of age -  
Singaporean)  
Managing Director**

Mr Chay Wai Leong (“Mr Chay”) began his career in 1987 as a Senior Investment Analyst for Bankers Trust Brokerage (subsequently acquired by Deutsche Bank), in Singapore. He was with Jardine Fleming Securities Ltd in Hong Kong from 1990 to 1996, where he served as Director of Corporate Finance. His main responsibilities were regional coverage-origination and execution of transactions in Hong Kong, China, Philippines, Taiwan, Singapore and Malaysia. From 1997 to 2000, he was with Pesaka Jardine Fleming Sdn Bhd, Kuala Lumpur as Director, Head of Corporate Finance whereby the team led by him, specialising in equity capital markets as well as mergers and acquisitions, had won Euromoney’s Annual Award for “Best Foreign Securities Firm in Malaysia” for four consecutive years. In 2000 to 2001, he was with JPMorgan Malaysia as Director, Head of Investment Banking. Prior to joining RHB Investment Bank, he was the Country Head of Malaysia for

Standard Bank from 2002 to 2006, the largest bank in South Africa, where he was also responsible for originating emerging market debt issues and resource-sector banking products in the Asia Region. On 1 November 2006, he was appointed as the Chief Executive Officer of RHB Investment Bank.

Mr Chay holds a Bachelor Degree in Business Administration from the National University of Singapore.

Mr Chay’s other directorships include RHB Investment Management Sdn Bhd and RHB Research Institute Sdn Bhd (Chairman).

Mr Chay was appointed as the Managing Director of RHB Investment Bank on 8 October 2007. He also serves as a Member of the Executive Committee.

# awards and recognition

## RHB Investment Bank Berhad

2007 Awards	Description
FinanceAsia Achievement Awards	Best Malaysia Deal and Best Domestic M&A Deal Adviser to Maxis Communications Berhad on the take-over offer by Binariang GSM Sdn Bhd
Asiamoney Country Awards	Best Deal in Malaysia Adviser to Kumpulan Guthrie for Synergy Drive's acquisition of Sime Darby, Kumpulan Guthrie and Golden Hope Plantations
Bursa Malaysia	Top Financial Futures Broker Award
Rating Agency Malaysia (RAM) Award of Distinction	Outstanding Deal of The Year Joint Lead Manager for RM19 Billion Medium Term Notes issued by Binariang GSM Sdn Bhd
Asiamoney Brokers Poll	Best Local Brokerage (rank 2) Best Execution (rank 3) Best in Sales Trading (rank 3)
Malaysian Rating Corporation Berhad (MARC)	No. 3 in Conventional Bonds Issue Count

## RHB Research Institute Sdn Bhd

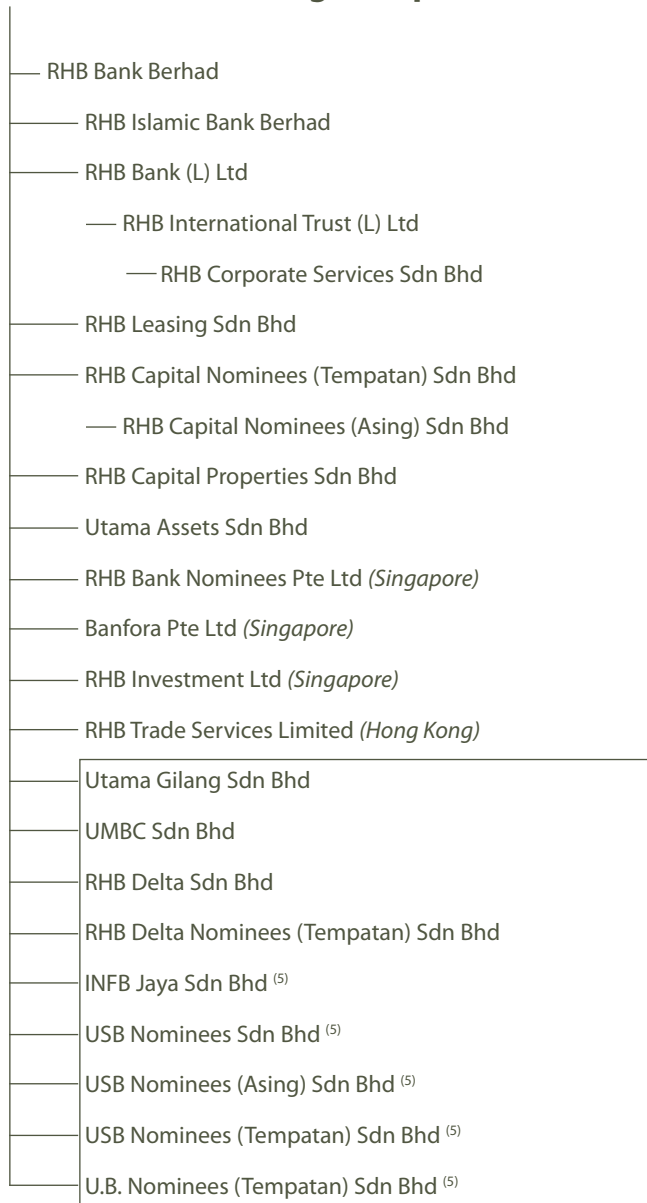
2007 Awards	Description
StarMine Broker Rankings, Malaysia*	Ranked 1 <sup>st</sup> for Stock Picking on FTSE Bursa Malaysia 30 Index
StarMine Analyst Awards for Asia*	Top Stock Picker in Energy & Chemicals Industry – 1 <sup>st</sup> Place for Yap Huey Chiang Top Stock Picker in Real Estate Industry – 1 <sup>st</sup> Place for Low Yee Huap Top 2 Stock Picker in Media Industry
Asset Asian Currency Bond Survey	Best Analyst / Economist – Ray Choy Swee Yew
Asiamoney Brokers Poll	Best Research on Macroeconomics (rank 1) Best Local Brokerage (rank 2) Most Independent Research (rank 3) Food, Beverage & Tobacco (rank 3)
The Edge	Best Oil and Gas Analyst – 1 <sup>st</sup> Place for Yap Huey Chiang Best Technology Analyst – 2 <sup>nd</sup> Place for Yap Huey Chiang Best Utilities Analyst – 2 <sup>nd</sup> Place for Yap Huey Chiang Malaysia's Top 3 Economist – 3 <sup>rd</sup> Place for Lim Chee Sing

\* StarMine is a strategic partner of Thomson Financial

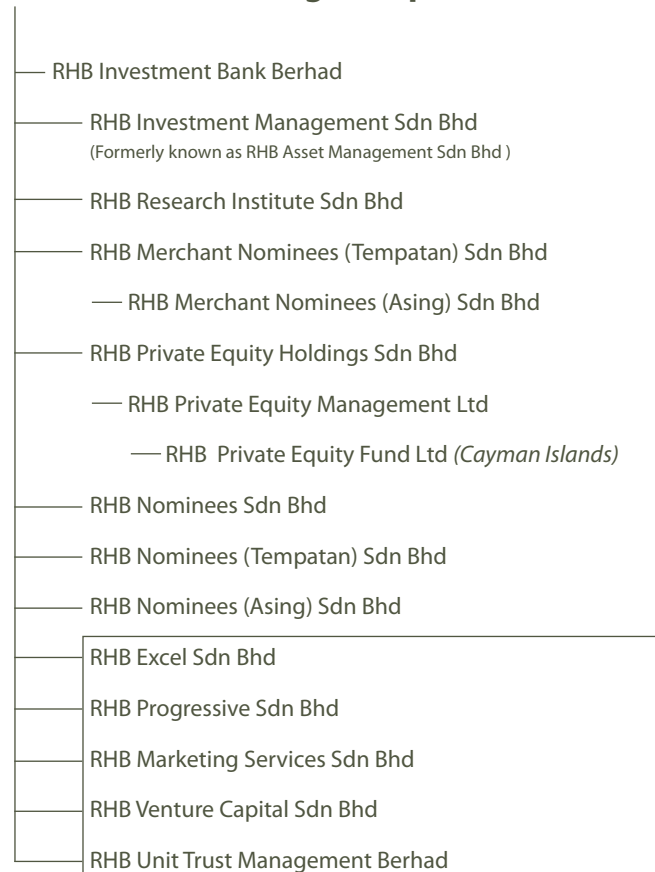
# RHB Banking Group corporate structure

as at 31 March 2008

## Commercial Banking Group



## Investment Banking Group





## RHB CAPITAL BERHAD

### Others

— RHB Insurance Berhad <b>(79.5%)</b>
— RHB Equities Sdn Bhd <sup>(1)</sup>
— KYB Sdn Bhd
— RHB Capital (Jersey) Limited
— Rashid Hussain Securities (Philippines), Inc <i>(Philippines)</i> <sup>(2)</sup>
— PT Rashid Hussain Securities <i>(Indonesia)</i> <b>(85%)</b> <sup>(3)</sup>
— RHB Hartanah Sdn Bhd
— Positive Properties Sdn Bhd <b>(50%)</b>
— Straits Asset Holdings Sdn Bhd
— SSSB Services (Melaka) Sdn Bhd
— SFSB Services (Melaka) Sdn Bhd
— RHB Dynamic Technologies Sdn Bhd <sup>(4)</sup>
— RHB Bena Sdn Bhd <sup>(4)</sup>
— KYB Trust Management Sdn Bhd <sup>(4)</sup>
— Kwong Yik Nominees (Asing) Sdn Bhd <sup>(4)</sup>
— Kwong Yik Nominees (Tempatan) Sdn Bhd <sup>(4)</sup>
— RHBF Sdn Bhd
— KYF Sdn Bhd

### Notes:

The subsidiary companies are wholly-owned unless otherwise stated.

Dormant company

Associate company

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

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

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

<sup>(4)</sup> The company has commenced members' voluntary winding-up on 26 November 2007.

<sup>(5)</sup> The company has commenced members' voluntary winding-up on 25 March 2008.

*Country of incorporation is in Malaysia unless otherwise indicated in italics.*

# corporate governance statement

## Introduction

The Board of Directors ('Board') of RHB Investment Bank Berhad ('RHB Investment Bank' or 'the Bank') continuously supports the institution of relevant framework and designs in upholding the principles and best practices of corporate governance.

The Board of the Bank is committed to enhance the level of governance by among others, ensuring effective day to day operations and interactions as well as discharging its fundamental roles and responsibilities based on highest practice levels.

In furtherance to the above, the Board of RHB Investment Bank is pleased to report on the application by the Bank and its subsidiary companies ('Group') of the principles contained in the Malaysian Code on Corporate Governance (Revised 2007) ('Code') and the extent of compliance with the best practices of the Code. The Bank is also governed by Bank Negara Malaysia's (BNM) Guidelines On Corporate Governance For Licensed Institutions (Revised BNM/GP1).

## BOARD OF DIRECTORS

### Board's Responsibilities

Being the ultimate decision making body, the Board subscribes to the principles of good corporate governance and as such, will always ensure that the Bank and its Group adopt best practices in the conduct of the Bank's and the Group's businesses and operational activities. Board Meetings are held on a scheduled basis in ensuring relevant policy, strategy and business performance issues are discussed and accordingly tracked and monitored. Special Board Meetings are also convened when the need arose and that includes Joint Meetings with the subsidiaries. At the operational level, relevant Board Committees and Management Committees at the Bank and its operating subsidiaries were also established. Reports from these Board and Management Committees are elevated to the Board for notation and/or further direction, as and when required.

### Composition of the Board

The Board currently has eight (8) members, comprising an Independent Non-Executive Chairman, two (2) Non-Independent Non-Executive Directors, four (4) Independent Non-Executive Directors and a Managing Director, details of which are as follows:

Name of Director	Designation
YBhg Dato Abdullah Mat Noh	Independent Non-Executive Chairman
YBhg Datuk Azlan Zainol	Non-Independent Non-Executive Director
YBhg Dato' Mohamed Khadar Merican	Independent Non-Executive Director
YBhg Datin Khamarzan Ahmed Meah	Independent Non-Executive Director
Mr Akira Miyama	Non-Independent Non-Executive Director
Mr Lew Foon Keong	Independent Non-Executive Director
Mr Patrick Chin Yoke Chung	Independent Non-Executive Director
Mr Chay Wai Leong	Managing 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.

YBhg Dato' Vaseehar Hassan Abdul Razack resigned as a Non-Independent Non-Executive Director on 31 December 2007.

Encik Johari Abdul Muid resigned as a Non-Independent Non-Executive Director on 3 January 2008.

The Board had in 2007, conducted the Board Effectiveness Evaluation for assessment year 2006, 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 2007 will be conducted accordingly. The Board Effectiveness Evaluation will be further enhanced with an improvement programme to achieve among others:

- Alignment on the Board's priorities;
- Intensify performance management; and
- Increase visibility in the area of human capital management.

Individually, the Directors possess the knowledge and skills in identifying key issues, constructively challenge, collaborate to solve problems, propose solutions as well as support the Management. Collectively, the Board reflects the ability with the skills and attributes that are required by the Bank in meeting its goals and objectives while at the same time serving the interest of shareholders and stakeholders.

The Directors bring together to the Board a wide range of business management skills, as well as banking and financial experience required for the management of one of the largest banks in the country. All Board members participate fully in the deliberation and decision making process on key issues involving the Group.

There are clear division of responsibilities between the Board and the Managing Director ('MD') to ensure the balance of power and authority. The MD's primary responsibilities are to manage the Bank's day-to-day operations and is ultimately responsible and accountable for the implementation of decisions or policies as approved by the Board, spearheading the Management team and instilling corporate culture. The MD together with the Non-Executive Directors also ensure that strategies are fully discussed and examined, 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 conducts its business with. Each Director further brings an independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

Following a group-wide strategic transformation programme in 2007 ('Transformation Exercise'), there is a significant change in the organisational and reporting structure of all the companies within the RHB Banking Group. The core businesses, which were conducted by various legal entities within RHB Banking Group, has been streamlined

into four Strategic Business Units ('SBUs') comprising Retail, Corporate Investment Banking, Islamic and International, alongside four Strategic Functional Units ('SFUs'), namely Operations & Support, Finance, Risk Management and Human Resources. A Central Management Committee ('CMC') comprising key management personnel of RHB Banking Group has been established to among others manage the operations of the Group and provide strategic guidance to the SBUs and SFUs. The CMC also recommends to the Boards of the respective companies on the implementation of key strategic business plans and policies and assists the Boards of the respective companies in reviewing its performances and business efficiency.

All decisions of the Board are based on the decision of the majority and no single Board member can make any decisions on behalf of the Board, unless duly authorised by the Board of Directors. No individual or a group of individuals dominates the decision making process. This enables the Board to effectively discharge its principal responsibilities as set out in the Code and Revised BNM/GP1.

The profile of each Director is presented on page 6 to page 8 of the Annual Report.

**Board Meetings and Supply of Information to the 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 taken between the scheduled meetings.

The Board convened sixteen (16) meetings for the financial year ended 31 December 2007. 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	16/16	100
YBhg Datuk Azlan Zainol	16/16	100
YBhg Dato' Mohamed Khadar Merican	15/16	94
YBhg Datin Khamarzan Ahmed Meah	12/16	75
Mr Akira Miyama	15/16	94
Mr Lew Foon Keong	14/16	88
Mr Patrick Chin Yoke Chung <sup>(1)*</sup>	7/7	100
Mr Chay Wai Leong (MD) <sup>(2)*</sup>	4/4	100
YBhg Dato' Vaseehar Hassan Abdul Razack <sup>(3)</sup>	14/16	88
Encik Johari Abdul Muid <sup>(4)</sup>	14/16	88

## Notes:-

- (1) Appointed on 2 August 2007  
(2) Appointed on 8 October 2007  
(3) Resigned on 31 December 2007  
(4) Resigned on 3 January 2008

\* Based on the number of meetings held since he was appointed to the Board

Pursuant to the Revised BNM/GP1, individual directors must attend 75% of the board meetings held in each financial year. For the year under review, all Directors complied with the attendance requirement as stipulated by BNM.

Scheduled Board meetings are structured with a pre-set agenda. In line with the best practice, the Management will deliver Board materials/papers to Board Members at least seven (7) days prior to the scheduled Board Meeting date. This move will provide reasonable time for the

Board Members to digest the relevant information and be ready for the necessary deliberations during the Meeting. 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 and marketing strategy and budget, annual interim results, material contracts, major capital expenditure, credit policies and guidelines are usually reserved for the Board's deliberation and decision.

The Management shall provide all material information that is relevant for the Board to administer/monitor the overall running of the Bank. The Chairman of the Board will lead the organisation of information based on the Agenda during the Board Meeting.

The Directors are kept abreast of the Bank's performance via the various monthly reports tabled at the Board meetings and Board Committee meetings. These reports include financial reports, major capital expenditure reports, risk reports, IT reports, compliance

reports, audit reports and report on major litigation cases. Minutes of meetings of the various committees of the Bank are tabled to the Board for notation.

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

#### **Directors' Training**

RHB Investment Bank complies with the Revised BNM/GP1, which requires a licensed institution to develop in-house orientation and education programmes for its newly appointed directors to familiarise them with the company and the industry. In addition, members of the Board keep abreast with the relevant developments in business, banking and finance industry as well as new regulatory requirements on a continuous basis via various conferences, seminars and training programmes organised within the Group and by other external organisers. The topics presented at these programmes are wide-ranging and provide the Directors with current updates on various business, management, compliance and regulatory issues.

#### **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 Group Nominating Committee, which functions at the holding company of RHB Investment Bank i.e. RHB Capital Berhad ('RHB Capital'). The Group Nominating Committee thereafter recommends its findings to the Board of RHB Investment Bank for approval. The appointments are further subject to BNM's approval. In the case of a re-appointment of a director for an additional term, the particular

director's performance evaluation under the Board Effectiveness Evaluation shall be referred to in assessing among others his/her knowledge, skills, mindset, contributions and collaboration with other fellow Directors as well as the Management.

In accordance with the Bank's Articles of Association, one-third (1/3) of the Directors shall retire from office but shall be eligible for re-election at each Annual General Meeting. Directors who are appointed by the Board during the financial period are also subject to re-election by shareholders at the next Annual General Meeting following their appointments.

#### **Directors' Remuneration**

There is a formal and transparent procedure for fixing Directors' remuneration packages. The level of remuneration is sufficient to attract and retain Directors of calibre to navigate the Bank accordingly. The Group Remuneration and Human Resource Committee, which also functions at RHB Capital, will review the remuneration framework of Directors, Board Committee Members and Key Senior Management Officers.

In the case of 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. For the MD, his remuneration is structured so as to link rewards to his contributions and achievements, in tandem with the Bank's/Group's corporate objectives, culture and strategy.

The Board determines the remuneration packages of the Non-Executive Directors subject to shareholder's approval for the Directors' fees. The annual Directors' fees for Non-Executive Directors is RM60,000 per Director. Meeting attendance allowances have been fixed at RM1,000 per meeting per Director.

## **BOARD COMMITTEES**

### **Audit Committee**

The Board has established an Audit Committee since 23 June 1997. The Audit Committee presently comprises three (3) Independent Non-Executive Directors of whom one (1) is the Chairman, as follows:

1. Mr Patrick Chin Yoke Chung  
Chairman  
(appointed on 31 January 2008)
2. Mr Lew Foon Keong
3. YBhg Datin Khamarzan Ahmed Meah

### **Previous Members**

1. YBhg Dato' Mohamed Khadar Merican  
(resigned on 31 January 2008)
2. YBhg Dato' Vaseehar Hassan Abdul Razack  
(resigned on 23 January 2007)

The Audit Committee meets regularly 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. The Head of Finance, internal auditors as well as the external auditors are invited to these meetings as and when necessary.

To ensure the independence and objectivity of the external auditors, the Audit Committee meets with the external auditors without the presence of the Management at least twice a year. The terms of reference of the Audit Committee are set out in page 30 to page 31 of this Annual Report.

**Executive Committee**

The Board has established the Executive Committee ('EXCO') since 9 September 1974. The EXCO presently comprises two (2) Independent Non-Executive Directors including the Chairman of the Bank, one (1) Non-Independent Non-Executive Director and the MD, as follows:

1. YBhg Dato Abdullah Mat Noh  
Chairman
2. Mr Akira Miyama
3. YBhg Dato' Mohamed Khadar Merican  
(appointed on 31 January 2008)
4. Mr Chay Wai Leong  
(appointed on 1 January 2008)

**Previous Member**

1. YBhg Dato' Vaseehar Hassan Abdul Razack  
(resigned on 31 December 2007)

The objective of the EXCO is to carry out the duties and responsibilities as delegated by the Board in, inter alia, managing the business, operational performance and credit risk of the Bank.

The Terms of Reference of the EXCO are set out in page 19 to page 20 of this Annual Report.

**Group Nominating Committee**

The Board has established the Nominating Committee ('NC') since 7 May 2003. On 1 January 2008, the Group Nominating Committee ('Group NC') was formally established at RHB Capital to undertake the roles and responsibilities of the NCs within the RHB Banking Group. Accordingly, the NC of RHB Investment Bank has been dissolved on the same date.

The Group NC presently comprises directors within the RHB Banking Group i.e. three (3) Independent Non-Executive Directors of whom one (1) is the Chairman, and two (2) Non-Independent Non-Executive Director, as follows:

1. YBhg Datuk Faisal Siraj  
Chairman
2. YBhg Datuk Azlan Zainol
3. YBhg Datuk Tan Kim Leong
4. Encik Johari Abdul Muid
5. Encik Ismael Fariz Ali

Apart from identifying and selecting candidates for new appointments, the Group NC is also responsible for assessing the effectiveness of individual Directors, Board as a whole and the various committees of the Board, Group Shariah Committee members, chief executive officers and key senior management officers of the relevant companies in the Group. The Group NC reviews annually 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.

As a tool to assist the Group NC in its yearly assessment on the effectiveness of an individual director within the Group, the Bank and its major operating subsidiaries have adopted the Board Effectiveness Evaluation methodology for its Board, Board Committees and the individual directors, in line with the Corporate Governance Standards.

The Company Secretary complements the functions of the Group NC by ensuring all regulatory requirements are strictly adhered to and all relevant records and returns are updated regularly.

The Terms of Reference of the Group NC are set out in page 20 to page 22 of this Annual Report.

**Group Remuneration and Human Resource Committee**

The Board has established the Remuneration and Human Resource Committee ('RHRC') since 31 October 2001. On 1 January 2008, the Group Remuneration and Human Resource Committee ('Group RHRC') has also been established at RHB Capital to undertake the role and responsibilities of the RHRCs within the RHB Banking Group. Arising therefrom, the RHRC of RHB Investment Bank has been dissolved accordingly.

The Group RHRC presently comprises directors within the RHB Banking Group i.e. three (3) Independent Non-Executive Directors of whom one (1) is the Chairman, and two (2) Non-Independent Non-Executive Directors, as follows:

1. YBhg Datuk Tan Kim Leong  
Chairman
2. YBhg Datuk Azlan Zainol
3. YBhg Datuk Faisal Siraj
4. Encik Johari Abdul Muid
5. Encik Ismael Fariz Ali

The Group RHRC assists the Board in ensuring that the directors and senior management of the Bank and the relevant subsidiaries are fairly rewarded for their individual contributions to the Group's overall performance and the levels of the remuneration are sufficient to attract and retain the best directors and senior management to manage the Group successfully.

The Terms of Reference of the Group RHRC are set out in page 22 to page 23 of this Annual Report.

### Group Risk Management Committee

The Board has established the Risk Management Committee ('RMC') since 20 December 2001. A Group Risk Management Committee ('Group RMC') for RHB Capital Group has been established at RHB Capital effective 1 November 2007. Accordingly, the RMC of the Bank has been dissolved on the same date.

The Group RMC presently comprises directors within the RHB Banking Group i.e. five (5) Independent Non-Executive Directors of whom one (1) is the Chairman, as follows:

1. YBhg Dato' Mohd Salleh Hj Harun  
Chairman
2. Tuan Haji Khairuddin Ahmad
3. Mr Patrick Chin Yoke Chung
4. YBhg Datin Khamarzan Ahmed  
Meah
5. YBhg Datuk Tan Kim Leong  
(appointed on 1 January 2008)

#### Previous Member

1. YBhg Dato' Vaseehar Hassan Abdul  
Razack  
(resigned on 31 December 2007)

The Group RMC monitors in-depth the governance of risks for each of the key operating subsidiaries as previously discharged by the individual RMCs i.e. RHB Capital, RHB Investment Bank, RHB Bank Berhad ('RHB Bank'), RHB Islamic Bank Berhad and RHB Insurance Berhad.

The Terms of Reference of the Group RMC are set out in page 23 to page 24 of this Annual Report.

### Central Loans Committee

BNM had, via its letter dated 16 April 2007, approved the establishment of a Central Loans Committee ('CLC'), which had its first meeting on 22 June 2007. The CLC centralised its functions of affirming, imposing additional covenants or vetoing credits of RHB Banking Group [presently comprising RHB Investment Bank, RHB Bank and RHB Bank (L) Ltd] which were duly approved by the Central Credit Committee.

Currently, the CLC comprises directors within RHB Investment Bank, RHB Bank and RHB Bank (L) Ltd i.e. four (4) Independent Non-Executive Directors of whom one (1) is the Chairman, and a Non-Independent Non-Executive Director, as follows:

1. YBhg Dato Abdullah Mat Noh  
Chairman
2. Encik Johari Abdul Muid
3. Encik Ismael Fariz Ali
4. YBhg Dato' Mohamed Khadar  
Merican
5. Tuan Haji Khairuddin Ahmad  
(appointed on 1 March 2008)

#### Previous Member

1. YBhg Dato' Othman Jusoh  
(resigned on 1 March 2008)

The Terms of Reference of the CLC are set out in page 25 to page 26 of this Annual Report.

### Disclosure On Group Shariah Committee

Apart from the above Board Committees, the RHB Banking Group has also established its Group Shariah Committee, which was established at RHB Islamic Bank Berhad comprising five (5) qualified local and foreign Shariah scholars; an assortment of knowledge, experience and approach from these mixed Shariah scholars are needed to position the RHB Banking Group's operations and products to be globally accepted.

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

1. Prof Dr Abdul Samat Musa  
Chairman
2. Dr Ahmed Mohieddin Almed
3. Prof Dr Joni Tamkin Borhan
4. Prof Dr Mohd Maksum Billah
5. Dr Abdulazeem Abozaid

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

- (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.

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 2007, 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

RHB Investment Bank maintains a high level of disclosure and extensive communication with its shareholder, RHB Capital, with the provision of clear, comprehensive and timely information through a number of readily accessible channels.

In furtherance to the above, the Bank also supports the Group's effort in fulfilling its corporate social responsibility to the Community by active involvement in various community and nation building campaigns.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

In presenting the annual audited financial statements and quarterly announcements of results to stakeholders, 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 34 of this Annual Report.

### Internal Control

The Statement of Internal Control set out on 27 to page 28 of this Annual Report provides an overview of the state of internal controls within the 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 are described in the Audit Committee Report set out on page 29 to page 31 of this Annual Report.

# terms of reference of board committees

## EXECUTIVE COMMITTEE

### 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.

### Duties and Responsibilities

- |  |  |  |
|--|--|--|
| <p>1. To review and thereafter affirm or veto:-</p> <p>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 so deemed necessary; and</p> <p>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.</p> <p>2. To note the credit applications and other accommodation/commitment which have been rejected by the Underwriting and Credit Committee.</p> <p>3. To review and thereafter affirm or veto the following:-</p> <p>a. Underwriting of equities and equity related instruments;</p> <p>b. Underwriting and subscription of PDS, including under 'bought-deal' structures; and</p> <p>c. Disposal of such instruments arising from (a) above;</p> | <p>as approved by the Underwriting and Credit Committee and, where appropriate, impose additional or more stringent terms and conditions so deemed necessary.</p> <p>4. Matters related to Treasury and to dealing in the stockbroking/ futures business:</p> <p>a. To consider and approve operational matters on activities which include investment, trading, broking and derivatives.</p> <p>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.</p> <p>5. To review and thereafter affirm/veto:-</p> <p>i) the restructuring and rescheduling of non-performing loans approved by the Underwriting and Credit Committee; and</p> <p>ii) settlement proposals for clients' outstanding position in respect of the Investment Bank's stockbroking/futures business approved by the Securities Credit Committee.</p> <p>6. To review and thereafter affirm/veto the restructuring and rescheduling of performing loans approved by the Underwriting and Credit Committee.</p> <p>7. To consider and approve:-</p> <p>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</p> | <p>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);</p> <p>ii) for share margin financing:</p> <ul style="list-style-type: none"> <li>• the waiver of rollover fee and other charges exceeding RM5,000.00 up to RM250,000.00 in respect of each client.</li> <li>• 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.</li> <li>• settlement proposal for client's outstanding position (payment installment scheme including interest waiver only).</li> </ul> <p>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.</p> <p>iv) the write-off of any fixed assets the value of which has been written down to RM1.00 in accordance with governing accounting principles.</p> |
|--|--|--|

## terms of reference of board committees

8. To consider and approve:-
- 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 principal 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 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.
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 MD'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.

### Membership

A minimum of three (3) members and a maximum of five (5) members as appointed by the Board with at least two (2) non-executive Directors.

**Minutes** : Standard requirement.

**Secretaries** : The Company Secretary or his representative.

### Composition

1. YBhg Dato Abdullah Mat Noh – Chairman (Independent Non-Executive Director)
2. Mr Akira Miyama - Member (Non-Independent Non-Executive Director)
3. Mr Chay Wai Leong - Member (Managing Director)
4. YBhg Dato' Mohamed Khadar Merican - Member (Independent Non-Executive Director)

### By Invitation

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

### GROUP NOMINATING COMMITTEE

#### Objectives

1. To provide a documented, formal and transparent procedure for the appointment of directors, board committee members, Group Shariah Committee members, chief executive officer and key senior management officers (Note : key senior management officers are defined as deputy chief executive officer, chief operating officer, and chief financial officer and members

**Meetings** : At least once a month.

**Quorum** : Three (3) members.



of the Central Management Committee) as well as assessment of effectiveness of individual directors, board, board committees and Group Shariah Committee as a whole and performance of the chief executive officer and key senior management officers of RHB Capital Berhad (RHB Capital) Group.

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.

### Roles 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 and key senior management officers. The requirements and criteria should be approved by the Board;
2. Recommending and assessing the nominees for directorship, board committee members, Group Shariah Committee members as well as nominees for the chief executive officer and key senior management officers. This includes assessing directors, Group Shariah Committee members and chief executive officer

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;

3. Overseeing the overall composition of the Board/Board committees, 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/board committee member/chief executive officer/Group Shariah Committee member and key senior management officers from the board/board committees/management if the director/board committee member/chief executive officer/Group Shariah Committee member/key senior management 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 and other key senior management officers. 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 and Group Shariah Committee members receive an appropriate induction and 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 key senior management officers;

8. Assessing, on an annual basis, that the directors, Group Shariah Committee members, chief executive officer and key senior management officers are not disqualified under the relevant regulations; and
9. Assessing the independence of the independent directors of RHB Capital Group on an annual basis.
10. To perform any other functions as defined by the Board.

### Authority

1. 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.
2. 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.
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 four (4) 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 director or members of management and employees of the Company to be in attendance during meetings to assist in its deliberations.

## terms of reference of board committees

3. Meetings of the Committee shall be governed by the provisions of the Company's Articles of Association relating to Board meetings except in so far as the same are 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.

### Composition

1. The nominating committee shall consist of a minimum of five members, of whom at least four must be non-executive directors. The committee should be chaired by an independent director.
2. 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.
3. 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 RHB Capital Group's annual report as follows:-

- Membership of the committee
  - Responsibilities of the committee;
  - Number of Committee meetings.
- RHB Capital Group is encouraged to disclose information on the number of meetings attended by each member of the committee; and

- A statement on the committee's assessment on the mix of skills, experience and other qualities of directors.

### GROUP REMUNERATION AND HUMAN RESOURCE COMMITTEE

#### Objectives

1. To provide a formal and transparent procedure for developing the remuneration policy for directors, board committee members, chief executive officer, Group Shariah Committee members and key senior management officers (Note : key senior management officers are defined as deputy chief executive officer, chief operating officer, and chief financial officer and Members of the Central Management Committee) of RHB Capital Berhad (RHB Capital) Group and ensuring that compensation is competitive and consistent with the RHB Capital Group's culture, objectives and strategy.
2. To recommend to the Board on the policies, strategies and framework for the RHB Capital 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 RHB Capital Group.
4. To oversee the disciplinary procedures, regulations and preventive measures as well as to ensure implementation and adherence to the disciplinary procedures.

#### Roles and Responsibilities

The remuneration committee is responsible for:-

1. Recommending a framework of remuneration for directors, board committee members, chief executive officer, Group Shariah Committee

members and key senior management officers for the Board's approval. The remuneration framework and policy should be documented and approved by the Board and any changes thereto should be subject to the endorsement of the Board. The remuneration framework should support the RHB Capital Group's culture, objectives and strategy and should reflect the responsibilities and commitment, which goes with board membership, board committee membership, Group Shariah committee membership and responsibilities of the chief executive officer and key senior management officers. 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 RHB Capital Group'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 directors, board committee members, chief executive officer, Group Shariah Committee members and key senior management officers. The remuneration package should be structured such that it is competitive and consistent with the RHB Capital Group's culture, objectives and strategy. The remuneration packages for executive directors (if applicable) should be structured to link rewards to corporate and individual performances to encourage high performance standards. 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. In addition, the remuneration of each board member may differ based on their level of expertise, knowledge and experience.

3. To ensure the establishment of a formal and transparent procedure for developing policies, strategies and framework for the remuneration of directors, management and staff, in general.
4. To review the Management's succession planning programme and leadership framework.
5. To review and assess the effectiveness of the HR Division in supporting the RHB Capital Group.
6. To perform any other functions as defined by the Board.

#### Authority

1. 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.
2. 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.
3. The Committee is authorised by the Board to seek appropriate professional advice as and when necessary or engage consultants at the RHB Capital Group's expense to aid the Committee in the discharge of its duties.

#### Meetings

1. The Committee shall meet at least four times a year with a quorum of three (3) members, among others to review the remuneration packages of the directors, board committee members, Group Shariah Committee members, chief executive officer and key senior management officers of

RHB Capital Group. Additional meetings are to be held as and when necessary.

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 Company's Articles of Association relating to Board meetings except in so far as the same are amended in these terms of reference.
4. Minutes of each Committee meeting shall be kept and distributed to all members of the Committee. The minutes of the Committee meeting shall be presented at the Board meeting and the Chairman of the Committee shall report on each meeting to the Board.
5. The Secretary to the Committee shall be the Company Secretary.

#### Composition

1. The committee shall comprise only non-executive directors, with at least three members and should be chaired by an independent director.
2. 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.
3. 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 should be briefly disclosed in the Directors' report of the RHB Capital Group's annual report as follows:-

- Membership of the committee;
  - Responsibilities of the committee; and
  - Number of committee meetings.
- RHB Capital Group is encouraged to disclose information on the number of meetings attended by each member of the committee.

### GROUP RISK MANAGEMENT COMMITTEE

#### Overriding Objectives

- (i) To provide oversight and governance of risks at the Group.
- (ii) To oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that the risk management process of each entity in the Group is in place and functioning.
- (iii) To promote the management of the Group's risk in accordance with a risk-return performance management framework.
- (iv) To deliberate and make recommendations to the BODs of each relevant entity within the Group in respect of risk management matters of the respective entities.

#### Roles and Responsibilities

The GRMC's role will continue the in-depth governance of risks for each of the key operating subsidiaries as presently discharged by the individual Risk Management Committee (RMC)s.

The key operating subsidiaries include RHB Capital Berhad, RHB Bank Berhad, RHB Investment Bank Berhad, RHB Islamic Bank Berhad, and RHB Insurance Berhad

In line with the BNM directives, RHB Islamic Bank should continue to have a dedicated risk management committee to deal with the risks and intricacies associated with Islamic finance.

## terms of reference of board committees

The GRMC is responsible for:

### Risk Strategy:

- (i) Reviewing the respective Licensed Institutions' risk management philosophy and strategy and to recommend to the respective Licensed Institutions' BODs for approval.
- (ii) Reviewing the risk management policies, controls and systems of the Group in line with the approved risk management philosophy and strategy, and to recommend to the respective Licensed Institutions' BODs for approval.
- (iii) Reviewing and proposing the setting of the risk appetite/tolerance at enterprise and at strategic business unit levels of the respective Licensed Institutions.
- (iv) Maintaining continued awareness of any changes in the Group's risk profile to ensure that the Group's business activities are in line with the overall risk strategy.

### Risk Organisation:

- (i) Overseeing the overall management of all risks covering market risk management, asset and liability management, credit risk management and operational risk management.
- (ii) Ensuring that there are clear and independent reporting lines and responsibilities for the overall business activities and risk management functions and recommending risk management derived organisational alignments where necessary to the relevant BODs.
- (iii) Cultivating a proactive risk management culture within the Group so that risk management processes are applied in the day-to-day business and activities.
- (iv) Appropriating independent review of the Group's risk management infrastructure, capabilities, environment and processes where necessary.

### Risk Measurement

- (i) Approving risk methodologies for measuring and managing risks arising from the Group's business and operational activities.
- (ii) Ensuring the appropriateness of the risk measurement methodologies (including assumptions made within the methodologies) under the prevailing business environment.
- (iii) Promoting the use of economic capital management
- (iv) Reviewing and recommending risk limits to the relevant BODs for approval and ensuring the risk limits are appropriate for the business activities.

### Processes & Technology Enablers

- (i) Ensuring that risk management processes such as risk identification, risk measurement and analysis, risk exposure reporting, and risk mitigation/transformation mechanisms are in place within the Group and are operating in an efficient and effective manner.
- (ii) Periodically (e.g. monthly) reviewing risk exposures of the Group in line with its risk strategy and objectives.
- (iii) Ensuring the adequacy of tools, systems and resources for the successful management of risk management functions within the Group.
- (iv) Reviewing the progress of all core risk management initiatives within the Group.

### Composition

The Group RMC should comprise only non-executive directors with at least five (5) members. Members of the Group RMC shall be directors who are exclusively non-executive in all of their directorships in the RHB Capital Group.

The Group RMC shall have a Chairman who shall be an independent director, and who shall be exclusively independent in all of his/her directorships in the RHB Capital Group.

RHB Capital Berhad, RHB Bank Berhad, RHB Investment Bank Berhad, RHB Islamic Bank Berhad and RHB Insurance Berhad respectively, shall have at least one (1) of its board directors being represented on the Group RMC and additional allowance for the above requirement, where it can be fulfilled by common directors.

### Meetings

- (i) The Group RMC shall meet monthly or as and when necessary
- (ii) Quorum for meetings shall be at least three (3) members
- (iii) The Secretary of the Group RMC shall be the Group Company Secretary or an official from Group Secretariat Division.
- (iv) Minutes of each meeting shall be kept and distributed to all members of the Group RMC.

### Confidentiality of Customer Information

Members of the GRMC shall be required to execute confidentiality undertakings in compliance to the secrecy requirement of the Banking and Financial Institutions Act 1989 (BAFIA) or other regulatory requirements in respect of information from entities which they do not hold directorship in.

### Disclosure

The activities of the Group RMC should be briefly disclosed in the Directors' report of the relevant entity's annual report as follows:

- (i) Membership of the Group RMC;
- (ii) Responsibilities of the Group RMC;
- (iii) Number of the Group RMC meetings as well as attendance of meetings by Group RMC members; and
- (iv) A statement on the Group's risk management framework.

## CENTRAL LOANS COMMITTEE

Appointed By	Board of Directors of RHB Bank Berhad Board of Directors of RHB Bank (L) Limited Board of Directors of RHB Investment Bank Berhad
Chairman	YBhg Dato Abdullah Mat Noh (Chairman)
Alternate Chairman	Any one of the Non-Executive directors
Members	1) Encik Ismael Fariz Ali 2) Encik Johari Abdul Muid 3) YBhg Dato' Mohamed Khadar Merican 4) YBhg Dato' Othman Jusoh
By Invitation	Chief Executive Officer(RHB Bank) Chief Executive Officer(RHB Investment Bank) Any other officers deemed appropriate by the Committee
Quorum	Three members of the Committee.
Decision	By majority vote, dissenting votes to be recorded.
Frequency Of Meetings	Twice a month or as and when necessary.
Secretary	Company Secretary.

## OBJECTIVES

- To affirm, veto or impose additional conditions on credits (including applications from Loan Recovery) for amounts above the defined thresholds approved by the Central Credit Committee.
- To ensure that credits approved by Central Credit Committee adhere to the Credit Policy and Procedures of RHB Bank Bhd, RHB Bank (L) Ltd and RHB Investment Bank Bhd.
- To endorse all write-offs to the respective Boards for approval.
- To endorse all policy loans and loans required by Bank Negara Malaysia to be referred to the respective Boards for approval.

## RESPONSIBILITIES

- To affirm/veto/ impose additional conditions on credit applications and renewals (including applications from Loan Recovery) approved by the Central Credit Committee above the following set thresholds:

	RHB Bank Bhd	RHB Bank (L) Ltd	RHB Investment Bank	Group Threshold
Internal Thresholds	RM 250 million (New/ Enhancements) RM 500 million (Renewals)	Part of the RHB Bank Bhd's threshold	RM 30 million (New/ Enhancements) RM 50 million (Renewals)	RM 280 million (New/ Enhancements) RM 550 million (Renewals)

## terms of reference of board committees

2. To affirm/veto/impose additional conditions in respect of all principal haircuts exceeding RM 3 million per borrower.
3. To affirm/veto/impose additional conditions in respect of all debt waivers of the written-off amount exceeding RM 3 million per borrower.
4. To affirm/veto/impose additional conditions in respect of all applications for additional credit facilities under Loan Recovery exceeding RM 5 million per borrower or 10% of the existing limit, whichever is lower.
5. To affirm/veto/impose additional conditions in respect of restructuring and/or rescheduling of loans.
6. To review and monitor to ensure that the respective entities are adhering to the following:-
  - a. The approved credit policies and practices;
  - b. Industry best practices is maintained;
  - c. Adequacy and effectiveness of the respective entities' credit risk grading system;
  - d. The respective entities' concentration of risk by:
    - customer or customer group;
    - geographical units;
    - industry;
    - security type; and
    - credit risk grade.
- e. That resources and mechanisms are in place such that the number and amount of sub-standard and non-performing assets are minimised and maintained within acceptable levels set by the respective Boards.
- f. Overall quality of the credit portfolio, outstanding and committed, of the respective entities;
7. To ensure that Management adequately address issues raised by Group Audit, external auditors and Bank Negara Malaysia Auditors relating to credit matters.
8. To endorse all write-offs to the respective Boards for approval.
9. To endorse all policy loans and loans required by Bank Negara Malaysia to be referred to the respective Boards for approval.

# statement of 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.

### 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 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.

To further strengthen the risk management process, the existing Risk Management Committees of RHB Investment Bank Berhad, RHB Bank Berhad, RHB Islamic Bank Berhad and RHB Insurance Berhad were consolidated at RHB Capital Berhad to form a Group Risk Management Committee with effect from 1 November 2007. Prior to the formation of the Group Risk Management Committee, the Risk Management Committee of the Bank 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 previously established within the principal operating companies in the Group to assist their respective Risk Management Committees in discharging their duties have since been consolidated to form a Group Risk Management Function. The Group Risk Management Committee is being supported by the Group Risk Management Function in discharging its overall duties and responsibilities.

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

### RISK AND CONTROL SELF-ASSESSMENT PROCESS

In line with regulatory guidance and industry best practices, the Group has instilled the risk management principle that risk management is first and foremost a core responsibility of the respective business and operating units of the Group. This is enshrined in the risk management frameworks of the group subsidiaries and implemented in practice. To support and promote the achievement of accountability and ownership of risk management, a Risk and Control Self-Assessment framework has been

## statement of internal control

implemented at all key operating companies in the Group as part of the risk management process. These companies are required to identify as well as document the controls and processes for managing the risks arising from their business activities, and assess their effectiveness. Results gathered from the Risk and Control Self-Assessment process are reviewed by the Group Internal Auditors.

### 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 Managing Director while for the various companies in the Group, the management is delegated to the respective Heads of companies 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 references 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;
- 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 2007

### Activities Of The Audit Committee

During the financial year ended 31 December 2007 (“year”), a total of 9 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 – resigned on 31 January 2008	9 out of 9 meetings
2. Mr Lew Foon Keong Member / Independent Non-Executive Director	8 out of 9 meetings
3. YBhg Datin Khamarzan Ahmed Meah Member / Independent Non-Executive Director	7 out of 9 meetings
4. YBhg Dato’Vaseehar Hassan Abdul Razack Member / Non-Independent Non-Executive Director – resigned on 23 January 2007	Not applicable

YBhg Dato’Vaseehar Hassan Abdul Razack, a Non-Independent Non-Executive Director, had resigned as a member of the Committee with effect from 23 January 2007. On 31 January 2008, YBhg Dato’ Mohamed Khadar Merican (Independent Non-Executive Director) resigned as Chairman/member of the Committee and in place, Mr Patrick Chin Yoke Chung (Independent Non-Executive Director) was appointed as the new Chairman/member of the Committee.

The Committee’s activities are concentrated at RHB Investment Bank Berhad and its direct subsidiaries. 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;
- 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 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 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 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 five (35) audit reports were tabled to the Committee 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 the revised Terms of Reference of the Committee and recommended the same for approval by the Board;

# audit committee report

- Reviewed the proposed transfer of the internal audit function of RHB Unit Trust Management Berhad to RHB Investment Bank Berhad;
- 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; and
- Tabled the minutes of each Committee meeting to the Board for noting, and for further action by the Board, where necessary.

## 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.

## TERMS OF REFERENCE OF THE AUDIT COMMITTEE

### Objectives

- To assist the Board discharge its responsibilities by reviewing the effectiveness, 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 risk management, governance processes and compliance with applicable laws, regulations, rules, directives and guidelines.
- To reinforce the independence of the external auditors and thereby help assure that they will have free rein in the audit process.
- To provide, by way of regular meetings, a line of communication between the Board and the external auditors.
- 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.
- To review the quality of the audits conducted by the Group Internal Auditors and the external auditors of the Investment Bank.
- To enhance the perceptions held by stakeholders (including shareholders, regulators, creditors and employees) of the credibility and objectivity of financial reports.

### Duties And Responsibilities

- 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.

- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
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 inspection and examination reports issued by any regulatory authority and to ensure prompt and appropriate actions are taken in respect of any findings.
15. 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.
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 managing director / chief executive officer, the chief operating 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 twice a year, the Committee shall meet with the external auditors without the presence of the Management or any executive Board member 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 directors. All members of the Committee shall be non-executive directors.
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. All members of the Committee shall be financially literate and at least one member shall be a member of an accounting association or body.
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

## **CORPORATE AND INVESTMENT BANKING SERVICES**

Corporate and Investment Banking Services is a one-stop centre offering insightful counsel on both corporate banking and investment banking services. The department offers corporates with various services such as advising and structuring of bilateral lending, project financing, loans syndication and infrastructure financing. The department also offers 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 Department 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, 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.

## **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 via equity and/or equity linked securities, private placement of equity and/or equity linked 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 as 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 in close liaison with Corporate and Investment Banking Services and RHB Banking Group offers a wide range of customised financing solutions for investment banking activities from structured acquisition and leverage financing, bridging for corporate fund raising exercises to loan syndication and club-deal financing for domestic and cross-border financing deals.

**RESEARCH**

Research provides clients with a comprehensive and value-added analysis of key economic trends, equity and debt market outlook, strategy and recommendations of individual companies listed on the Bursa Malaysia. The firm also looks into the policy analysis and their implications for investors. In addition, it provides research, valuations and credit opinions of companies relating to potential corporate deals for companies within the RHB Capital Berhad.

**INVESTMENT MANAGEMENT**

Investment Management has the expertise and skill in managing a full range of investment instruments customized according to client risk profile, including conventional and syariah compliant instruments. The investments and mandates managed include equity, fixed income, hybrid structures, structured deposits, cash management, investment-linked and unit trust products. It also distributes a full array of domestic and global unit trust funds, encompassing conventional and Syariah compliant funds. The funds distributed include equity, mixed assets, fixed income, money market, structured, capital guaranteed, and fund-of-funds. Other investment services include product manufacturing, portfolio restructuring, managing sinking funds, treasury functions and distributing third party unit trust funds.

# responsibility statement by the board of directors

In the course of preparing the annual financial statements of the Group and of the Bank, the Directors are collectively responsible in ensuring that these financial statements are drawn up in accordance with the requirements of the applicable Approved Accounting Standards in Malaysia, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

It is the responsibility of the Directors to ensure that the financial reporting of the Group and of the Bank present a true and fair view of the state of affairs of the Group and of the Bank as of the end of the financial year and the results and cash flows for the 12 months then ended.

The Directors have applied the appropriate and relevant accounting policies on a consistent basis and made judgements and estimates that are reasonable and fair in preparing the financial statements of the Group and of the Bank.

The financial statements are prepared on the going concern basis and the Directors have ensured that proper accounting records are kept so as to enable the preparation of the financial statements with reasonable accuracy.

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

The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out in page 114 of the audited statutory financial statements.

# statutory financial

## statements

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# directors' report

The directors present herewith their report together with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2007.

## PRINCIPAL ACTIVITIES

The principal activities of the Bank include 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, investment management services including the management of unit trust funds, 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 31.12.2007	
	Group RM'000	Bank RM'000
Profit before taxation	119,691	131,007
Taxation	(35,821)	(38,418)
Net profit for the financial year	83,870	92,589

## DIVIDENDS

The dividends declared and paid by the Bank since 31 December 2006 were as follows:

	RM'000
In respect of the financial year ended 31 December 2006 as shown in the directors' report of that financial year:	
Final gross dividend of 8.49 sen per share less tax of 27% paid on 30 April 2007	21,000
In respect of the financial year ended 31 December 2007:	
Special gross dividend of 21.40 sen per share less tax of 27% paid on 28 December 2007	52,910

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

## RESERVES AND PROVISIONS

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



**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.

The Group and the Bank's allowance for non-performing debts and financing 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 (GP3)', which is deemed as in conformity with the requirement on the allowance for loan impairment under the revised 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').

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.

**CONTINGENT AND OTHER LIABILITIES**

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

- (a) any charge on the assets of the Group or 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 or 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 or 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.

**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 39 to the financial statements.

**DIRECTORS OF THE BANK**

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

Dato Abdullah Mat Noh (Chairman)	
Datuk Azlan Mohd Zainol	
Dato' Mohamed Khadar Merican	
Akira Miyama	
Lew Foon Keong	
Datin Khamarzan Ahmed Meah	
Patrick Chin Yoke Chung	(appointed on 2 August 2007)
Chay Wai Leong (Managing Director)	(appointed on 8 October 2007)
Dato' Vaseehar Hassan Abdul Razack	(resigned on 31 December 2007)
Johari Abdul Muid	(resigned on 3 January 2008)

Pursuant to Article 93 of the Bank's Articles of Association, Akira Miyama and Lew Foon Keong 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, Patrick Chin Yoke Chung and Chay Wai Leong retire at the forthcoming Annual General Meeting and, being eligible, offer themselves 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 31.12.2007
	As at 1.1.2007	Bought	Sold	
<b>Immediate Holding Company</b>				
<b>RHB Capital Berhad</b>				
Dato' Mohamed Khadar Merican – Direct	10,000	50,000	(20,000)	<b>40,000</b>

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 26 to the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

During and at the end of the financial year, no arrangements subsisted to which the Bank 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 three (3) Independent Non-Executive Directors.

During the financial year ended 31 December 2007, a total of 9 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. Mr Patrick Chin Yoke Chung<br>(Chairman/Independent Non-Executive Director)<br>– Appointed as Chairman on 31 January 2008 | –                   |
| 2. Mr Lew Foon Keong<br>(Member/Independent Non-Executive Director)  | 8 out of 9 meetings |
| 3. Datin Khamarzan Ahmed Meah<br>(Member/Independent Non-Executive Director)   | 7 out of 9 meetings |

**Previous member**

- |   |                     |
|---|---------------------|
| 1. Dato' Vaseehar Hassan Abdul Razack<br>(Member/Non-Independent Non-Executive Director)<br>– Resigned as member on 23 January 2007 | –                   |
| 2. Dato' Mohamed Khadar Merican<br>(Chairman/Independent Non-Executive Director)<br>– Resigned as Chairman on 31 January 2008       | 9 out of 9 meetings |

**DISCLOSURE OF COMMITTEES (CONTINUED)****EXECUTIVE COMMITTEE**

The Board has established the Executive Committee since 9 September 1974. The Executive Committee comprises an Independent Non-Executive Director that is the Chairman of the Bank and one (1) Non-Independent Non-Executive Director and the Managing Director of the Bank.

During the financial year ended 31 December 2007, a total of 12 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:

<b>Composition of the Executive Committee</b>	<b>Attendance at the committee meetings</b>
---	---

**Current Members:**

- |   |                       |
|---|-----------------------|
| 1. Dato Abdullah Mat Noh<br>(Chairman/Independent Non-Executive Chairman)   | 12 out of 12 meetings |
| 2. Mr Akira Miyama<br>(Member/Non-Independent Non-Executive Director)   | 12 out of 12 meetings |
| 3. Mr Chay Wai Leong<br>(Member/Managing Director)<br>– Appointed as member on 1 January 2008                               | –                     |
| 4. Dato' Mohammed Khadar Merican<br>(Member/Independent Non-Executive Director)<br>– Appointed as member on 31 January 2008 | –                     |

**Previous member**

- |  |                       |
|--|-----------------------|
| 1. Dato' Vaseehar Hassan Abdul Razack<br>(Member/Non-Independent Non-Executive Director)<br>– Resigned as member on 31 December 2007 | 12 out of 12 meetings |
|--|-----------------------|

**CENTRAL LOANS COMMITTEE**

Bank Negara Malaysia had, via its letter dated 16 April 2007, approved the establishment of a Central Loans Committee which had its first meeting held on 22 June 2007. The Central Loans Committee centralised the credit evaluation and approval framework of RHB Bank Berhad, RHB Investment Bank Berhad and RHB Bank (L) Ltd (Labuan). The Committee currently comprises four (4) Independent Non-Executive Directors and one (1) Non-Independent Non-Executive Director, as follows:

1. Dato Abdullah Mat Noh (Chairman);
2. En. Johari Abdul Muid;
3. En. Ismael Fariz Ali;
4. Dato' Mohamed Khadar Merican; and
5. Dato' Othman Jusoh.

The Committee meets fortnightly and has full authority to affirm, impose additional covenants or veto credits approved by the Central Credit Committee to ensure adherence to RHB Investment Bank's credit policies and procedures.

Prior to the establishment of the Central Loans Committee, all loan cases which have been approved by the Underwriting and Credit Committee, were affirmed or vetoed by the Executive Committee.

**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 2007, 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:

<b>Composition of the Nominating Committee</b>	<b>Attendance at the committee meetings</b>
--	---

**Current Members:**

- |   |                     |
|---|---------------------|
| 1. Dato' Mohamed Khadar Merican<br>(Chairman/Independent Non-Executive Director)  | 6 out of 6 meetings |
| 2. Dato Abdullah Mat Noh<br>(Member/Independent Non-Executive Chairman)   | 6 out of 6 meetings |
| 3. Mr Akira Miyama<br>(Member/Non-Independent Non-Executive Director)   | 5 out of 6 meetings |
| 4. Mr Lew Foon Keong<br>(Member/Independent Non-Executive Director)   | 5 out of 6 meetings |
| 5. Encik Johari Abdul Muid<br>(Member/Non-Independent Non-Executive Director)<br>– Appointed as member on 23 January 2007 | 5 out of 6 meetings |

**Previous member**

- |   |   |
|---|---|
| 1. Dato' Vaseehar Hassan Abdul Razack<br>(Member/Non-Independent Non-Executive Director)<br>– Resigned as member on 23 January 2007 | – |
|---|---|

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

The Nominating Committee of the Bank was dissolved with effect from 1 January 2008 and the Bank adopted the Group Nominating Committee at RHB Capital Berhad with effect from 1 January 2008.

**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 2007, a total of 7 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:

<b>Composition of the Remuneration and Human Resource Committee</b>	<b>Attendance at the committee meetings</b>
---	---

**Current Members:**

- |  |                     |
|--|---------------------|
| 1. Dato' Mohamed Khadar Merican<br>(Chairman/Independent Non-Executive Director)                                   | 7 out of 7 meetings |
| 2. Dato Abdullah Mat Noh<br>(Member/Independent Non-Executive Chairman)  | 7 out of 7 meetings |
| 3. Mr. Akira Miyama<br>(Member/Non-Independent Non-Executive Director)<br>– Appointed as member on 23 January 2007 | 6 out of 6 meetings |

**DISCLOSURE OF COMMITTEES (CONTINUED)****REMUNERATION AND HUMAN RESOURCE COMMITTEE (CONTINUED)****Composition of the Remuneration and Human Resource Committee      Attendance at the committee meetings****Previous member**

- |   |                    |
|---|--------------------|
| 1. Dato' Vaseehar Hassan Abdul Razack<br>(Member/Non-Independent Non-Executive Director)<br>- Resigned as member on 23 January 2007 | 1 out of 1 meeting |
|---|--------------------|

The Remuneration and Human Resource Committee of the Bank was dissolved with effect from 1 January 2008 and the Bank adopted the Group Remuneration and Human Resource Committee at RHB Capital Berhad with effect from 1 January 2008.

**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.

**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.

**DISCLOSURE OF COMMITTEES (CONTINUED)****RISK MANAGEMENT AT RHB INVESTMENT BANK BERHAD (CONTINUED)****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 37 of the financial statements.

**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.

**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 2007, 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****Current Members:**

- |   |                     |
|---|---------------------|
| 1. Datin Khamarzan Ahmed Meah<br>(Chairperson/Independent Non-Executive Director) | 8 out of 8 meetings |
| 2. Dato' Mohamed Khadar Merican<br>(Member/Independent Non-Executive Director)    | 8 out of 8 meetings |
| 3. Dato Abdullah Mat Noh<br>(Member/Independent Non-Executive Chairman)           | 8 out of 8 meetings |

**Previous member**

- |   |   |
|---|---|
| 1. Dato' Vaseehar Hassan Abdul Razack<br>(Member/Non-Independent Non-Executive Director)<br>– Resigned as member on 23 January 2007 | - |
|---|---|

**DISCLOSURE OF COMMITTEES (CONTINUED)****RISK MANAGEMENT AT RHB INVESTMENT BANK BERHAD (CONTINUED)****Terms of Reference of the Group Risk Management Committee (continued)**

The Group Risk Management Committee of the Bank was dissolved with effect from 1 November 2007 and the Bank adopted the Group Risk Management Committee at RHB Capital Berhad with effect from 1 November 2007.

**IMMEDIATE HOLDING COMPANY AND ULTIMATE HOLDING BODY**

The directors regard RHB Capital Berhad, a company incorporated in Malaysia and Employees Provident Fund Board ('EPF'), a statutory body established in Malaysia, as the immediate holding company and ultimate holding body, respectively.

**BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 AND OUTLOOK FOR 2008**

The Bank's focus in 2007 was on mergers & acquisitions (M&A) and equity capital market activities. In line with this, our position in the M&A league table improved from 7th position in 2006 to 3rd in 2007 and our market share in the equity capital market almost doubled from 2.9% to 5.2%. We also enhanced our market presence by undertaking some of the year's and the country's landmark deals including the privatisation of Maxis Communications Berhad, the biggest M&A deal in Malaysia in terms of value, and the restructuring of RHB Capital Berhad. For this deal we received 2 awards from Finance Asia, namely Best Domestic M&A deal and Best Malaysia deal.

In the debt capital markets, our market share also improved from 5.3% in 2006 to 8.8% in 2007. The Bank was involved in a lead role in some of the major private debt issuances undertaken by Kreditanstalt fur Wiederaufbau (KfW) Bankengruppe and Binariang GSM Sdn Bhd. The Bank was also involved in a few major asset-backed securitisation deals, such as for RCE Capital Berhad and Prima Uno Berhad.

For 2008, we expect the capital markets to remain active, underpinned by a positive outlook for the economy, various fund raising and corporate exercises as the key driving forces.

Taking advantage of this, the Bank will strive to continue playing a leading role in capital market activities by offering new financial solutions to clients. We are also exploring opportunities to strengthen our footprints in the region, namely in Singapore and the emerging market of Vietnam.

The Bank views the growing competition in the industry positively as it will allow efficient players to stand out. To this end, the RHB Capital Group is undergoing a restructuring exercise and is now operationally more efficient and customer-focused. Together with a strong infrastructure and increasing brand awareness, we expect the Bank to leverage on the RHB Capital Group to capitalise on various growth opportunities in the financial industry.

Going forward, the Bank will continue to intensify efforts to further increase our market share and maintain market dominance to be amongst the Top 3 investment banks in the country.

**RATINGS BY AGENCY**

The RAM Rating Services Berhad ('RAM') in October 2007 reaffirmed the Bank's long term rating of A2 and its short term rating of P1. RAM Ratings has assigned a long-term rating of A3 to the Bank's up to RM245 million Subordinated Note Programme ('Sub-Notes') and a BBB1 rating to the Bank's proposed up to RM75 million of Hybrid Tier-1 Securities ('Proposed Hybrid Securities').

**Long-Term Ratings (Financial Institutions)**

- A Financial institutions rated in this category are adjudged to offer adequate safety for timely payments of financial obligations. This level of rating indicates financial institutions with adequate credit profiles, but which possess one or more problem areas, giving rise to the possibility of future riskiness. Financial institutions 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.



**RATINGS BY AGENCY (CONTINUED)**

## Short-Term Ratings (Financial Institutions)

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.

## Long-Term Rating (Issue)

A Adequate safety for timely payment of interest and principal. More susceptible to changes in circumstances and economic conditions than debts in higher-rated categories.

BBB Moderate safety for timely payment of interest and principal. Lacking in certain protective elements. Changes in circumstances are more likely to lead to weakened capacity to pay interest and principal than debts in higher-rated categories.

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 issue ranks at the higher end of its generic rating category; the subscript 2 indicates a mid-ranking; and the subscript 3 indicates that the issue 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 a resolution of the Board of Directors.

**DATO ABDULLAH MAT NOH**  
CHAIRMAN

**CHAY WAI LEONG**  
MANAGING DIRECTOR

Kuala Lumpur  
28 February 2008

# balance sheets

as at 31 December 2007

	Note	Group		Bank	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>ASSETS</b>					
Cash and short term funds	2	<b>1,870,982</b>	1,111,241	<b>1,838,232</b>	1,085,102
Securities purchased under resale agreements		–	165,304	–	152,454
Deposits and placements with banks and other financial institutions	3	<b>183,320</b>	443,620	<b>183,320</b>	443,620
Securities held-for-trading	4	<b>3,855,830</b>	3,169,990	<b>3,852,457</b>	3,164,443
Securities available-for-sale ('AFS')	5	<b>566,636</b>	449,496	<b>564,321</b>	449,496
Securities held-to-maturity	6	<b>306,639</b>	338,016	<b>306,639</b>	338,016
Loans and advances	7	<b>851,544</b>	651,283	<b>851,544</b>	651,283
Clients' and brokers' balances	8	<b>246,870</b>	177,027	<b>246,870</b>	177,027
Other assets	9	<b>74,008</b>	74,516	<b>60,536</b>	52,433
Tax recoverable		<b>22,017</b>	33,793	<b>23,832</b>	35,197
Deferred tax assets	10	<b>67</b>	3,087	–	2,921
Statutory deposit with Bank Negara Malaysia	11	<b>69,486</b>	69,206	<b>69,486</b>	69,206
Investments in subsidiaries	12	–	–	<b>48,270</b>	38,172
Property, plant and equipment	13	<b>13,555</b>	19,028	<b>10,849</b>	16,106
Goodwill	14	<b>172,844</b>	172,844	<b>159,280</b>	159,280
<b>TOTAL ASSETS</b>		<b>8,233,798</b>	6,878,451	<b>8,215,636</b>	6,834,756
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>					
Deposits from customers	15	<b>3,658,780</b>	1,862,853	<b>3,658,780</b>	1,862,853
Deposits and placements of banks and other financial institutions	16	<b>3,213,655</b>	1,953,124	<b>3,213,655</b>	1,953,124
Obligations on securities sold under repurchase agreements		–	1,809,837	–	1,809,837
Clients' and brokers' balances	17	<b>368,436</b>	251,372	<b>368,436</b>	251,372
Other liabilities	18	<b>95,696</b>	107,296	<b>79,639</b>	75,464
Taxation		<b>152</b>	5,366	–	5,328
Deferred tax liabilities	10	<b>389</b>	13,602	<b>376</b>	13,597
Subordinated debts	19	<b>200,000</b>	165,000	<b>200,000</b>	165,000
<b>TOTAL LIABILITIES</b>		<b>7,537,108</b>	6,168,450	<b>7,520,886</b>	6,136,575
Share capital	20	<b>338,646</b>	338,646	<b>338,646</b>	338,646
Reserves	21	<b>358,044</b>	371,355	<b>356,104</b>	359,535
<b>SHAREHOLDER'S EQUITY</b>		<b>696,690</b>	710,001	<b>694,750</b>	698,181
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>8,233,798</b>	6,878,451	<b>8,215,636</b>	6,834,756
<b>COMMITMENTS AND CONTINGENCIES</b>	33	<b>5,510,807</b>	6,731,183	<b>5,510,807</b>	6,731,183

# income statements

for the financial year ended 31 December 2007

	Note	Group		Bank	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Interest income	22	<b>319,151</b>	202,728	<b>317,791</b>	201,644
Interest expense	23	<b>(245,749)</b>	(154,155)	<b>(245,749)</b>	(154,154)
Net interest income		<b>73,402</b>	48,573	<b>72,042</b>	47,490
Other operating income	24	<b>228,915</b>	194,754	<b>197,468</b>	250,910
		<b>302,317</b>	243,327	<b>269,510</b>	298,400
Other operating expenses	25	<b>(176,589)</b>	(121,321)	<b>(132,386)</b>	(91,436)
Operating profit before allowances		<b>125,728</b>	122,006	<b>137,124</b>	206,964
Write-back/(allowances) for losses on loans and other losses	27	<b>3,229</b>	(41,786)	<b>3,229</b>	(42,905)
Allowances for impairment loss	28	<b>(9,266)</b>	–	<b>(9,346)</b>	(82,400)
Profit before taxation		<b>119,691</b>	80,220	<b>131,007</b>	81,659
Taxation	29	<b>(35,821)</b>	(15,491)	<b>(38,418)</b>	(16,088)
Profit after taxation		<b>83,870</b>	64,729	<b>92,589</b>	65,571
Basic earnings per share (sen)	30	<b>24.8</b>	19.1	<b>27.3</b>	19.4

# statement of changes in shareholder's equity

for the financial year ended 31 December 2007

	Note	Share capital RM'000	Statutory reserve RM'000	AFS revaluation reserve RM'000	Translation reserve RM'000	Distributable retained profits RM'000	Total RM'000
<b>Group</b>							
Balance as at 31.12.2006		<b>338,646</b>	<b>255,402</b>	<b>30,223</b>	<b>69</b>	<b>85,661</b>	<b>710,001</b>
Currency translation differences		-	-	-	(1,161)	-	(1,161)
Unrealised gain arising in fair value of AFS securities		-	-	1,177	-	-	1,177
AFS reserve realised on disposal		-	-	(28,000)	-	-	(28,000)
AFS reserve realised on impairment		-	-	(4,191)	-	-	(4,191)
Deferred tax		-	-	8,904	-	-	8,904
Income and expense recognised directly in equity		-	-	(22,110)	(1,161)	-	(23,271)
Net profit for the financial year		-	-	-	-	83,870	83,870
Total recognised income and expenses for the financial year		-	-	(22,110)	(1,161)	83,870	60,599
Transfer to statutory reserve		-	23,147	-	-	(23,147)	-
Dividend for the financial year ended 31.12.2006	31	-	-	-	-	(21,000)	(21,000)
Special dividend for the financial year ended 31.12.2007	31	-	-	-	-	(52,910)	(52,910)
Balance as at 31.12.2007		<b>338,646</b>	<b>278,549</b>	<b>8,113</b>	<b>(1,092)</b>	<b>72,474</b>	<b>696,690</b>
Balance as at 31.12.2005		338,646	239,009	(9,165)	58	232,909	801,457
Currency translation differences		-	-	-	11	-	11
Unrealised loss 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 expenses 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	31	-	-	-	-	(53,642)	(53,642)
Special dividends for the financial year ended 31.12.2006	31	-	-	-	-	(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 2007 (continued)

	Note	Share capital RM'000	Statutory reserve RM'000	AFS revaluation reserve RM'000	Distributable retained profits RM'000	Total RM'000
<b>Bank</b>						
Balance as at 31.12.2006		<b>338,646</b>	<b>255,402</b>	<b>30,223</b>	<b>73,910</b>	<b>698,181</b>
Unrealised gain arising in fair value of AFS securities		-	-	1,177	-	1,177
AFS reserve realised on disposal		-	-	(28,000)	-	(28,000)
AFS reserve realised on impairment		-	-	(4,191)	-	(4,191)
Deferred tax		-	-	8,904	-	8,904
Income and expense recognised directly in equity		-	-	(22,110)	-	(22,110)
Net profit for the financial year		-	-	-	92,589	92,589
Total recognised income and expenses for the financial year		-	-	(22,110)	92,589	70,479
Transfer to statutory reserve		-	23,147	-	(23,147)	-
Dividend for the financial year ended 31.12.2006	31	-	-	-	(21,000)	(21,000)
Special dividend for the financial year ended 31.12.2007	31	-	-	-	(52,910)	(52,910)
Balance as at 31.12.2007		<b>338,646</b>	<b>278,549</b>	<b>8,113</b>	<b>69,442</b>	<b>694,750</b>
Balance as at 31.12.2005		338,646	239,009	(9,165)	220,316	788,806
Unrealised loss 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	31	-	-	-	(53,642)	(53,642)
Special dividends for the financial year ended 31.12.2006	31	-	-	-	(141,942)	(141,942)
Balance as at 31.12.2006		338,646	255,402	30,223	73,910	698,181

# cash flow statements

for the financial year ended 31 December 2007

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>OPERATING ACTIVITIES</b>				
Profit before taxation	<b>119,691</b>	80,220	<b>131,007</b>	81,659
Adjustments for items not involving movements of cash and cash equivalents:				
Property, plant and equipment				
– depreciation	<b>7,894</b>	8,070	<b>7,052</b>	7,324
– written off	<b>1</b>	20	–	20
– gain on transfer/disposal	<b>(127)</b>	(206)	<b>(128)</b>	(181)
Accretion of discount less amortisation of premium	<b>(15,374)</b>	(8,596)	<b>(15,374)</b>	(8,596)
Allowances for losses on loans	<b>(3,311)</b>	44,164	<b>(3,311)</b>	44,164
Allowances for other losses	<b>(323)</b>	(1,356)	<b>(323)</b>	(237)
Bad debts written off	<b>408</b>	5	<b>408</b>	5
Interest suspended	–	177	–	177
Allowances for impairment loss	<b>9,266</b>	–	<b>9,346</b>	82,400
(Gain)/loss on liquidation of subsidiaries	<b>(69)</b>	–	<b>1</b>	–
Interest income from securities held-to-maturity	<b>(9,008)</b>	(9,138)	<b>(9,008)</b>	(9,138)
Interest income from securities available-for-sale	<b>(23,341)</b>	(15,040)	<b>(23,341)</b>	(15,040)
Other income from securities held-to-maturity	<b>(3,458)</b>	(3,636)	<b>(3,458)</b>	(3,636)
Gain from early redemption of securities held-to-maturity	<b>(2,840)</b>	(2,128)	<b>(2,840)</b>	(2,128)
Gain from sales of securities available-for-sale	<b>(28,000)</b>	(23,705)	<b>(28,000)</b>	(23,705)
Gross dividend income	<b>(463)</b>	(3,623)	<b>(463)</b>	(3,623)
Dividend income from subsidiaries	–	–	<b>(20,147)</b>	(9,647)
Unrealised loss/(gain) on revaluation of securities held-for-trading	<b>63,078</b>	(25,047)	<b>62,258</b>	(25,047)
Unrealised (gain)/loss on revaluation of derivatives	<b>(5,122)</b>	13,313	<b>(5,122)</b>	13,313
Operating profit before working capital changes	<b>108,902</b>	53,494	<b>98,557</b>	128,084

# cash flow statements

for the financial year ended 31 December 2007 (continued)

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
(Increase)/decrease in operating assets:				
Securities purchased under resale agreements	<b>165,304</b>	(79,822)	<b>152,454</b>	(75,036)
Deposits and placements with banks and other financial institutions	<b>260,300</b>	(341,699)	<b>260,300</b>	(341,699)
Securities held-for-trading	<b>(748,918)</b>	(1,577,033)	<b>(750,272)</b>	(1,575,515)
Loans and advances	<b>(196,950)</b>	29,023	<b>(196,950)</b>	29,023
Clients' and brokers' balances	<b>(69,427)</b>	(13,139)	<b>(69,427)</b>	(13,139)
Other assets	<b>(2,044)</b>	174,771	<b>(9,522)</b>	93,020
Statutory deposit with Bank Negara Malaysia	<b>(280)</b>	7,400	<b>(280)</b>	7,400
Increase/(decrease) in operating liabilities:				
Deposits from customers	<b>1,795,927</b>	610,436	<b>1,795,927</b>	610,436
Deposits and placements of banks and other financial institutions	<b>1,260,531</b>	949,444	<b>1,260,531</b>	949,444
Obligations on securities sold under repurchase agreements	<b>(1,809,837)</b>	987,459	<b>(1,809,837)</b>	987,459
Clients' and brokers' balances	<b>117,064</b>	52,882	<b>117,064</b>	54,445
Other liabilities	<b>(6,478)</b>	25,200	<b>9,297</b>	6,921
Cash generated from operations	<b>765,192</b>	824,922	<b>759,285</b>	732,759
Tax paid	<b>(18,372)</b>	(9,787)	<b>(16,164)</b>	(7,932)
Tax recovered	<b>5,869</b>	–	<b>5,869</b>	–
Net cash generated from operating activities	<b>752,689</b>	815,135	<b>748,990</b>	724,827

# cash flow statements

for the financial year ended 31 December 2007 (continued)

	Note	Group		Bank	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>INVESTING ACTIVITIES</b>					
Proceeds from sale net of purchase of securities held-to-maturity		<b>36,134</b>	10,429	<b>36,134</b>	10,429
Proceeds from sale net of purchase of securities available-for-sale		<b>(115,962)</b>	(213,644)	<b>(113,648)</b>	(213,644)
Other income from securities held-to-maturity		<b>(14,458)</b>	(14,994)	<b>(14,458)</b>	(14,994)
Interest received from securities held-to-maturity		<b>9,107</b>	1,707	<b>9,107</b>	1,707
Interest received from securities available-for-sale		<b>24,160</b>	11,309	<b>24,160</b>	11,309
Purchase of property, plant and equipment		<b>(2,596)</b>	(11,757)	<b>(1,968)</b>	(9,855)
Proceeds from sale of property, plant and equipment		<b>301</b>	208	<b>301</b>	182
Dividend income received		<b>337</b>	2,609	<b>337</b>	2,609
Dividend income received from subsidiaries		-	-	<b>14,707</b>	7,053
Dividend received from a subsidiary (from its pre-acquisition earnings)		-	-	<b>784</b>	9,041
Subscription of shares in subsidiaries		-	-	<b>(11,000)</b>	(13,300)
Capital repayment from liquidation of subsidiaries		<b>37</b>	-	<b>37</b>	-
Net cash used in investing activities		<b>(62,940)</b>	(214,133)	<b>(55,507)</b>	(209,463)
<b>FINANCING ACTIVITIES</b>					
Dividends paid to shareholder		<b>(73,910)</b>	(195,584)	<b>(73,910)</b>	(195,584)
Net proceeds received from issuance of subordinated notes		<b>35,000</b>	-	<b>35,000</b>	-
Net cash used in financing activities		<b>(38,910)</b>	(195,584)	<b>(38,910)</b>	(195,584)
Net increase in cash and short term funds		<b>759,741</b>	458,912	<b>753,130</b>	447,864
Cash and cash equivalents at beginning of the financial year		<b>1,111,241</b>	652,329	<b>1,085,102</b>	637,238
Cash and cash equivalents at end of the financial year		<b>1,870,982</b>	1,111,241	<b>1,838,232</b>	1,085,102
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS:</b>					
Cash and short term funds	2	<b>1,870,982</b>	1,111,241	<b>1,838,232</b>	1,085,102



# summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2007

## 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.

The preparation of financial statements in conformity with the provisions of the Companies Act, 1965, FRS 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.

#### (a) Standards and technical pronouncements that are effective

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 2007:

- FRS 124 Related Party Disclosures

The adoption of the above new FRS does not have any significant financial impact on the results of the Group and the Bank.

#### (b) Standards and amendments to published standards that are not yet effective and have not been early adopted

The new standards, amendments to published standards and interpretations that are relevant and mandatory for the Group's financial periods beginning on or after 1 January 2008 or later periods, but which the Group has not early adopted, are as follows:

<b>Standard/Interpretation</b>	<b>Effective for accounting period beginning on or after</b>
<ul style="list-style-type: none"> <li>• Amendment to FRS 112 Income Taxes – This revised standard has removed the requirements that prohibit recognition of deferred tax on reinvestment allowances or other allowances in excess of capital allowances.</li> </ul>	1 July 2007
<ul style="list-style-type: none"> <li>• Amendment to FRS 121 The Effects of Changes in Foreign Exchange Rates -Net Investment in Foreign Operation – This amendment requires exchange differences on monetary items that form part of the net investment in a foreign operation to be recognised in equity instead of in profit or loss regardless of the currency in which these items are denominated in.</li> </ul>	1 July 2007
<ul style="list-style-type: none"> <li>• FRS 139 Financial Instruments: Recognition and Measurement ('FRS 139') – 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 will apply this standard when effective. Nevertheless, the accounting policies of the Group incorporate requirements of the Revised Guidelines on Financial Reporting for Licensed Institutions ('BNM/GP8') which includes selected principles of FRS 139.</li> </ul>	Yet to be determined by MASB

# summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2007 (continued)

## (A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 1 Basis of preparation of the financial statements (continued)

#### (b) Standards and amendments to published standards that are not yet effective and have not been early adopted (continued)

Other revised standards that have no significant changes compared to the original standards

- FRS 107 Cash Flow Statements
- FRS 118 Revenue
- FRS 134 Interim Financial Reporting
- FRS 137 Provisions, Contingent Liabilities and Contingent Assets

The Group and the Bank will apply the above revised standards and amendments to published standards (except for FRS 139 of which the effective date has yet to be determined) from financial periods beginning on 1 January 2008. The adoption of these standards and amendments will not have any significant impact on the results of the Group and the Bank.

#### (c) Standards and interpretation to existing standards that are not yet effective and not relevant for the Group's operations:

		<b>Effective for accounting period beginning on or after</b>
FRS 120	Accounting for Government Grants and Disclosure of Government Assistance	1 July 2007
FRS 111	Construction Contracts	1 July 2007
IC Interpretation 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 July 2007
IC Interpretation 2	Members' Shares in Co-operative Entities and Similar Instruments	1 July 2007
IC Interpretation 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 July 2007
IC Interpretation 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 July 2007
IC Interpretation 7	Applying the Restatement Approach under FRS 129 <sup>2004</sup> Financial Reporting in Hyperinflationary Economies	1 July 2007

### 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 2007 which, the merger method of accounting were used.

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.

# summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2007 (continued)

## (A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2 Basis of consolidation (continued)

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.

### 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.

### 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.

# summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2007 (continued)

## (A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 5 Securities (continued)

#### (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.

#### (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.

For loans converted into debt or equity instrument/impaired securities, the Group and the Bank shall assess whether there is any objective evidence that the securities or group of securities arising from conversion scheme/other securities are impaired, and the impairment rules shall be applied. See accounting policy Note 18 on impairment of securities.

### 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.

### 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.

# summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2007 (continued)

## (A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 8 Property, plant and equipment and depreciation (continued)

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% to 20%
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.

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.

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 2007 (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.

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 and the Bank have 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 and the Bank do not recognise a contingent liability but disclose 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 the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

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.

# summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2007 (continued)

## (A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 14 Income recognition

- (a) Interest income is recognised on an 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.
- (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.

The basis for classification of non-performing debts and financing follows the period of default for non-performing loans of 3 months. In line with the classification of non-performing debts and financing, the Group and the Bank's basis for specific allowance is also from default period of 3 months.

The Group's and the Bank'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'). BNM has granted indulgence to the Group and the Bank from complying with the requirement on the impairment of loans under the revised BNM/GP8 if the allowances of non-performing debts are computed based on BNM/GP3 requirements.

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 Securities.

# summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2007 (continued)

## (A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 and the Bank.

#### (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 and the Bank'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 and the Bank have 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.

### 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 and the Bank assess 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.

#### (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.



# summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2007 (continued)

## (A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 18 Impairment of securities (continued)

#### (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.

### 19 Income taxes

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group and the Bank operate 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.

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 related to the fair value measurement of securities AFS, which are charged or credited directly to equity, is also charged or credited directly to equity and is subsequent recognised in the income statement together with deferred gain or loss.

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.

### 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.

# summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2007 (continued)

## (A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

## (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 and Rules of the Bursa Securities.

### (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.

# notes to the financial statements

for the financial year ended 31 December 2007

## 1 GENERAL INFORMATION

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

The principal activities of the Bank include merchant banking business, dealing in securities, stock, debt and derivatives, stockbroking 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, investment management services including the management of unit trust funds, research services and provision of nominee services.

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

The directors regard RHB Capital Berhad, a company incorporated in Malaysia and Employees Provident Fund Board ('EPF'), a statutory body established in Malaysia, as the immediate holding company and ultimate holding body, respectively.

## 2 CASH AND SHORT TERM FUNDS

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Cash and balances with banks and other financial institutions	49,854	52,882	33,406	34,147
Money at call and deposit placements maturing within one month	1,821,128	1,058,359	1,804,826	1,050,955
	<b>1,870,982</b>	1,111,241	<b>1,838,232</b>	1,085,102

Included in cash and balances with banks and other financial institutions of the Group and the Bank are trust accounts totalling RM6,759,000 (2006: RM6,628,000) 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 RM161,226,000 (2006: RM91,974,000) 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	
	2007 RM'000	2006 RM'000
Licensed banks	183,320	443,620

Included in deposits and placements of the Group and the Bank is Nil (2006: 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 2007 (continued)

## 4 SECURITIES HELD-FOR-TRADING

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>At fair value</b>				
Money market instruments:				
Khazanah bonds	171,920	219,268	171,920	219,268
Bank Negara bills	–	172,665	–	172,665
Government investment issue	147,877	271,404	147,877	271,404
Malaysian Government securities	121,958	50,013	121,958	50,013
Bankers' acceptances	800,263	687,916	800,263	687,916
Negotiable instruments of deposits	1,278,675	955,019	1,278,675	955,019
Private debt securities	1,331,764	808,158	1,331,764	808,158
Quoted securities:				
<b>In Malaysia</b>				
Unit trust	1,025	5,547	–	–
<b>Outside Malaysia</b>				
Shares	2,348	–	–	–
	<b>3,855,830</b>	3,169,990	<b>3,852,457</b>	3,164,443

## 5 SECURITIES AVAILABLE-FOR-SALE

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>At fair value</b>				
Money market instruments:				
Malaysian Government securities	95,544	–	95,544	–
Private debt securities	458,428	427,981	458,428	427,981
Quoted securities:				
<b>In Malaysia</b>				
Shares	912	10,105	912	10,105
Loan stocks	7,237	9,210	7,237	9,210
Unquoted securities:				
<b>In Malaysia</b>				
Shares	2,200	2,200	2,200	2,200
<b>Outside Malaysia</b>				
Loan stocks	2,315	–	–	–
	<b>566,636</b>	449,496	<b>564,321</b>	449,496

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 6 SECURITIES HELD-TO-MATURITY

	<b>Group and Bank</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM'000</b>	<b>RM'000</b>
At amortised cost		
Money market instruments:		
Malaysian Government securities	<b>54,490</b>	54,742
Khazanah bonds	<b>54,009</b>	51,926
Prasarana bonds	<b>98,534</b>	98,232
Private debt securities	<b>176,800</b>	196,853
Unquoted securities:		
<b>In Malaysia</b>		
Shares	<b>2,200</b>	2,200
Bonds	<b>23</b>	23
Accumulated impairment losses	<b>386,056</b> <b>(79,417)</b>	403,976 (65,960)
	<b>306,639</b>	338,016

Included in unquoted shares is RM1,000,000 (2006: 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.

## 7 LOANS AND ADVANCES

	<b>Group and Bank</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM'000</b>	<b>RM'000</b>
(i) By type:		
Term loans	<b>439,021</b>	388,192
Claims on customers under acceptance credits	<b>12,273</b>	23,202
Revolving credits	<b>337,093</b>	236,756
Margin financing	<b>122,247</b>	102,795
Staff loans	<b>5,378</b>	7,284
Unearned interest	<b>916,012</b> -	758,229 (56)
Gross loans and advances	<b>916,012</b>	758,173
Allowance for bad and doubtful debts		
- specific	<b>(49,463)</b>	(96,458)
- general	<b>(15,005)</b>	(10,432)
Net loans and advances	<b>851,544</b>	651,283

notes to the financial statements  
for the financial year ended 31 December 2007 (continued)

7 LOANS AND ADVANCES (CONTINUED)

	Group and Bank	
	2007 RM'000	2006 RM'000
(ii) By purpose:		
Purchase of securities	278,485	205,598
Purchase of transport vehicles	2,167	3,307
Purchase of landed property	3,182	3,889
Purchase of non-residential property	15,713	21,045
Purchase of fixed assets other than land & building	15,762	88,560
Personal use	29	88
Construction	115,768	67,052
Working capital	280,736	280,360
Others	204,170	88,274
	<b>916,012</b>	<b>758,173</b>
(iii) By type of customer:		
Domestic business enterprises		
– small medium enterprise	714	55
– others	697,536	671,497
Domestic non-bank financial institution	115,358	–
Individuals	100,249	84,487
Foreign entities	2,155	2,134
	<b>916,012</b>	<b>758,173</b>
(iv) By interest/profit rate sensitivity:		
Fixed rate		
Other fixed rate loans	5,782	10,103
Variable rate		
Cost plus	787,983	645,275
Other variable rates	122,247	102,795
	<b>916,012</b>	<b>758,173</b>
(v) Movements in the non-performing loans are as follows:		
Balance as at beginning of the financial year	196,814	187,360
Classified as non-performing during the financial year	–	20,908
Amount recovered	(34,108)	(9,799)
Amount written off	(39,124)	(1,655)
Balance as at end of the financial year	123,582	196,814
Specific allowance on non-performing loans	(49,463)	(96,458)
Net non-performing loans	<b>74,119</b>	<b>100,356</b>
Ratio of net non-performing loans to net loans	<b>8.55%</b>	15.17%

notes to the financial statements  
for the financial year ended 31 December 2007 (continued)

**7 LOANS AND ADVANCES (CONTINUED)**

	<b>Group and Bank</b>	
	<b>2007</b>	<b>2006</b>
	<b>RM'000</b>	<b>RM'000</b>
(vi) Movements in the allowances for bad and doubtful debts are as follows:		
<b>General allowance</b>		
Balance as at beginning of the financial year	<b>10,432</b>	12,056
Provision/(written back) during the year	<b>4,573</b>	(1,624)
Balance as at end of the financial year	<b>15,005</b>	10,432
% of total gross loans and advances less specific allowance	<b>1.73%</b>	1.58%
<b>Specific allowance</b>		
Balance as at beginning of the financial year	<b>96,458</b>	52,324
Allowance made during the year	<b>687</b>	48,135
Amount recovered	<b>(8,571)</b>	(2,347)
Amount written off	<b>(39,111)</b>	(1,654)
Balance as at end of the financial year	<b>49,463</b>	96,458
(vii) Non-performing loans by purpose:		
Purchase of securities	<b>33,730</b>	37,153
Purchase of transport vehicles	–	4
Purchase of landed property	<b>266</b>	266
Purchase of non-residential property	<b>7,666</b>	7,666
Personal use	–	9
Construction	<b>6,183</b>	7,758
Working capital	<b>75,452</b>	114,900
Others	<b>285</b>	29,058
	<b>123,582</b>	196,814

**8 CLIENTS' AND BROKERS' BALANCES**

Performing accounts	<b>245,923</b>	166,026
Non-performing accounts – Bad	<b>8,909</b>	19,217
– Doubtful	<b>934</b>	1,504
	<b>255,766</b>	186,747
Less: Allowance for bad and doubtful debts		
– Specific	<b>(8,623)</b>	(8,590)
– General	<b>(273)</b>	(1,130)
	<b>246,870</b>	177,027

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 8 CLIENTS' AND BROKERS' BALANCES (CONTINUED)

	Group and Bank	
	2007 RM'000	2006 RM'000
Movements in the allowances for bad and doubtful debts are as follows:		
<b>Specific allowance</b>		
Balance as at beginning of the financial year	8,590	10,419
Allowance made during the financial year	997	1
Amount recovered	(964)	(1,830)
Balance as at end of the financial year	8,623	8,590
<b>General allowance</b>		
Balance as at beginning of the financial year	1,130	974
Allowance (written back)/made during the financial year	(857)	156
Balance as at end of the financial year	273	1,130

## 9 OTHER ASSETS

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Amounts due from immediate holding company	(i) 348	–	348	–
Amounts due from subsidiaries	(i) –	–	544	327
Amounts due from related companies	(i) 1,210	1,031	89	803
Other debtors, deposits and prepayments	35,665	43,846	22,770	21,664
Derivative assets	(ii) 3,756	1,775	3,756	1,775
Accrued interest receivable	33,029	27,864	33,029	27,864
	74,008	74,516	60,536	52,433

The other debtors, deposits and prepayments balances of the Group and the Bank are stated net of allowance for doubtful debts of RM1,441,000 (2006: RM1,013,000).

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



# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 9 OTHER ASSETS (CONTINUED)

### (ii) Derivative assets

	Group and Bank	
	Contract or underlying principal amount RM'000	Year-end positive fair value RM'000
<b>2007</b>		
Foreign exchange related contracts:		
– forwards	33,040	993
Interest rate related contracts:		
– futures	3,630,000	855
– swaps	625,000	1,908
	<b>4,288,040</b>	<b>3,756</b>
<b>2006</b>		
Foreign exchange related contracts:		
– forwards	35,680	–
Interest rate related contracts:		
– futures	4,470,000	1,645
– swaps	360,000	130
	<b>4,865,680</b>	<b>1,775</b>

## 10 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	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Deferred tax assets	67	3,087	4,272	2,921
Deferred tax liabilities	(389)	(13,602)	(4,648)	(13,597)
	<b>(322)</b>	<b>(10,515)</b>	<b>(376)</b>	<b>(10,676)</b>

The deferred tax assets and liabilities have been adjusted to take into account the reduction in tax rate to 26% in Year of Assessment 2008 and 25% in Year of Assessment 2009 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 2007 (continued)

## 10 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
<b>Group</b>						
<b>2007</b>						
Balance as at beginning of the financial year	(1,997)	2,921	-	315	(11,754)	(10,515)
(Charged)/credited to income statement (Note 29)	(24)	1,051	-	262	-	1,289
Transferred to AFS reserve	-	-	-	-	8,904	8,904
Balance as at end of the financial year	(2,021)	3,972	-	577	(2,850)	(322)
<b>2006</b>						
Balance as at beginning of the financial year	(1,017)	3,375	480	410	3,564	6,812
(Charged)/credited to income statement (Note 29)	(980)	(454)	(480)	(95)	-	(2,009)
Transferred from AFS reserve	-	-	-	-	(15,318)	(15,318)
Balance as at end of the financial year	(1,997)	2,921	-	315	(11,754)	(10,515)
<b>Bank</b>						
<b>2007</b>						
Balance as at beginning of the financial year	(1,843)	2,921	-	-	(11,754)	(10,676)
Credited to income statement (Note 29)	45	1,051	-	300	-	1,396
Transferred to AFS reserve	-	-	-	-	8,904	8,904
Balance as at end of the financial year	(1,798)	3,972	-	300	(2,850)	(376)
<b>2006</b>						
Balance as at beginning of the financial year	(1,068)	3,375	480	402	3,564	6,753
Charged to income statement (Note 29)	(775)	(454)	(480)	(402)	-	(2,111)
Transferred from AFS reserve	-	-	-	-	(15,318)	(15,318)
Balance as at end of the financial year	(1,843)	2,921	-	-	(11,754)	(10,676)

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 11 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.

## 12 INVESTMENTS IN SUBSIDIARIES

	Bank	
	2007 RM'000	2006 RM'000
Unquoted shares at cost	132,643	122,557
Less: Allowance for impairment loss	(84,373)	(84,385)
	<b>48,270</b>	38,172

The subsidiaries of the Bank are as follows:

Name of company	Country of incorporation	Paid-up share capital RM	Effective equity interest		Principal activities
			2007 %	2006 %	
RHB Unit Trust Management Berhad <sup>1</sup>	Malaysia	5,000,000	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
RHB Venture Capital Sdn Bhd	Malaysia	2	100	100	Dormant
RHB Private Equity Holdings Sdn Bhd	Malaysia	6,650,002	100	100	Private equity business and venture capital management
RHB Private Equity Management Ltd <sup>2</sup>	Labuan, Malaysia	USD1	100	100	Investment advisor, investment consultant and other ancillary services only for private equity funds
RHB Private Equity Fund Ltd <sup>3</sup>	Cayman Island	USD10,001	100	100	Investment company
RHB Excel Sdn Bhd <sup>4</sup>	Malaysia	200,000,000	100	100	Dormant
RHB Nominees Sdn Bhd	Malaysia	25,000	100	100	Nominee and custodian services
RHB Nominees (Tempatan) Sdn Bhd	Malaysia	25,000	100	100	Nominee and custodian services for Malaysian beneficial shareholders
RHB Nominees (Asing) Sdn Bhd	Malaysia	25,000	100	100	Nominee and custodian services for foreign beneficial shareholders

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Country of incorporation	Paid-up share capital RM	Effective equity interest		Principal activities
			2007 %	2006 %	
Straits Nominees (Tempatan) Sdn Bhd <sup>5</sup>	Malaysia	25,000	–	100	Dormant
Straits Nominees (Asing) Sdn Bhd <sup>5</sup>	Malaysia	25,000	–	100	Dormant
RHB Marketing Services Sdn Bhd	Malaysia	100,000	<b>100</b>	100	Dormant
RHB Research Institute Sdn Bhd	Malaysia	500,000	<b>100</b>	100	Research services
RHB Investment Management Sdn Bhd (formerly known as RHB Asset Management Sdn Bhd)	Malaysia	10,000,000	<b>100</b>	100	Asset management services
RHB Progressive Sdn Bhd <sup>4</sup>	Malaysia	13,500,000	<b>100</b>	100	Dormant
RHB Management Services (Jersey) Limited <sup>6</sup>	Jersey, Channel Islands	GBP 12	–	100	Management services

### Notes:

- 1 Pursuant to the vesting order granted by the High Court of Malaya on 19 December 2007, all the assets, rights, title, interest, undertakings, obligations and liabilities were transferred to RHB Investment Management Sdn Bhd (formerly known as RHB Asset Management Sdn Bhd) with effect from 1 January 2008
- 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 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.
- 5 The Company has been dissolved on 13 October 2007
- 6 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 2007 (continued)

**13 PROPERTY, PLANT AND EQUIPMENT**

	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
<b>Group</b>					
<b>2007</b>					
<b>Cost</b>					
Balance as at beginning of the financial year	30,178	21,005	49,190	4,399	104,772
Additions	254	1,022	1,312	8	2,596
Disposal	(2)	-	-	-	(2)
Write-offs	(94)	-	(261)	-	(355)
Transfer from/(to) related companies	84	21	3	(575)	(467)
Balance as at end of the financial year	<b>30,420</b>	<b>22,048</b>	<b>50,244</b>	<b>3,832</b>	<b>106,544</b>
<b>Accumulated depreciation</b>					
Balance as at beginning of the financial year	28,213	20,040	32,196	2,370	82,819
Charge for the financial year	675	309	6,293	617	7,894
Disposal	(1)	-	-	-	(1)
Write-offs	(94)	-	(260)	-	(354)
Transfer from/(to) related companies	84	21	3	(402)	(294)
Balance as at end of the financial year	<b>28,877</b>	<b>20,370</b>	<b>38,232</b>	<b>2,585</b>	<b>90,064</b>
<b>Impairment losses</b>					
Balance as at beginning and end of the financial year	-	-	2,925	-	2,925
Net book value as at end of the financial year	<b>1,543</b>	<b>1,678</b>	<b>9,087</b>	<b>1,247</b>	<b>13,555</b>

notes to the financial statements  
for the financial year ended 31 December 2007 (continued)

**13 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
<b>Group</b>					
<b>2006</b>					
<b>Cost</b>					
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
<b>Accumulated depreciation</b>					
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
<b>Impairment losses</b>					
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 2007 (continued)

**13 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
<b>Bank</b>					
<b>2007</b>					
<b>Cost</b>					
Balance as at beginning of the financial year	27,727	17,017	43,502	2,996	91,242
Additions	147	931	882	8	1,968
Disposal	-	-	-	-	-
Write-offs	(94)	-	(260)	-	(354)
Transfer to related companies	(11)	-	-	(575)	(586)
Balance as at end of the financial year	27,769	17,948	44,124	2,429	92,270
<b>Accumulated depreciation</b>					
Balance as at beginning of the financial year	26,018	16,529	28,378	1,286	72,211
Charge for the financial year	565	205	5,763	519	7,052
Disposal	-	-	-	-	-
Write-offs	(94)	-	(260)	-	(354)
Transfer to related companies	(11)	-	-	(402)	(413)
Balance as at end of the financial year	26,478	16,734	33,881	1,403	78,496
<b>Impairment losses</b>					
Balance as at beginning and end of the financial year	-	-	2,925	-	2,925
Net book value as at end of the financial year	1,291	1,214	7,318	1,026	10,849

notes to the financial statements  
for the financial year ended 31 December 2007 (continued)

13 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
<b>Bank</b>					
<b>2006</b>					
<b>Cost</b>					
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
<b>Accumulated depreciation</b>					
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
<b>Impairment losses</b>					
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

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>Accumulated depreciation and impairment loss</b>				
Balance as at beginning of the financial year	85,744	72,506	75,136	62,479
Balance as at end of the financial year	92,989	85,744	81,421	75,136



# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 14 GOODWILL ON CONSOLIDATION

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Balance as at beginning and end of the financial year	<b>172,844</b>	172,844	<b>159,280</b>	159,280

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

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>Cash generating units</b>				
Corporate banking and debt capital market	<b>8,124</b>	8,124	<b>8,124</b>	8,124
Financial advisory and underwriting	<b>8,124</b>	8,124	<b>8,124</b>	8,124
Treasury and money market	<b>105,615</b>	105,615	<b>105,615</b>	105,615
Stockbroking and other securities related business	<b>50,981</b>	50,981	<b>37,417</b>	37,417
	<b>172,844</b>	172,844	<b>159,280</b>	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 three-year period (2006: five-year). Cash flows beyond the three-year period are assumed to grow at 2.5% p.a. (2006: constant) 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 13.64% (2006: 10.35%). The 13.64% (2006: 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.

## 15 DEPOSITS FROM CUSTOMERS

	Group and Bank	
	2007 RM'000	2006 RM'000
Call money	<b>3,000</b>	–
Fixed deposits	<b>2,694,588</b>	1,862,853
Short term deposits	<b>961,192</b>	–
	<b>3,658,780</b>	1,862,853

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 15 DEPOSITS FROM CUSTOMERS (CONTINUED)

	Group and Bank	
	2007 RM'000	2006 RM'000
(i) Maturity structure of fixed deposits is as follows:		
Due within six months	3,454,780	1,577,062
Six months to one year	4,000	85,791
More than one year	200,000	200,000
	<b>3,658,780</b>	<b>1,862,853</b>
(ii) The deposits are sourced from the following customers:		
Federal Government and statutory bodies	256,697	–
Business enterprises	3,398,083	1,416,442
Others	4,000	446,411
	<b>3,658,780</b>	<b>1,862,853</b>

## 16 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

Licensed banks	1,000,000	765,300
Other financial institutions	2,213,655	1,187,824
	<b>3,213,655</b>	<b>1,953,124</b>

## 17 CLIENTS' AND BROKERS' BALANCES

Included in clients' and brokers' balances are clients' trust balances, held in trust for clients of RM181,537,000 (2006: RM121,060,000).

## 18 OTHER LIABILITIES

		Group		Bank	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Accrued interest payable		20,968	23,667	20,968	23,667
Amount due to related companies	(i)	936	674	754	576
Amount due to immediate holding company	(i)	741	817	–	95
Amount due to subsidiaries	(i)	–	–	3,260	–
Amount payable for creation of units due to funds		4,053	3,729	–	–
Amount payable for redemption units		3,135	18,651	–	–
Derivative liabilities	(ii)	11,422	14,564	11,422	14,564
Remisiers' trust deposits		11,150	11,188	11,150	11,188
Accrued personnel costs		24,152	13,587	17,368	11,935
Other accruals and payables		19,139	20,419	14,717	13,439
		<b>95,696</b>	<b>107,296</b>	<b>79,639</b>	<b>75,464</b>

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 18 OTHER LIABILITIES (CONTINUED)

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

	Group and Bank	
	Contract or underlying principal amount RM'000	Year-end negative fair value RM'000
<b>2007</b>		
Foreign exchange related contracts:		
– forwards	33,040	–
Interest rate related contracts:		
– futures	3,630,000	8,106
– swaps	625,000	3,316
	<b>4,288,040</b>	<b>11,422</b>
<b>2006</b>		
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

## 19 SUBORDINATED DEBTS

- (a) Subordinated Bonds 2002/2012

	Group and Bank	
	2007 RM'000	2006 RM'000
Subordinated bonds 2002/2012	–	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.

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 19 SUBORDINATED DEBTS (CONTINUED)

### (a) Subordinated Bonds 2002/2012 (continued)

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.

The Sub Bonds had been fully redeemed on 10 December 2007.

### (b) Subordinated Notes 2007/2017

	Group and Bank	
	2007 RM'000	2006 RM'000
Subordinated notes 2007/2017	200,000	–

During the financial year, the Bank has proposed issuance of up to RM245 million nominal value of Subordinated Notes ('Sub Notes') under a Subordinated Note Programme ('the Sub Notes Programme'). The Sub Notes shall have a tenure of 15 years from the date of first issue. During the tenure of the Sub Notes Programme, the Bank may issue Sub Notes with maturities ranging from 10 to 15 years and callable after a minimum period of 5 years from date of issue.

On 10 December 2007, the Bank has successfully issued Sub Notes for an aggregate nominal value of RM200 million at par and qualify as Tier II Capital of the Bank for the purpose of BNM's capital adequacy requirements.

The Sub Notes constitute direct unsecured obligations of the Bank, subordinated in right and priority of payment, to the extent and in the manner provided in the terms of the Sub Notes, to all deposit liabilities and other liabilities of the Bank except all other present and future unsecured and subordinated obligations of the Bank which by their terms rank pari-passu in right of priority of payment with or subordinate to the Sub Notes. The Sub Notes will in the event of the winding-up or liquidation of the Bank, be subordinated in right of payments to the claims of the depositors and all other creditors of the Bank other than claimants in respect of the Bank's unsecured and subordinated obligations which by their terms rank pari-passu in right of and priority of payment with or subordinated to the Sub Notes.

The Sub Notes proceeds raised shall be utilised for the Bank's general working capital.

The coupon for Sub Notes shall be accrued at the rate of 5.30% p.a. and commencing from the beginning of the sixth year from the issue date, the coupon rate shall be stepped up annually at 0.5% p.a. Coupon payments are payable semi-annually in arrears, with the last payment to be made on the maturity date.

## 20 SHARE CAPITAL

	Group and Bank	
	2007 RM'000	2006 RM'000
Ordinary shares of RM1 each:		
Authorised	1,000,000	1,000,000
Issued and fully paid	338,646	338,646

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 21 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 2007.

A single tier company tax was introduced effective 1 January 2008. Under this single tier system, tax on a company's profits is a final tax, and dividends distributed to shareholders will be exempted from tax. Companies with Section 108 tax credit balance are given an option to elect to move to a single tier system immediately or allowed to use the Section 108 credit balance for the purpose of dividend distribution during a transitional period of 6 years until 31 December 2013.

The Bank has elected to use its Section 108 credit balance for the purpose of dividend distribution during a transitional period of 6 years until 31 December 2013. The Section 108 balance of the Bank as at 31 December 2007 will be frozen and can only be adjusted downwards for any tax discharged, remitted or refunded during the 6 years period.

## 22 INTEREST INCOME

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Loans and advances				
– interest income other than recoveries from NPLs	49,298	38,819	49,298	38,819
– recoveries from NPLs	3,776	2,565	3,776	2,565
Money at call and deposit placements with banks and other financial institutions	80,683	35,803	79,323	35,125
Securities held-for-trading	132,719	89,313	132,719	89,313
Securities available-for-sale	23,341	15,040	23,341	15,040
Securities held-to-maturity	9,008	9,138	9,008	9,138
Others	4,952	3,631	4,952	3,225
	<b>303,777</b>	194,309	<b>302,417</b>	193,225
Amortisation of premium less accretion of discount	15,374	8,596	15,374	8,596
Interest suspended clawback	–	(177)	–	(177)
	<b>319,151</b>	202,728	<b>317,791</b>	201,644

## 23 INTEREST EXPENSE

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Deposits and placements of banks and other financial institutions	78,465	90,654	78,465	90,654
Deposits from customers	150,767	46,987	150,767	46,987
Subordinated bonds	13,353	13,530	13,353	13,530
Others	3,164	2,984	3,164	2,983
	<b>245,749</b>	154,155	<b>245,749</b>	154,154

notes to the financial statements  
for the financial year ended 31 December 2007 (continued)

24 OTHER OPERATING INCOME

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>Fee income:</b>				
Brokerage	122,046	60,717	122,046	60,717
Fund management fees	11,029	7,142	–	–
Fees on loans and advances	5,369	2,821	5,369	2,821
Corporate advisory fees	18,057	8,927	18,057	8,927
Guarantee fees	3,607	2,770	3,607	2,770
Underwriting fees	4,463	2,669	4,463	2,669
Unit trust fee income	39,032	26,638	–	–
Other fee income	19,711	6,004	18,972	5,384
	<b>223,314</b>	<b>117,688</b>	<b>172,514</b>	<b>83,288</b>
<b>Net gain/(loss) arising from sale/redemption of securities and derivatives:</b>				
Net gain from sale of				
– Securities held-for-trading	30,586	26,716	30,523	26,716
– Securities available-for-sale	28,000	23,705	28,000	23,705
Net gain/(loss) from redemption of				
– Securities held-to-maturity	2,840	2,128	2,840	2,128
Derivatives	(1,381)	2	(1,381)	2
	<b>60,045</b>	<b>52,551</b>	<b>59,982</b>	<b>52,551</b>
<b>Unrealised gain/(loss) on revaluation of securities held-for-trading and derivatives:</b>				
Securities held-for-trading	(63,078)	25,047	(62,258)	25,047
Derivatives	5,122	(13,313)	5,122	(13,313)
	<b>(57,956)</b>	<b>11,734</b>	<b>(57,136)</b>	<b>11,734</b>
<b>Gross dividend income from:</b>				
Securities held-for-trading	–	2,437	–	2,437
Securities held-to-maturity	463	680	463	680
Securities available for sale	–	506	–	506
Subsidiaries	–	–	20,147	9,647
	<b>463</b>	<b>3,623</b>	<b>20,610</b>	<b>13,270</b>

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 24 OTHER OPERATING INCOME (CONTINUED)

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>Other income:</b>				
Foreign exchange gain				
– Realised	(2,957)	(137)	(2,957)	(135)
– Unrealised	259	3,201	259	3,201
Gain on transfer/disposal of property, plant and equipment	127	206	128	181
(Loss)/gain from disposal of a subsidiary	–	(33)	–	82,349
Gain/(loss) from liquidation of subsidiaries	69	–	(1)	–
Others	5,551	5,921	4,069	4,471
	<b>3,049</b>	<b>9,158</b>	<b>1,498</b>	<b>90,067</b>
Other operating income	<b>228,915</b>	<b>194,754</b>	<b>197,468</b>	<b>250,910</b>

## 25 OTHER OPERATING EXPENSES

<b>Personnel costs</b>				
Salaries, allowances and bonus	63,831	48,412	48,069	37,884
Defined contribution plans	8,456	6,335	6,953	5,027
Other staff costs	15,522	10,213	14,284	8,822
	<b>87,809</b>	<b>64,960</b>	<b>69,306</b>	<b>51,733</b>
<b>Establishment costs</b>				
Property, plant and equipment				
– written off	–	20	–	20
– depreciation	7,894	8,070	7,052	7,324
Rental of premises	9,516	9,501	7,942	7,972
Information technology expenses	4,303	3,368	3,608	2,691
Others	8,036	4,888	7,515	4,435
	<b>29,749</b>	<b>25,847</b>	<b>26,117</b>	<b>22,442</b>
<b>Marketing expenses</b>				
Sales commission	17,107	9,412	–	–
Advertising and publicity	1,405	1,584	1,324	1,519
Others	16,110	3,767	13,263	2,048
	<b>34,622</b>	<b>14,763</b>	<b>14,587</b>	<b>3,567</b>
<b>Administration and general expenses</b>				
Auditors' remuneration				
– statutory audit fees	257	282	170	208
– non audit fee	256	13	151	13
Communication expenses	6,854	3,404	5,929	2,579
Legal and professional fees	2,277	2,365	2,007	2,196
Others	14,765	9,687	14,119	8,698
	<b>24,409</b>	<b>15,751</b>	<b>22,376</b>	<b>13,694</b>
Other operating expenses	<b>176,589</b>	<b>121,321</b>	<b>132,386</b>	<b>91,436</b>

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 26 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	
Akira Miyama	
Lew Foon Keong	
Datuk Azlan Mohd Zainol	
Datin Khamarzan Ahmed Meah	
Patrick Chin Yoke Chung	(appointed on 2 August 2007)
Chay Wai Leong (Managing Director)	(The CEO was appointed to the Board as Managing Director on 8 October 2007)
Dato' Vaseehar Hassan Abdul Razack	(resigned on 31 December 2007)
Johari Abdul Muid	(resigned on 3 January 2008)

The aggregate remuneration of the Directors and Chief Executive Officer ('CEO') of the Bank is as follows:

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Managing Director / CEO				
– Salary and other remuneration	1,608	460	1,608	460
– Benefits-in-kind (based on an estimated money value)	33	6	33	6
Non-Executive Directors				
– Fees	700	511	472	405
– Allowances	652	788	601	749
– Others	69	–	69	–
	<b>3,062</b>	1,765	<b>2,783</b>	1,620

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

RM	Group		Bank	
	2007 No. of Directors	2006 No. of Directors	2007 No. of Directors	2006 No. of Directors
Managing Director / CEO				
Above 400,000	–	1	–	1
Above 1,500,000	1	–	1	–
	<b>1</b>	1	<b>1</b>	1
Non-Executive				
0 - 50,000	1	–	1	–
50,001 – 100,000	3	3	3	3
100,001 – 150,000	1	2	3	2
150,001 – 200,000	2	–	1	2
200,001 – 250,000	1	2	–	–
250,001 – 300,000	–	–	–	–
300,001 – 350,000	–	–	1	–
350,001 – 400,000	–	1	–	1
Above 400,000	1	–	–	–
	<b>9</b>	8	<b>9</b>	8



# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 27 ALLOWANCES FOR LOSSES ON LOANS AND OTHER LOSSES

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<b>Allowance for losses on loans</b>				
Specific allowance				
– Made during the financial year	<b>687</b>	48,135	<b>687</b>	48,135
– Written back	<b>(8,571)</b>	(2,347)	<b>(8,571)</b>	(2,347)
	<b>(7,884)</b>	45,788	<b>(7,884)</b>	45,788
General allowance	<b>4,573</b>	(1,624)	<b>4,573</b>	(1,624)
<b>Allowance for losses on clients' and brokers' balances</b>				
Specific allowance				
– Made during the financial year	<b>997</b>	1	<b>997</b>	1
– Written back	<b>(964)</b>	(1,830)	<b>(964)</b>	(1,830)
	<b>33</b>	(1,829)	<b>33</b>	(1,829)
General allowance	<b>(857)</b>	156	<b>(857)</b>	156
Bad debts				
– Recovered	<b>(3)</b>	(240)	<b>(3)</b>	(240)
– Written off	<b>408</b>	5	<b>408</b>	5
Amount recovered from Danaharta	–	(787)	–	(787)
Specific allowance for other debtors	<b>501</b>	317	<b>501</b>	1,436
	<b>(3,229)</b>	41,786	<b>(3,229)</b>	42,905

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 RM1,032,000 (2006: RM16,483,000).

## 28 ALLOWANCES FOR IMPAIRMENT LOSS

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Charge/(reversal) for the financial year				
– Securities available-for-sale	<b>(4,191)</b>	–	<b>(4,191)</b>	–
– Securities held-to-maturity	<b>13,457</b>	–	<b>13,457</b>	–
– Investment in a subsidiary	–	–	<b>80</b>	82,400
	<b>9,266</b>	–	<b>9,346</b>	82,400

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 29 TAXATION

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Income tax based on profit for the financial year				
– Malaysian income tax	<b>36,870</b>	20,922	<b>39,648</b>	21,394
Deferred taxation (Note 10)	<b>(1,289)</b>	2,009	<b>(1,396)</b>	2,111
Under/(over) provision in respect of prior years	<b>240</b>	(7,440)	<b>166</b>	(7,417)
<b>Tax expense</b>	<b>35,821</b>	15,491	<b>38,418</b>	16,088

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

	Group		Bank	
	2007 RM'000 %	2006 RM'000 %	2007 RM'000 %	2006 RM'000 %
Group and Bank average applicable tax rate	<b>27.0</b>	28.0	<b>27.0</b>	28.0
Tax effects in respect of:				
Non allowable expenses	<b>2.5</b>	4.2	<b>2.1</b>	2.7
Non-taxable income	–	(1.8)	–	(0.1)
Effect of different tax rate	<b>0.1</b>	(0.1)	<b>0.1</b>	–
Reversal of unutilised capital allowances brought forward	–	(1.4)	–	(1.4)
Current year's tax losses	<b>0.1</b>	(0.4)	–	(0.4)
Under/(over) provision in respect of prior years	<b>0.2</b>	(9.2)	<b>0.1</b>	(9.1)
<b>Average effective tax rate</b>	<b>29.9</b>	19.3	<b>29.3</b>	19.7

Group and Bank	
Year ended 31.12.2007 RM'000	Year ended 31.12.2006 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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## 30 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 RM83,870,000 (2006: RM64,729,000) and RM92,589,000 (2006: RM65,571,000) by the weighted average number of ordinary shares in issue during the financial year of 338,646,000 (2006: 338,646,000).

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 31 DIVIDENDS ON ORDINARY SHARES

	Group and Bank			
	2007	2007	2006	2006
	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
Dividends declared or proposed in respect of the financial year ended 31 December 2007 are as follows:				
Ordinary shares:				
Special dividend	21.40	52,910	4.58	11,163
Second special dividend	-	-	53.64	130,779
Proposed final dividend	-	-	8.49	21,000
	<b>21.40</b>	<b>52,910</b>	66.71	162,942
Dividends recognised as distribution to ordinary equity holders are as follows:				
Final dividend	8.49	21,000	22.00	53,642
Special dividends	21.40	52,910	58.22	141,942
	<b>29.89</b>	<b>73,910</b>	80.22	195,584

The directors have approved the payment of a special gross dividend of 21.40 sen per share less tax of 27% amounting to RM52,910,000 in respect of the current financial year on the fully issued and paid up ordinary shares of the Bank totalling RM338,646,000 which was paid on 28 December 2007.

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

## 32 SIGNIFICANT RELATED PARTY DISCLOSURES

### (a) Related parties and relationship

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

Related parties	Relationship
EPF	Ultimate holding body (effective 3 July 2007) *
RHB Capital Berhad	Immediate holding company
Subsidiaries of EPF as disclosed in its financial statements	Subsidiaries of the ultimate holding body
Subsidiaries and associates of RHB Capital Berhad as disclosed in its financial statements	Subsidiaries and associates of immediate holding company
Subsidiaries	As disclosed in Note 12

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 32 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

### (a) Related parties and relationship (continued)

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

<b>Related parties</b>	<b>Relationship</b>
The key management personnel of the Group and the Bank consist of:	Key management personnel
<ul style="list-style-type: none"> <li>- All Directors of the Bank, its key subsidiary and RHB Capital Berhad</li> <li>- RHB Capital Berhad Central Management Committee</li> <li>- Key management personnel of EPF who are in charge of the RHB Capital Group</li> </ul>	
(i) Close family members and dependents of key management personnel	Related parties of key management personnel (deemed as related to the bank)
(ii) Entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members.	

\* Rashid Hussain Berhad ceased to be a parent of immediate holding company effective 3 July 2007

### (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.

Other related companies comprise the other companies in the EPF Group and RHB Capital Berhad Group.

Significant related party transactions and balances with EPF, the ultimate holding body, are disclosed from 3 July 2007, which is the effective date of the commencement of the relationship.

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 32 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

Significant related party transactions with Rashid Hussain Berhad (and its subsidiaries), which has ceased to be the Bank's parent of holding company effective 3 July 2007 is included as part of the related companies given that it is now a subsidiary of EPF.

	Ultimate holding body RM'000	Immediate holding company RM'000	Key management personnel RM'000	Other related companies RM'000
<b>Financial year ended 31.12.2007</b>				
Significant related party transactions of the Group:				
<b>Income</b>				
Interest on deposits	-	-	-	4,588
Fee income	-	2,837	-	3,457
Brokerage fees	3,060	-	13	-
Fund management fees	-	-	1	422
	<b>3,060</b>	<b>2,837</b>	<b>14</b>	<b>8,467</b>
<b>Expenditure</b>				
Insurance premium	-	-	-	535
Interest expense on deposits and placements	497	-	-	4,938
Rental of premises	-	-	-	9,020
Personnel expenses	-	-	-	515
Establishment expenses	-	-	-	98
Marketing expenses	-	-	-	797
Administration and general expenses	-	-	-	789
	<b>497</b>	<b>-</b>	<b>-</b>	<b>16,692</b>
<b>As at 31.12.2007</b>				
Related party balances of the Group:				
<b>Amount due from</b>				
Cash and short term funds	-	-	-	67,833
Clients' and brokers' balances	4,096	-	-	-
Securities available-for-sale	-	-	-	25,000
Manager's stocks	-	-	964	-
Other assets	-	348	-	1,210
	<b>4,096</b>	<b>348</b>	<b>964</b>	<b>94,043</b>

notes to the financial statements  
for the financial year ended 31 December 2007 (continued)

**32 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)**

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

	Ultimate holding body RM'000	Immediate holding company RM'000	Key management personnel RM'000	Other related companies RM'000
<b>As at 31.12.2007</b>				
Related party balances of the Group (continued) :				
<b>Amount due to</b>				
Deposits and placements of financial institutions	300,000	-	-	200,000
Clients' and brokers' balances	52,420	-	-	-
Subordinated debts	-	-	-	5,000
Other liabilities	-	741	-	936
	<b>352,420</b>	<b>741</b>	<b>-</b>	<b>205,936</b>

	Rashid Hussain Berhad RM'000	Immediate holding company RM'000	Key management personnel RM'000	Other related companies RM'000
<b>Financial year ended 31.12.2006</b>				
Significant related party transactions of the Group:				
<b>Income</b>				
Interest on deposits	-	-	-	5,061
Interest on loans and advances	-	1,415	-	-
Brokerage fees	-	-	9	6
Fund management fees	-	-	1	391
	<b>-</b>	<b>1,415</b>	<b>10</b>	<b>5,458</b>

<b>Expenditure</b>				
Insurance premium	-	-	-	269
Interest expense on deposits and placements	-	-	-	14,131
Rental of premises	-	52	-	9,139
Security services	-	-	-	75
Personnel expenses	-	-	-	632
Marketing expenses	24	-	-	861
Administration and general expenses	-	144	-	101
	<b>24</b>	<b>196</b>	<b>-</b>	<b>25,208</b>

notes to the financial statements  
for the financial year ended 31 December 2007 (continued)

32 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	Rashid Hussain Berhad RM'000	Immediate holding company RM'000	Key management personnel RM'000	Other related companies RM'000	
<b>As at 31.12.2006</b>					
Related party balances of the Group (continued):					
<b>Amount due from</b>					
Cash and short term funds	-	-	-	65,711	
Securities purchased under resale agreements	-	-	-	165,304	
Clients' and brokers' balances	-	-	-	-	
Manager's stocks	-	-	709	-	
Other assets	7	-	-	1,024	
	7	-	709	232,039	
<b>Amount due to</b>					
Deposits and placements of financial institutions	-	-	-	250,000	
Clients' and brokers' balances	-	-	-	-	
Other liabilities	2	815	-	2,232	
	2	815	-	252,232	
	Ultimate holding body RM'000	Immediate holding company RM'000	Subsidiaries RM'000	Key management personnel RM'000	Other related companies RM'000
<b>Financial year ended 31.12.2007</b>					
Significant related party transactions of the Bank:					
<b>Income</b>					
Interest on deposits	-	-	-	-	3,233
Dividends	-	-	20,147	-	-
Interest on loans and advances	-	-	-	-	-
Fee income	-	2,837	-	-	3,207
Brokerage Fee	3,060	-	-	13	-
	3,060	2,837	20,147	13	6,440
<b>Expenditure</b>					
Insurance premium	-	-	-	-	412
Interest expense on deposits and placements	497	-	-	-	4,938
Rental of premises	-	-	-	-	7,575
Personnel expenses	-	-	(115)	-	466
Establishment expenses	-	-	(26)	-	57
Administration and general expenses	-	-	8,946	-	206
	497	-	8,805	-	13,654

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 32 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	Ultimate holding body RM'000	Immediate holding company RM'000	Subsidiaries RM'000	Key management personnel RM'000	Other related companies RM'000
<b>As at 31.12.2007</b>					
Related party balances of the Bank (continued):					
<b>Amount due from</b>					
Cash and short term funds	-	-	-	-	38,897
Clients' and brokers' balances	4,096	-	-	-	-
Securities available-for-sale	-	-	-	-	25,000
Other assets	-	348	544	-	89
	<b>4,096</b>	<b>348</b>	<b>544</b>	<b>-</b>	<b>63,986</b>
<b>Amount due to</b>					
Deposits and placements of financial institutions	300,000	-	-	-	200,000
Clients' and brokers' balances	52,420	-	-	-	-
Subordinated debts	-	-	-	-	5,000
Other liabilities	-	-	3,260	-	754
	<b>352,420</b>	<b>-</b>	<b>3,260</b>	<b>-</b>	<b>205,754</b>
	<b>Rashid Hussain Berhad RM'000</b>	<b>Immediate holding company RM'000</b>	<b>Subsidiaries RM'000</b>	<b>Key management personnel RM'000</b>	<b>Other related companies RM'000</b>
<b>Financial year ended 31.12.2006</b>					
Significant related party transactions of the Bank:					
<b>Income</b>					
Interest on deposits	-	-	-	-	4,490
Dividends	-	-	9,647	-	-
Interest on loans and advances	-	1,073	-	-	-
Brokerage Fee	-	-	-	9	6
	<b>-</b>	<b>1,073</b>	<b>9,647</b>	<b>9</b>	<b>4,496</b>
<b>Expenditure</b>					
Insurance premium	-	-	-	-	113
Interest expense on deposits and placements	-	-	-	-	14,130
Rental of premises	-	52	-	-	7,701
Security services	-	-	-	-	75
Personnel expenses	-	-	-	-	570
Administration and general expenses	-	144	-	-	40
	<b>-</b>	<b>196</b>	<b>-</b>	<b>-</b>	<b>22,629</b>



# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 32 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	Rashid Hussain Berhad RM'000	Immediate holding company RM'000	Subsidiaries RM'000	Key management personnel RM'000	Other related companies RM'000
<b>As at 31.12.2006</b>					
Related party balances of the Bank (continued):					
<b>Amount due from</b>					
Cash and short term funds	-	-	-	-	41,780
Securities purchased under resale agreements	-	-	-	-	152,454
Clients' and brokers' balances	-	-	-	-	-
Other assets	-	-	327	-	803
	-	-	327	-	195,037
<b>Amount due to</b>					
Deposits and placements of financial institutions	-	-	-	-	251,558
Clients' and brokers' balances	-	-	-	-	-
Other liabilities	-	95	-	-	575
	-	95	-	-	252,133

Other related parties comprise related companies, being subsidiaries of the immediate holding and/or ultimate holding body.

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.

### (c) Key management personnel

The remuneration of key management personnel are as follows:

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Short-term employee benefits				
- Salary and other remuneration	4,593	2,505	1,608	460
- Benefits-in-kind (based on an estimated money value)	83	44	33	6
	4,676	2,549	1,641	466

The above remuneration includes directors' remuneration as disclosed in Note 26 to the financial statements.

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 33 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 2007

	Group and Bank					
	As at 31.12.2007			As at 31.12.2006		
	Principal amount RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000
Direct credit substitutes	210,667	210,667	210,667	243,083	243,083	243,083
Transaction-related contingent items	343,046	35,023	35,023	764,829	32,415	32,415
Other asset sold with recourse & commitment with certain drawdown	2,514	–	–	–	–	–
Obligations under underwriting agreements	150,660	–	–	177,000	–	–
Irrevocable commitments to extend credit:						
– maturity not exceeding one year	285,220	–	–	460,573	–	–
– maturity exceeding one year	230,660	115,330	115,182	121,651	60,826	60,686
Foreign exchange-related contracts:						
– less than one year	33,040	1,501	300	35,680	1,871	374
Interest rate related contracts:						
– less than one year	1,410,000	251	50	1,360,000	147	30
– one to less than five years	2,690,000	11,046	2,209	3,470,000	8,282	1,656
– five years and above	155,000	13,206	2,641	–	–	–
Miscellaneous	–	–	–	98,367	19,673	3,935
	<b>5,510,807</b>	<b>387,024</b>	<b>366,072</b>	<b>6,731,183</b>	<b>366,297</b>	<b>342,179</b>

\* 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 2007 (continued)

## 33 COMMITMENTS AND CONTINGENCIES (CONTINUED)

### Contingencies

Pursuant to the vesting order as stated in Note 12, 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.

RHB Excel 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 2006, 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 2006. With the dismissal, the injunction previously obtained against RHB Excel to deal with the collateral lapses. On 14 June 2006, the plaintiff filed an application for a stay of execution.

RHB Excel won in its counterclaim against the plaintiff with costs on 24 June 2006. On 4 August 2006, 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.

## 34 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		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Future minimum lease payments				
Not later than 1 year	9,703	-	8,856	-
More than 5 years	-	-	-	-
	<b>9,703</b>	<b>-</b>	<b>8,856</b>	<b>-</b>

## 35 CAPITAL COMMITMENTS

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Capital expenditure for property, plant and equipment:				
- authorised and contracted for	1,034	82	1,034	82
- authorised and not contracted for	534	654	-	-

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 36 CAPITAL ADEQUACY

The capital adequacy ratios of the Bank are as follows:

	2007 RM'000	2006 RM'000
<b>Tier I Capital</b>		
Paid-up share capital	338,646	338,646
Other reserves	356,104	359,535
	<b>694,750</b>	698,181
AFS revaluation reserve	(8,113)	(30,223)
Deferred tax assets	–	(2,921)
Deferred tax liabilities	376	13,597
Goodwill	(159,280)	(159,280)
Total Tier I Capital	<b>527,733</b>	519,354
<b>Tier II Capital</b>		
General allowance for bad and doubtful debts	15,278	11,562
Subordinated bonds	200,000	165,000
Total Tier II capital	<b>215,278</b>	176,562
Total capital	<b>743,011</b>	695,916
Less: Investments in subsidiaries	(48,270)	(38,172)
Holding of other financial institutions subordinated instruments	(25,000)	–
Total capital base	<b>669,741</b>	657,744
<b>Before deducting proposed dividends</b>		
Core capital ratio	<b>14.61%</b>	16.02%
Risk-weighted capital adequacy ratio	<b>18.55%</b>	20.29%
<b>After deducting proposed dividends</b>		
Core capital ratio	<b>14.61%</b>	15.37%
Risk-weighted capital adequacy ratio	<b>18.55%</b>	19.64%

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 2007 (continued)

## 36 CAPITAL ADEQUACY (CONTINUED)

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

	2007 RM'000	2006 RM'000
0%	1,769,516	1,371,590
10%	-	15,017
20%	661,921	642,016
50%	3,478	4,167
100%	2,129,834	1,909,094
	<b>4,564,749</b>	3,941,884
Total risk-weighted assets for credit risk	<b>2,263,958</b>	2,041,082
Total risk-weighted assets for market risk *	<b>1,347,353</b>	1,199,475
Counterparty risk	<b>6</b>	15
Total risk-weighted assets	<b>3,611,317</b>	3,240,572

\* 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.

## 37 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 2007 (continued)

## 37 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.

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 assigns 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.

#### 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.

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 37 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

### A Financial risk management objectives and policies (continued)

#### 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.

#### 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.

#### 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 2007 (continued)

## 37 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.



# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 37 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

### 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.

	Group 31.12.2007								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	
<b>Assets</b>									
Cash and short term funds	1,659,902	-	-	-	-	211,080	-	1,870,982	3.52
Deposits and placements with banks and other financial institutions	-	84,000	99,320	-	-	-	-	183,320	3.92
Securities held-for-trading	-	-	-	-	-	16,235	3,839,595	3,855,830	4.30
Securities available-for-sale	-	-	-	135,570	418,402	12,664	-	566,636	7.01
Securities held-to-maturity	-	10,074	54,010	275,450	44,300	(77,195)	-	306,639	5.70
Loans and advances									
- performing	418,390	368,928	-	2,196	2,916	-	-	792,430	7.83
- non-performing	-	-	-	-	-	59,114	-	59,114	-
Clients' and brokers' balances	28,700	-	-	-	-	218,170	-	246,870	2.46
Other assets	1,833	-	87	591	665	67,076	3,756	74,008	3.11
Tax recoverable	-	-	-	-	-	22,017	-	22,017	-
Deferred tax assets	-	-	-	-	-	67	-	67	-
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	69,486	-	69,486	-
Property, plant and equipment	-	-	-	-	-	13,555	-	13,555	-
Goodwill	-	-	-	-	-	172,844	-	172,844	-
<b>Total assets</b>	<b>2,108,825</b>	<b>463,002</b>	<b>153,417</b>	<b>413,807</b>	<b>466,283</b>	<b>785,113</b>	<b>3,843,351</b>	<b>8,233,798</b>	
<b>Liabilities</b>									
Deposits from customers	2,945,993	424,500	88,287	200,000	-	-	-	3,658,780	3.54
Deposits and placements of banks and other financial institutions	2,222,885	709,135	188,589	93,046	-	-	-	3,213,655	3.56
Clients' and brokers' balances	-	-	-	-	-	368,436	-	368,436	-
Other liabilities	-	-	-	-	-	84,274	11,422	95,696	-
Taxation	-	-	-	-	-	152	-	152	-
Deferred tax liabilities	-	-	-	-	-	389	-	389	-
Subordinated debts	-	-	-	-	200,000	-	-	200,000	5.30
<b>Total liabilities</b>	<b>5,168,878</b>	<b>1,133,635</b>	<b>276,876</b>	<b>293,046</b>	<b>200,000</b>	<b>453,251</b>	<b>11,422</b>	<b>7,537,108</b>	
<b>Net interest rate gap</b>	<b>(3,060,053)</b>	<b>(670,633)</b>	<b>(123,459)</b>	<b>120,761</b>	<b>266,283</b>				

notes to the financial statements  
for the financial year ended 31 December 2007 (continued)

37 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Group 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	
<b>Assets</b>									
Cash and short term funds	1,058,359	-	-	-	-	52,882	-	1,111,241	3.53
Securities purchased under resale agreements	165,304	-	-	-	-	-	-	165,304	3.00
Deposits and placements with banks and other financial institutions	-	443,500	120	-	-	-	-	443,620	3.66
Securities held-for-trading	-	-	-	-	-	-	3,169,990	3,169,990	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	-	245	611	822	69,265	1,775	74,516	2.79
Tax recoverable	-	-	-	-	-	33,793	-	33,793	-
Deferred tax assets	-	-	-	-	-	3,087	-	3,087	-
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	69,206	-	69,206	-
Property, plant and equipment	-	-	-	-	-	19,028	-	19,028	-
Goodwill	-	-	-	-	-	172,844	-	172,844	-
<b>Total assets</b>	<b>1,711,048</b>	<b>548,821</b>	<b>43,392</b>	<b>514,964</b>	<b>289,661</b>	<b>598,800</b>	<b>3,171,765</b>	<b>6,878,451</b>	
<b>Liabilities</b>									
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 debts	-	-	-	165,000	-	-	-	165,000	8.20
<b>Total liabilities</b>	<b>3,135,145</b>	<b>1,483,005</b>	<b>781,249</b>	<b>458,046</b>	<b>-</b>	<b>296,442</b>	<b>14,563</b>	<b>6,168,450</b>	
<b>Net interest rate gap</b>	<b>(1,424,097)</b>	<b>(934,184)</b>	<b>(737,857)</b>	<b>56,918</b>	<b>289,661</b>				

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 37 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

### B Interest rate risk (continued)

	Bank 31.12.2007							Total RM'000	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		
<b>Assets</b>									
Cash and short term funds	1,643,600	-	-	-	-	194,632	-	1,838,232	3.52
Deposits and placements with banks and other financial institutions	-	84,000	99,320	-	-	-	-	183,320	3.92
Securities held-for-trading	-	-	-	-	-	12,862	3,839,595	3,852,457	4.30
Securities available-for-sale	-	-	-	135,570	418,402	10,349	-	564,321	7.01
Securities held-to-maturity	-	10,074	54,010	275,450	44,300	(77,195)	-	306,639	5.70
Loans and advances									
– performing	418,390	368,928	-	2,196	2,916	-	-	792,430	7.83
– non-performing	-	-	-	-	-	59,114	-	59,114	-
Clients' and brokers' balances	28,700	-	-	-	-	218,170	-	246,870	2.46
Other assets	1,833	-	-	-	-	54,947	3,756	60,536	2.46
Tax recoverable	-	-	-	-	-	23,832	-	23,832	-
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	69,486	-	69,486	-
Investments in subsidiaries	-	-	-	-	-	48,270	-	48,270	-
Property, plant and equipment	-	-	-	-	-	10,849	-	10,849	-
Goodwill	-	-	-	-	-	159,280	-	159,280	-
<b>Total assets</b>	<b>2,092,523</b>	<b>463,002</b>	<b>153,330</b>	<b>413,216</b>	<b>465,618</b>	<b>784,596</b>	<b>3,843,351</b>	<b>8,215,636</b>	
<b>Liabilities</b>									
Deposits from customers	2,945,993	424,500	88,287	200,000	-	-	-	3,658,780	3.54
Deposits and placements of banks and other financial institutions	2,222,885	709,135	188,589	93,046	-	-	-	3,213,655	3.56
Clients' and brokers' balances	-	-	-	-	-	368,436	-	368,436	-
Other liabilities	-	-	-	-	-	68,217	11,422	79,639	-
Deferred tax liabilities	-	-	-	-	-	376	-	376	-
Subordinated debts	-	-	-	-	200,000	-	-	200,000	5.30
<b>Total liabilities</b>	<b>5,168,878</b>	<b>1,133,635</b>	<b>276,876</b>	<b>293,046</b>	<b>200,000</b>	<b>437,029</b>	<b>11,422</b>	<b>7,520,886</b>	
<b>Net interest rate gap</b>	<b>(3,076,355)</b>	<b>(670,633)</b>	<b>(123,546)</b>	<b>120,170</b>	<b>265,618</b>				

notes to the financial statements  
for the financial year ended 31 December 2007 (continued)

37 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Bank 31.12.2006						Trading book RM'000	Total RM'000	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			
<b>Assets</b>									
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	-	-	-	-	48,860	1,775	52,433	1.35
Tax recoverable	-	-	-	-	-	35,197	-	35,197	-
Deferred tax assets	-	-	-	-	-	2,921	-	2,921	-
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	-
<b>Total assets</b>	<b>1,690,794</b>	<b>548,821</b>	<b>43,147</b>	<b>514,353</b>	<b>288,839</b>	<b>582,584</b>	<b>3,166,218</b>	<b>6,834,756</b>	

notes to the financial statements  
for the financial year ended 31 December 2007 (continued)

37 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Bank 31.12.2006					Non- interest bearing RM'000	Trading book RM'000	Total RM'000	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				
<b>Liabilities</b>									
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 debts	-	-	-	165,000	-	-	-	165,000	8.20
<b>Total liabilities</b>	<b>3,135,145</b>	<b>1,483,005</b>	<b>781,249</b>	<b>458,046</b>	<b>-</b>	<b>264,567</b>	<b>14,563</b>	<b>6,136,575</b>	
<b>Net interest rate gap</b>	<b>(1,444,351)</b>	<b>(934,184)</b>	<b>(738,102)</b>	<b>56,307</b>	<b>288,839</b>				

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.

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 37 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

### C Credit risk

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

	Group 31.12.2007							
	Cash and short term funds & placements with financial institutions 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	-	5,036	-	29,903	-	5	34,944	-
Mining and quarrying	-	-	-	-	33,809	-	33,809	-
Manufacturing	-	254,559	168,202	68,479	86,843	6,723	584,806	131,453
Electricity, gas and water	-	314,002	25,164	-	-	2,472	341,638	424,059
Construction	-	137,993	-	-	63,625	2,745	204,363	94,531
Real estate	-	36,468	26,317	-	88,301	841	151,927	32,400
General commerce	-	49,855	8,302	-	9,850	790	68,797	86,325
Transport, storage and communication	-	216,579	205,458	98,534	57,112	2,197	579,880	141,252
Finance, insurance and business services	828,344	2,236,164	24,985	-	115,359	33,324	3,238,176	4,342,075
Government and government agencies	1,225,900	441,756	95,544	108,500	-	4,535	1,876,235	-
Purchase of landed property	-	-	-	-	3,182	-	3,182	-
Purchase of securities	-	-	-	-	95,504	246,870	342,374	-
Purchase of transport vehicles	-	-	-	-	2,167	-	2,167	-
Consumption credit	-	-	-	-	29	-	29	-
Others	-	160,045	-	-	310,768	20,376	491,189	258,712
<b>Total</b>	<b>2,054,244</b>	<b>3,852,457</b>	<b>553,972</b>	<b>305,416</b>	<b>866,549</b>	<b>320,878</b>	<b>7,953,516</b>	<b>5,510,807</b>

\* Comprises credit equivalent balances of credit related contracts and derivatives amounting to RM361,020,000 and RM26,004,000 respectively.

notes to the financial statements  
for the financial year ended 31 December 2007 (continued)

37 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 31.12.2006						Clients' and brokers' balances and other financial assets RM'000	On-balance sheet total RM'000	Commitments and contingencies* RM'000
	Cash and short term funds & 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			
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
<b>Total</b>	<b>1,554,861</b>	<b>165,304</b>	<b>3,164,443</b>	<b>437,191</b>	<b>336,793</b>	<b>661,715</b>	<b>251,543</b>	<b>6,571,850</b>	<b>6,731,183</b>

\* 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 2007 (continued)

## 37 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

### C Credit risk (continued)

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

	Cash and short term funds & placements with financial institutions RM'000	Securities held-for- trading RM'000	Securities available- for-sale RM'000	Bank 31.12.2007		Clients' and brokers' balances and other financial assets RM'000	On-balance sheet total RM'000	Commitments and contingencies* RM'000
				Securities held-to- maturity RM'000	Loans and advances RM'000			
Agricultural	-	5,036	-	29,903	-	5	34,944	-
Mining and quarrying	-	-	-	-	33,809	-	33,809	-
Manufacturing	-	254,559	168,202	68,479	86,843	6,723	584,806	131,453
Electricity, gas and water	-	314,002	25,164	-	-	2,472	341,638	424,059
Construction	-	137,993	-	-	63,625	2,745	204,363	94,531
Real estate	-	36,468	26,317	-	88,301	841	151,927	32,400
General commerce	-	49,855	8,302	-	9,850	790	68,797	86,325
Transport, storage and communication	-	216,579	205,458	98,534	57,112	2,197	579,880	141,252
Finance, insurance and business services	795,606	2,236,164	24,985	-	115,359	33,324	3,205,438	4,342,075
Government and government agencies	1,225,900	441,756	95,544	108,500	-	4,535	1,876,235	-
Purchase of landed property	-	-	-	-	3,182	-	3,182	-
Purchase of securities	-	-	-	-	95,504	246,870	342,374	-
Purchase of transport vehicles	-	-	-	-	2,167	-	2,167	-
Consumption credit	-	-	-	-	29	-	29	-
Others	-	160,045	-	-	310,768	6,904	477,717	258,712
<b>Total</b>	<b>2,021,506</b>	<b>3,852,457</b>	<b>553,972</b>	<b>305,416</b>	<b>866,549</b>	<b>307,406</b>	<b>7,907,306</b>	<b>5,510,807</b>

\* Comprises credit equivalent balances of credit related contracts and derivatives amounting to RM361,020,000 and RM26,004,000 respectively.



# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 37 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

### C Credit risk (continued)

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

	Bank 31.12.2006						Clients' and brokers' balances and other financial assets RM'000	On-balance sheet total RM'000	Commitments and contingencies* RM'000
	Cash and short term funds & 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			
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
<b>Total</b>	<b>1,528,722</b>	<b>152,454</b>	<b>3,164,443</b>	<b>437,191</b>	<b>336,793</b>	<b>661,715</b>	<b>229,460</b>	<b>6,510,778</b>	<b>6,731,183</b>

\* Comprises credit equivalent balances of credit related contracts and derivatives amounting to RM335,997,000 and RM10,300,000 respectively.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 33.

## 38 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.

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 38 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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') 132 which requires the fair value information to be disclosed. These include property, plant and equipment, investments in subsidiaries and intangible.

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 2007		Bank 2007	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
<b>Financial assets</b>				
Securities held-to-maturity	306,639	308,750	306,639	308,750
<b>Financial liabilities</b>				
Deposits from customers	3,658,780	3,660,242	3,658,780	3,660,242
Deposits and placements of banks and other financial institutions	3,213,655	3,210,601	3,213,655	3,210,601
Subordinated debts	200,000	200,166	200,000	200,166
	Group 2006		Bank 2006	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
<b>Financial assets</b>				
Securities held-to-maturity	338,016	341,198	338,016	341,198
<b>Financial liabilities</b>				
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 debts	165,000	171,007	165,000	171,007

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 2007 (continued)

## 38 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

### 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 debts

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 2007 (continued)

## 39 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

### (a) Corporate Proposals

#### (i) Redemption of Subordinated Bonds 2002/2012

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 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 and has been fully redeemed on 10 December 2007.

#### (ii) Issuance of Subordinated Notes 2007/2017

During the financial year, the Bank has proposed issuance of up to RM245.0 million nominal value of Subordinated Notes ('Sub Notes') under a Subordinated Note Programme ('the Sub Notes Programme'). The Sub Notes shall have a tenure of 15 years from the date of first issue. During the tenure of the Sub Notes Programme, the Bank may issue Sub Notes with maturities ranging from 10 to 15 years and callable after a minimum period of 5 years from date of issue.

On 10 December 2007, the Bank has successfully issued Sub Notes for an aggregate nominal value of RM200 million at par and qualify as Tier II Capital of the Bank for the purpose of BNM's capital adequacy requirements.

The Sub Notes constitute direct unsecured obligations of the Bank, subordinated in right and priority of payment, to the extent and in the manner provided in the terms of the Sub Notes, to all deposit liabilities and other liabilities of the Bank except all other present and future unsecured and subordinated obligations of the Bank which by their terms rank pari-passu in right of priority of payment with or subordinate to the Sub Notes. The Sub Notes will in the event of the winding-up or liquidation of the Bank, be subordinated in right of payments to the claims of the depositors and all other creditors of the Bank other than claimants in respect of the Bank's unsecured and subordinated obligations which by their terms rank pari-passu in right of and priority of payment with or subordinated to the Sub Notes.

The Sub Notes proceeds raised shall be utilised for the Bank's general working capital.

The coupon for Sub Notes shall be accrued at the rate of 5.30% per annum ('p.a.') and commencing from the beginning of the sixth year from the issue date, the coupon rate shall be stepped up annually at 0.5% p.a. Coupon payments are payable semi-annually in arrears, with the last payment to be made on the maturity date.

#### (iii) Hybrid Tier 1 Capital Securities ('HT1 Securities')

The Bank has on 16 October 2007 proposed to issue up to RM75.0 million nominal value of Hybrid Tier 1 Capital Securities. This proposal has been tentatively scheduled to be exercised in the 2nd Quarter of Year 2008.

#### (iv) Cancellation of RM75.0 million of Paid-up Share Capital

The Bank has on 16 October 2007 proposed to cancel RM75.0 million of its existing issued and paid-up share capital and returning the same to its shareholders ('Proposed Capital Repayment'). The Proposed Capital Repayment shall be in conjunction with the issuance of RM75.0 million nominal value of HT1 Securities, in 2nd Quarter of Year 2008.

### (b) Transfer of Unit Trust Business

The Securities Commission ('SC') has during the financial year granted approval for the transferring of unit trust business and its entire assets and liabilities of RHB Unit Trust Management Berhad ('RHBUT') to RHB Investment Management Sdn Bhd (formerly known as RHB Asset Management Sdn Bhd) ('RHBIM'), both being the Bank's wholly owned subsidiaries.

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 39 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR (CONTINUED)

### (b) Transfer of Unit Trust Business (continued)

Pursuant to the vesting order granted by the High Court of Malaya on 19 December 2007, RHBUT transferred its entire business, assets and liabilities to RHBIM on 1 January 2008, and thereafter ceased its business operations and has since then been dormant.

With the business transfer, it does not have any significant financial impact on the results of the Group and the Bank other than those disclosed in Note 12.

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

On 28 January 2006, 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 2006, 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.

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 2006, 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 2006. On 23 June 2006, RHB Capital, RHB Equities and RHB Excel filed replies to the defences.

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.

The Bank, RHB Capital and RHB Equities had decided to discontinue their claims brought against the defendants on 7 December 2007.

## 40 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 27 February 2008.

## statement by directors

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

We, **Dato Abdullah Mat Noh** and **Chay Wai Leong**, 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 46 to 113 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 2007 and of the results and cash flows of the Group and the Bank for the financial year ended 31 December 2007 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 in accordance with a resolution of the Board of Directors.

**DATO ABDULLAH MAT NOH**  
CHAIRMAN

**CHAY WAI LEONG**  
MANAGING DIRECTOR

Kuala Lumpur  
28 February 2008

## 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 46 to 113 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 28 February 2008, before me.

**MOHD RADZI BIN YASIN**  
COMMISSIONER FOR OATHS

# report of the auditors

to the member of RHB Investment Bank Berhad

We have audited the financial statements set out on pages 46 to 113. 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 2007 and of the results and cash flows of the Group and Bank for the financial year ended 31 December 2007;

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. 2682/10/09 (J))

Partner of the firm

Kuala Lumpur

28 February 2008