

RHB INVESTMENT BANK BERHAD

Level 10, Tower One

RHB Centre

Jalan Tun Razak

50400 Kuala Lumpur

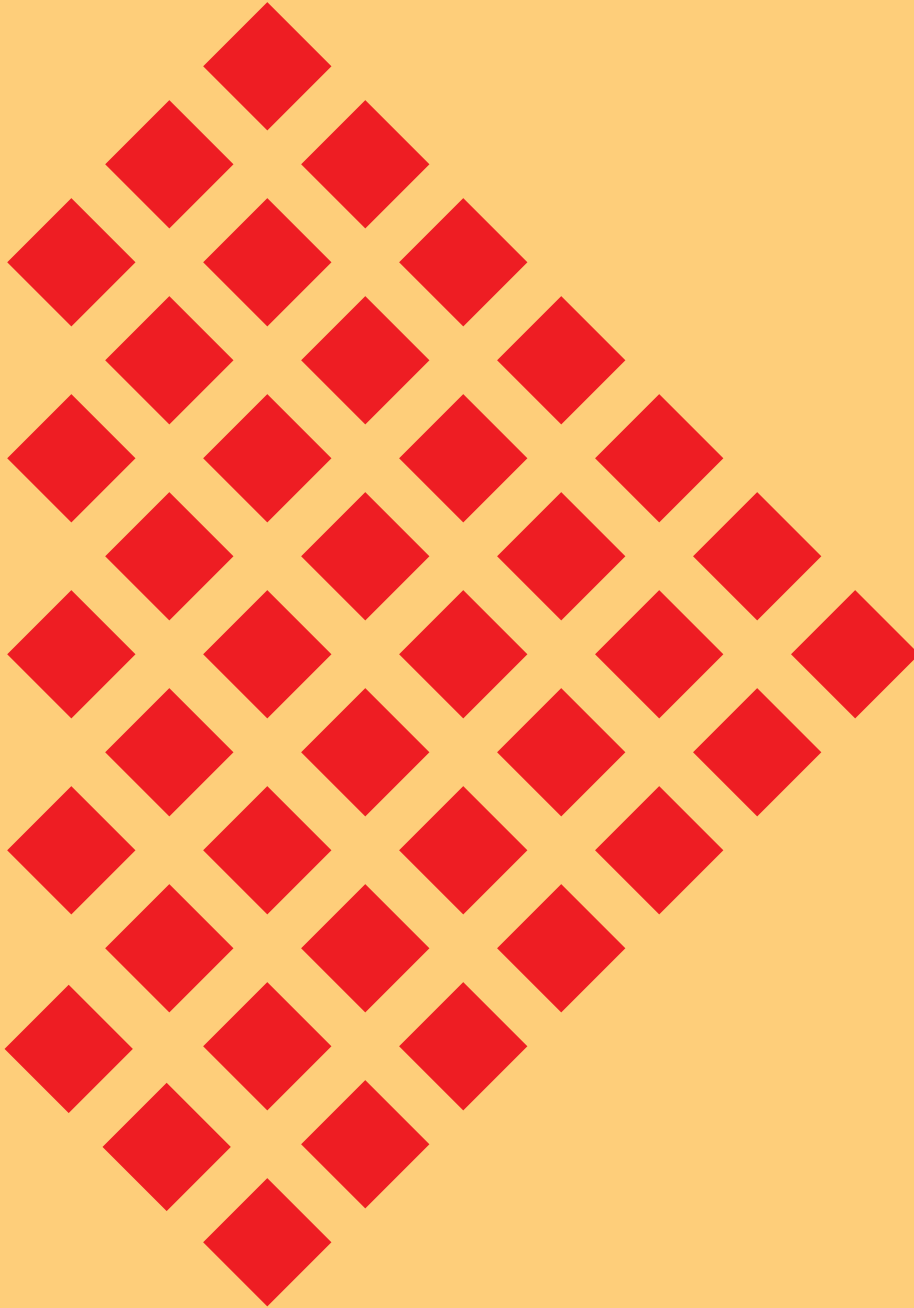
Tel : 603-9287 3888

Fax : 603-2142 7568

rhb.com.my



RHB INVESTMENT BANK BERHAD
ANNUAL REPORT **2008**



our core values



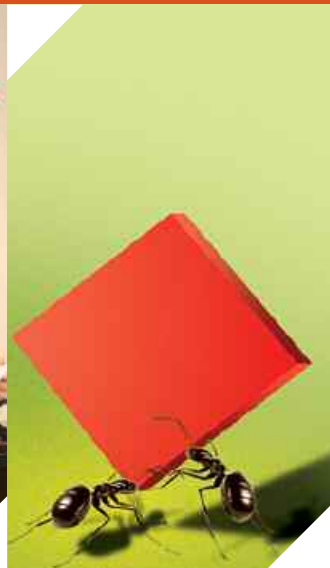
innovation

- “Innovation is the ability to see change as an opportunity – not a threat”
- Keep an open mind
- Ways to enhance the lives of our customers and those around us
- Apply “Start, Stop, Continue” in all we do



quality service

- “Service which exceeds the service expectation of our customers”
- Efficient, reliable and consistent
- Take ownership and accountability of what we do
- Have passion, commitment and drive to serve



teamwork

- “Serving one another to achieve a common objective”
- Lend a helping hand
- “One RHB team with one RHB face”
- Working together with each other



customer focus

- “Our Customers are No1: We shall understand their needs, build a strong and lasting relationship with them, and take all efforts to exceed their expectations”
- Provide best “Customer Service Experience”
- Simplified processes
- Walk that extra mile



respect

- “Treat others the way you would want to be treated”
- Be honest and sincere
- Take responsibility for your actions
- Express empathy and selflessness



The RHB Banking Group is **moving forward with confidence**

on the back of a successful transformation programme that has helped enhance the Group's standing and reputation, both locally and regionally. With our building blocks well in place, we are well on track to be one of the top three financial services providers in ASEAN by 2020.

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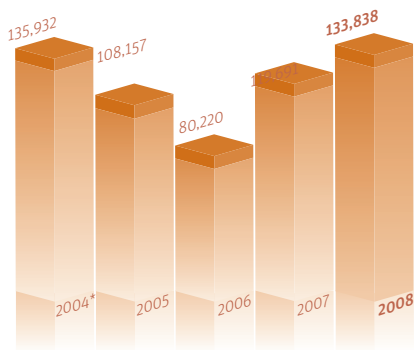
financial highlights

	2008 RM'000	2007 RM'000	2006 RM'000	2005 RM'000	2004* RM'000
RESULTS					
Profit before taxation	133,838	119,691	80,220	108,157	135,932
Profit after taxation and minority interests	97,242	83,870	64,729	78,905	100,056
Net dividends	-	52,910	162,942	53,642	97,530
BALANCE SHEETS					
Share capital	263,646	338,646	338,646	338,646	338,646
Shareholder's equity	718,100	696,690	710,001	801,457	833,112
Total assets	6,810,160	8,233,798	6,878,451	4,317,726	4,507,414
Loans and advances	468,244	851,544	651,283	724,647	806,877
Total deposits	5,425,445	6,872,435	3,815,977	2,256,097	2,513,219
RATIOS					
Earnings per share (sen)	34.4	24.8	19.1	23.3	29.5
Gross dividend per share (sen)	-	21.4	66.7	22.0	40.0
Net tangible assets per share (sen)	192.7	154.7	158.6	185.6	195.0
Return on shareholder's equity (%)	13.7	11.9	8.6	9.7	8.4

* 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.

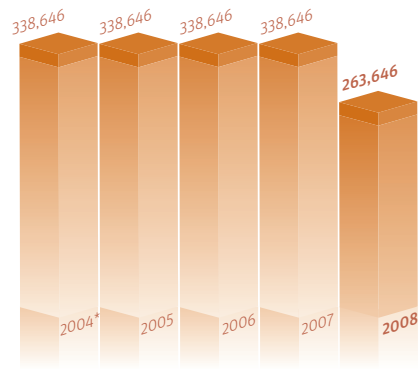
PROFIT BEFORE TAXATION

RM '000



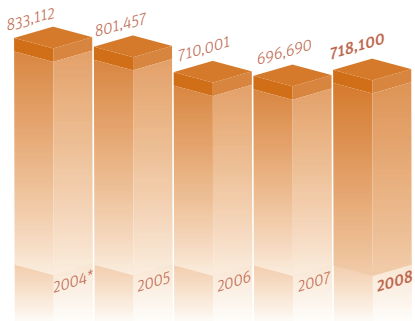
SHARE CAPITAL

RM '000



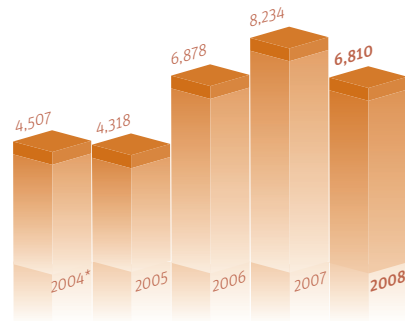
SHAREHOLDER'S EQUITY

RM '000



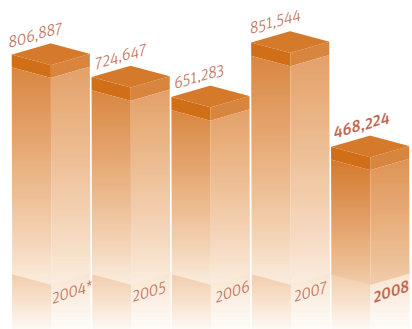
TOTAL ASSETS

RM million



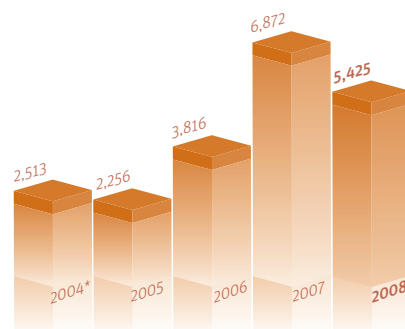
LOANS AND ADVANCES

RM '000



TOTAL DEPOSITS

RM million



corporate information

as at 15 April 2009

BOARD OF DIRECTORS

Dato Abdullah Mat Noh

Independent Non-Executive
Chairman

Datuk Azlan Zainol

Non-Independent Non-Executive
Director

COMPANY SECRETARY

Azman Shah Md Yaman

BOARD COMMITTEES

GROUP AUDIT COMMITTEE*

Ong Seng Pheow
Chairman

Dato' Mohd Salleh Hj Harun

Dato' Othman Jusoh

Datuk Tan Kim Leong

Patrick Chin Yoke Chung

GROUP REMUNERATION AND HUMAN RESOURCE COMMITTEE*

Datuk Tan Kim Leong
Chairman

Datuk Azlan Zainol

Datuk Haji Faisal Siraj

Johari Abdul Muid

Ismael Fariz Ali

GROUP RISK MANAGEMENT COMMITTEE*

Dato' Mohd Salleh Hj Harun
Chairman

Datin Khamarzan Ahmed Meah

Datuk Tan Kim Leong

Haji Khairuddin Ahmad

Patrick Chin Yoke Chung

GROUP NOMINATING COMMITTEE*

Datuk Haji Faisal Siraj
Chairman

Datuk Azlan Zainol

Datuk Tan Kim Leong

Johari Abdul Muid

Ismael Fariz Ali

GROUP CREDIT COMMITTEE# (formerly known as CENTRAL LOANS COMMITTEE)

Dato Abdullah Mat Noh
Chairman

Dato' Mohamed Khadar Merican

Johari Abdul Muid

Haji Khairuddin Ahmad

SENIOR MANAGEMENT

Michael Joseph Barrett
Group Managing Director

Dato' Tajuddin Atan
Managing Director, RHB Bank Berhad
(effective 1 May 2009)

Norazzah Sulaiman
Chief Operating Officer, RHB Capital Berhad

Kellee Kam Chee Khiong
Chief Financial Officer, RHB Capital Berhad

Chay Wai Leong
Head, Corporate & Investment Banking

Jamelah Jamaluddin
Head, Islamic Banking

Renzo Christopher Viegas
Head, Retail Banking

Michael Lim Kheng Boon
Chief Operating Officer, RHB Banking Group

Koh Heng Kong
Head, Insurance

Sharifatul Hanizah Said Ali
Head, Investment Management

Nik Hasniza Nik Ibrahim
Head, Group Human Resource

Dato' Mohamed Khadar Merican
Senior Independent Non-Executive
Director

Akira Miyama
Non-Independent Non-Executive
Director

Lew Foon Keong
Independent Non-Executive Director

Datin Khamarzan Ahmed Meah
Independent Non-Executive Director

Patrick Chin Yoke Chung
Independent Non-Executive Director

Datuk Tan Kim Leong
Independent Non-Executive Director

Chay Wai Leong
Managing Director

MANAGEMENT

Chay Wai Leong
Managing Director

MANAGEMENT OF SUBSIDIARIES

RHB Investment Management Sdn Bhd

Sharifatul Hanizah Said Ali
Managing Director

RHB Research Institute Sdn Bhd

Lim Chee Sing
Managing Director

REGISTERED OFFICE

Level 10, Tower One
RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
Malaysia
Tel : (03) 9287 8888
Fax : (03) 9280 6507

COMPANY NO.

19663-P

BUSINESS ADDRESS

HEAD OFFICE
Level 13, Tower Three
RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
Tel : (03) 9287 3888

MELAKA BRANCH

Lot 9 & 10, 1st Floor
Bangunan Tabung Haji
Jalan Banda Kaaba
75000 Melaka
Tel : (06) 283 3622

KUCHING DESK OFFICE

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

ASSOCIATE COMPANY

VIETNAM SECURITIES CORPORATION

8th Floor
59 Quang Trung
Hai Ba Trung District
Hanoi
Vietnam
Tel : (84) 4 9446 066 /
67 / 68 / 69

AUDITORS

PricewaterhouseCoopers
Chartered Accountants
Level 8-15, 1 Sentral
Jalan Travers
Kuala Lumpur Sentral
P. O. Box 10192
50706 Kuala Lumpur
Tel : (603) 2173 1188
Fax : (603) 2173 1288

* 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.

profile of the board of directors

DATO ABDULLAH MAT NOH

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

Dato Abdullah Mat Noh (“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. Dato Abdullah is a Member of the Chartered Institute of Bankers and Chartered Institute of Secretaries.

Dato Abdullah’s other directorships in public companies include RHB Bank Berhad and RHB Islamic Bank Berhad.

Dato Abdullah was appointed as a Director and formalised as Chairman of RHB Investment Bank on 7 May 2003 and 14 December 2003, respectively. 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. Dato Abdullah also serves as the Chairman of the Group Credit Committee (formerly known as Central Loans Committee).

DATUK AZLAN ZAINOL

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

Datuk Azlan Zainol (“Datuk Azlan”) is currently the Chief Executive Officer of Employees Provident Fund Board (“EPF”). He has more than 28 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.

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.

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

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.

DATO’ MOHAMED KHADAR MERICAN

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

Dato’ Mohamed Khadar Merican (“Dato’ Mohamed Khadar”) has had more than 21 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. 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.

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.

Dato’ Mohamed Khadar’s other directorships in public companies include RHB Capital Berhad (Chairman), Rashid Hussain Berhad (in Members’ Voluntary Liquidation), AirAsia Berhad and Astro All Asia Networks Plc.

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 Group Credit Committee (formerly known as Central Loans Committee).

AKIRA MIYAMA

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

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 The Japanese Chamber of Trade and Industry, Malaysia.

Mr Miyama was appointed as a Director of RHB Investment Bank on 25 September 2000.

LEW FOON KEONG

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

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 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 investment banking operations in Singapore. In late 1999, Mr Lew founded Equator

Capital, an investment management and advisory company primarily active in trading of US equities options and managed futures. He has also participated in a number of private equity and pre-Initial Public Offerings (IPOs) investments in the region. Over the years, he has been involved in a wide range of investment banking work, including global IPOs, equities placements, corporate takeovers and mergers, debt/equity restructuring and venture capital financing.

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

Mr Lew was appointed as an Independent Non-Executive Director of RHB Investment Bank on 15 March 2004.

DATIN KHAMARZAN AHMED MEAH

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

Datin Khamarzan Ahmed Meah (“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.

Datin Khamarzan’s other directorships in public companies include RHB Insurance Berhad, RHB Bank (L) Ltd and Rashid Hussain Berhad (in Members’ Voluntary Liquidation).

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.

profile of the board of directors

PATRICK CHIN YOKE CHUNG

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

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 a member of the Group Audit Committee and Group Risk Management Committee.

DATUK TAN KIM LEONG

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

Datuk Tan Kim Leong (“Datuk Tan”) is a Fellow of the Institute of Chartered Accountants in Australia and the Institute of Chartered Secretaries and Administrators, Member of the Malaysian Institute of Accountants and Member of the Malaysian Institute of Certified Public Accountants.

Datuk Tan is currently the Executive Chairman of BDO Binder Malaysia. With over 38 years of experience with major corporate and multinational organisations, Datuk Tan has extensive knowledge in corporate finance and restructuring work. He was a former Board Member of Bursa Malaysia Berhad from 1997 until 2004 and had, on 3 February 2009, been appointed as the Governor of Yayasan Bursa Malaysia.

Datuk Tan’s other directorships in public companies include RHB Capital Berhad, Goldis Berhad, MCIS Zurich Insurance Berhad, KL Industrial Services Berhad, The Amoy Canning Corporation (Malaya) Berhad and Gul Technologies Singapore Ltd.

Datuk Tan was appointed as an Independent Non-Executive Director of RHB Investment Bank on 17 June 2008. He also serves as the Chairman of the Group Remuneration and Human Resource Committee as well as a Member of the Group Risk Management Committee, Group Nominating Committee and Group Audit Committee.

CHAY WAI LEONG

(45 years of age - Singaporean)
Managing Director

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. In addition thereto, pursuant to the transformation exercise undertaken by the Group in November 2007, Mr Chay is also now overseeing the day-to-day management of Corporate & Investment Banking Strategic Business Unit of the Group in his capacity as the Head.

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.

awards and recognition

RHB INVESTMENT BANK BERHAD

Awards	Description
IFR Asia	Malaysia Bond House of the Year Malaysia Capital Markets Deal of the Year – Binariang GSM RM15.35 billion Islamic issuance Issuer of the Year – Export-Import Bank of Korea (KEXIM) RM1 billion bond issue
Asiamoney	Country Award – Best Deal in Malaysia – Binariang GSM RM12 billion (US\$3.6 billion) multi-tranche bond Best Overall Local Brokerage – 3rd place Best Local Brokerage for Mega Funds – 3rd place
Finance Asia	Deal Award – Best Islamic Financing – MRCB Southern Link RM845 million project financing sukuk
Alpha Southeast Asia	Most Innovative Deal of the Year in Southeast Asia – Export-Import Bank of Korea (KEXIM) RM1 billion bond issue
The Edge Malaysia	Best Corporate Finance Deal – EPF's disposal of 25% stake in RHB Capital Berhad to Abu Dhabi Commercial Bank for RM3.9 billion Best IPO of the Year – Perwaja Holdings Berhad RM367.01 million Main Board IPO
Islamic Finance News	Deal of the Year & Malaysia Deal of the Year – Projek Lintasan Shah Alam (PLSA) RM330 million Sukuk al Ijarah & RM415 million Sukuk al Mudharabah
The Asset	The Best Sellside Individuals – Local Currency Bonds (Malaysia) – Azli Abdul Jamil
Bursa Malaysia	Top Financial Futures Broker Award 2008

RHB RESEARCH INSTITUTE SDN BHD

Awards	Description
Asiamoney	Best Overall Macroeconomics Research – 2nd place Best Macroeconomics Research for Mega Funds – 3rd place Best Overall Banks Research – 3rd place
The Edge Malaysia	Best Fixed Income Research House 2008 – 1st place Best Equity Research House – 3rd place Best Construction/Building Materials Analyst – 1st place Joshua Ng Best Banking Analyst – 1st place Low Yee Huap Best Media Analyst – 2nd place David Chong Best Telecoms/Technology Analyst – 2nd place David Chong Best Plantations Analyst – 2nd place Hoe Lee Leng Best Economist – 3rd place Lim Chee Sing & 4th place Peck Boon Soon Best Strategist 2008 – 3rd place Lim Chee Sing Best Technical Analyst – 3rd place Khoo Ban Yu
The Edge Malaysia-StarMine Awards 2009	Broker Ranking Awards – Mid and Small-Cap Recommendations – 1st place Top Industry Stock Pickers for Consumer Products – 2nd place Hoe Lee Leng Top Industry Stock Pickers for Transport – 2nd place Joshua Ng Chin Yuing

RHB INVESTMENT MANAGEMENT

Awards	Description
Morningstar Fund Awards (Malaysia)	Islamic Balanced – RHB Mudharabah Fund
Failaka 2008 Islamic Fund Awards	Best Malaysian Islamic Bond Fund (One-Year) – RHB Islamic Bond Fund
The Asset Magazine 2008 Awards	Top 5 Most Astute Investors in Local Currency Bonds in Malaysia

RHB Banking Group corporate structure

as at 15 April 2009



RHB CAPITAL BERHAD

Commercial Banking Group

RHB Bank Berhad

- ◆ RHB Islamic Bank Berhad
 - ◆ RHB Bank (L) Ltd
 - ◆ RHB International Trust (L) Ltd
 - ◆ RHB Corporate Services Sdn Bhd
 - ◆ RHB Leasing Sdn Bhd
 - ◆ RHB Capital Nominees (Tempatan) Sdn Bhd
 - ◆ RHB Capital Nominees (Asing) Sdn Bhd
 - ◆ RHB Capital Properties Sdn Bhd
 - ◆ Utama Assets Sdn Bhd
 - ◆ RHB Bank Nominees Pte Ltd (*Singapore*)
 - ◆ Banfora Pte Ltd (*Singapore*)
 - ◆ RHB Investment Ltd (*Singapore*)
 - ◆ RHB Trade Services Limited (*Hong Kong*)
- ◆ Utama Gilang Sdn Bhd
 - ◆ UMBC Sdn Bhd
 - ◆ RHB Delta Sdn Bhd
 - ◆ RHB Delta Nominees (Tempatan) Sdn Bhd

Investment Banking Group

RHB Investment Bank Berhad

- ◆ RHB Investment Management Sdn Bhd
- ◆ RHB Research Institute Sdn Bhd
- ◆ RHB Merchant Nominees (Tempatan) Sdn Bhd
 - ◆ RHB Merchant Nominees (Asing) Sdn Bhd
- ◆ RHB Private Equity Holdings Sdn Bhd
 - ◆ RHB Private Equity Management Ltd
 - ◆ RHB Private Equity Fund Ltd (*Cayman Islands*)
- ◆ RHB Nominees Sdn Bhd
- ◆ RHB Nominees (Tempatan) Sdn Bhd
- ◆ RHB Nominees (Asing) Sdn Bhd
- ◆ RHB Excel Sdn Bhd
- ◆ RHB Progressive Sdn Bhd
- ◆ RHB Marketing Services Sdn Bhd
- ◆ RHB Venture Capital Sdn Bhd
- ◆ RHB Unit Trust Management Berhad
- ◆ Vietnam Securities Corporation (*Vietnam*) (49%)

Others

RHB Insurance Berhad (79.5%)

- ◆ RHB Equities Sdn Bhd ⁽¹⁾
- ◆ KYB Sdn Bhd
- ◆ RHB Capital (Jersey) Limited (*Jersey Island*)
 - ◆ Rashid Hussain Securities (Philippines), Inc. (*Philippines*) ⁽²⁾
 - ◆ PT Rashid Hussain Securities (*Indonesia*) (85%) ⁽³⁾
- ◆ RHB Hartanah Sdn Bhd
- ◆ Positive Properties Sdn Bhd (50%)
- ◆ Straits Asset Holdings Sdn Bhd
- ◆ SSSB Services (Melaka) Sdn Bhd
- ◆ SFSB Services (Melaka) Sdn Bhd
- ◆ RHBF Sdn Bhd
- ◆ KYF Sdn Bhd

Notes:

The subsidiary companies are wholly-owned unless otherwise stated.

Dormant company

Associate company

Jointly Controlled Entity

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

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

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

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

statement on corporate governance

The Board of Directors (“Board”) of RHB Investment Bank Berhad (“RHB Investment Bank” or “the Investment Bank”) believes that good corporate governance is the foundation of a successful organization. Therefore, the Board continuously strives to ensure that best practices are adopted in establishing accountability and integrity of the Board and the Management. The corporate governance structure of RHB Investment Bank is principally based on the Malaysian Code on Corporate Governance (“the Code”) as well as the Guidelines on Corporate Governance for Licensed Institutions (“Revised BNM/GP1”) issued by Bank Negara Malaysia (“BNM”).

In driving the objectives, the Board takes cognizance that by advocating good corporate governance and upholding ethical standards, RHB Investment Bank could maintain its competitive advantage which is crucial for the long-term success of the Investment Bank. In addition thereto, realizing that the business is not only responsible to its shareholder but also to its stakeholders, the Board constantly reviews its corporate responsibility initiatives in ensuring positive social impact as well as long term sustainability and growth.

The Board has developed a charter that sets out the key corporate governance principles adopted by the Board (“Charter”). In adhering to the responsibilities set out in the Charter, the Members of the Board are expected to perform their duties with integrity, honesty and in a professional manner in accordance with the law in serving the interest of its shareholder and stakeholders. The Charter addresses among others, the following matters:

- Responsibilities of the Board;
- Board Meetings;
- Supply of Information;
- Maintaining Board Independence and Board Balance;
- Remuneration levels of Directors;
- Re-election, retirement and resignation of Directors
- Continuous education by Directors;
- Responsibilities of Directors;
- Responsibilities of Senior Independent Non-Executive Director;
- Responsibility of the Chairperson;
- Financial Reporting;
- Investor relations and shareholder communication; and
- Relationship with other stakeholders.

BOARD OF DIRECTORS

Duties And Responsibilities Of The Board

Core responsibilities of the Board include the following:

- review, approve and monitor the implementation of RHB Investment Bank’s strategic business plans and fundamental policies;
- maintain an effective system of internal controls as well as identifying and managing principal risks in ensuring efficient operations and stable financial environment;
- providing guardianship of RHB Investment Bank’s corporate values and ethical principles in parallel with the goal to enhance shareholder’s value;
- monitor as well as evaluate the performance of the Management to ensure that the performance criteria remains dynamic; and
- formulate a succession plan for RHB Investment Bank in ensuring long-term business continuity.

The day-to-day management of RHB Investment Bank is delegated to the Managing Director (“MD”) who is responsible to among others, ensure the successful implementation of the Board’s decisions. The distinct and separate duties and responsibilities of the MD and other Non-Executive Directors (“NEDs”) ensure a balance of power and authority towards the establishment of an effective Board.

In addition thereto, pursuant to the transformation exercise undertaken by the RHB Banking Group in late 2007, the MD of RHB Investment Bank is also recognised as the Head of Corporate & Investment Banking and is a member of the RHB Banking Group's Central Management Committee ("CMC") which comprises of key management personnel of the Group. Among the objectives of the CMC are as follows:

- to provide strategic guidance to the Strategic Business Units and Strategic Functional Units;
- to recommend to the Board of the holding company and other entities within the Group in respect of the implementation of key strategic business plans and policies; and
- to assist the Board of the holding company and other entities in reviewing performances and business efficiencies of the Group.

The CMC is governed by its own terms of reference.

Board Composition And Balance

The Board currently comprises one (1) Independent Non-Executive Chairman, five (5) Independent Non-Executive Directors, two (2) Non-Independent Non-Executive Directors and the MD. The composition is in compliance with the Revised BNM/GP1. Being a financial services group, the Board recognizes that its Members must have the appropriate mix of skills as well as the necessary knowledge, experience and commitment to effectively contribute towards the growth and expansion of RHB Investment Bank. Furthermore, being on the Board of an investment bank would require the Members to be responsive to the constantly changing and challenging global financial landscape.

The Chairman ensures the orderly conduct of the Board and that issues presented to the Board are adequately discussed and assessed before a decision is taken. To further increase the effectiveness of the Board, the independent directors bring with them independent and objective judgement to the decision making process and is responsible to protect the interests of the shareholder/stakeholders.

The Board periodically review its size and composition in maintaining the right mix of skills experience and expertise.

A brief profile of each Director is presented on pages 6 to 8 of this Annual Report.

Code Of Ethics And Business Conduct

The Board had adopted a Code of Ethics and Business Conduct for Directors ("Code of Ethics"). The Code of Ethics was formulated to enhance the standard of corporate governance and promote ethical conduct of Directors with a view to achieving the following objectives:

- (i) establish the appropriate ethical standards for Directors based on acceptable beliefs and values;
- (ii) uphold the spirit of corporate responsibility and accountability in line with the governing laws, regulations and guidelines; and
- (iii) document and emphasise to the Directors, the integral obligation of each Director in performing his duty to act in a manner that is lawful, honest, ethical and free from any conflict of interest situations or perceived conflict of interest.

The Group had also implemented a Group Code of Ethics and Conduct that is applicable to all its employees with the objective to maintain a high standard of ethical and professional conduct of its employees.

Board Meetings and Access to Information

The Board meets monthly with special meetings held where any direction or decisions are required expeditiously from the Board between the scheduled meetings. Scheduled Board meetings are structured with a pre-set agenda.

The Board is provided with meeting papers in advance of the meeting dates, in allowing the Members of the Board to digest the issues at hand, seek clarification from the Management, if required and, formulate opinion on matters to be deliberated at the meetings. In line with the best practices, Board materials/papers are circulated to Members of the Board at least seven (7) days prior to the scheduled Board Meeting date. At each Meeting, the Board receives updates from the representative(s) of the Group Audit Committee and Group Risk Management Committee on matters that have been deliberated at these committees, as well as on matters that require attention. This practice also applies for the rest of the entities of the Group. The Board also receives regular management reports and information on corporate and business issues in enabling reviews to be conducted on performance against business targets and objectives.

statement on corporate governance

Each Member of the Board is required to apply independent judgement to decision making in their capacity as a Director. Where appropriate, decisions are also taken by way of Directors' Circular Resolution in accordance with RHB Investment Bank's Articles of Association.

The Board has direct access to the information of RHB Investment Bank through the Senior Management as well as the advice and services of the Company Secretary. In addition, Directors may also seek independent professional advice, at RHB Investment Bank's expense, when deemed necessary for the proper discharge of their duties.

The Board convened fourteen (14) meetings for the financial year ended 31 December 2008. 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 (%)
Dato Abdullah Mat Noh	14/14	100
Datuk Azlan Zainol	14/14	100
Dato' Mohamed Khadar Merican	13/14	93
Lew Foon Keong	12/14	86
Akira Miyama	14/14	100
Datin Khamarzan Ahmed Meah	13/14	93
Patrick Chin Yoke Chung	13/14	93
Datuk Tan Kim Leong ^{1*}	7/8	88
Chay Wai Leong (MD)	14/14	100

1 Appointed as a Director on 17 June 2008

* Based on the number of meetings held since his appointment to the Board

Appointments And Re-election To The Board

RHB Investment Bank is governed by the Revised BNM/GP1 in respect of the appointment of new Directors and the re-appointment of its existing Directors upon the expiry of their respective tenures of office as approved by BNM.

The Group Nominating Committee will review and assess the proposed re-appointments of Directors. The result of the individual assessment conducted via the Board Effective Evaluation ("BEE") exercise will be highlighted to the Board. Upon the approval by the Board, the application for the re-appointment will be submitted to BNM for approval.

The Board had also adopted an internal guideline on the Tenure of Appointment and Re-appointment of Independent Directors with the main objective of preserving the independence of independent Directors and address long serving Directors of the Group.

Article 93 of RHB Investment Bank's Articles of Association provides that at least one-third of the Board is subject to retirement by rotation at each Annual General Meeting. Retiring Directors can offer themselves for re-election. Directors who are appointed during the financial year are subject to re-election by shareholders at the next Annual General Meeting held following their appointments.

Directors' Training

The Directors continuously participate in various seminars, conferences and training programs and in-house workshops to keep themselves abreast with the relevant regulatory framework, financial sector issues as well as current and future market developments.

Conferences, seminars and training programs attended by the Directors of RHB Investment Bank in 2008 encompassed various topics on Board & Corporate Governance, Islamic Banking & Finance, Banking & Finance, Investment Banking, Risk Management and other related issues.

The NEDs of RHB Investment Bank also attend local and/or overseas training programs organized by credible training organizations under the Board High Performance Program ("BHPP") which serves as a platform to equip the Directors with the necessary knowledge and tools to effectively discharge their duties and responsibilities as well as provide the Directors with global business perspectives and skills that would engender organizational excellence.

Board Performance Evaluation

The Board had continuously conducted the BEE exercise on the Board and Board Committees with the objective of assessing the effectiveness of the Board and Board Committees as a whole, as well as the individual directors. The BEE is based on a combination of self and peer assessment methodologies performed via a customised questionnaire. The results of the BEE are presented to the Group Nominating Committee as well as the Board of RHB Investment Bank for notation. Overall, the 2008 assessment produced satisfactory results.

Apart from the BEE exercise, during the year, the Board also engaged an external consultant to perform a Board Performance Improvement Program ("BPIP") which is an enhancement of the BEE. Among the objective of the BPIP is to conduct an independent review of the structure, processes and documentation with regards to the Board in governing RHB Investment Bank. The findings and results from the work performed by the external consultant as well as the recommendations thereof in addressing the gaps and issues identified were tabled to the Group Nominating Committee and the Board of RHB Investment Bank for deliberation and Management's further action.

Board Committees

Following the Group-wide transformation exercise undertaken in late 2007, the various Board Committees within the Group were consolidated to form Group Board Committees residing either at RHB Capital Berhad (RHB Capital) or at RHB Bank Berhad's level. The objective is to promote better efficiency and effectiveness in implementing holistic strategies for the benefit of the Group as a whole. The Group Board Committees currently residing at RHB Capital are as follows:

- Group Nominating Committee;
- Group Remuneration and Human Resource Committee; and
- Group Risk Management Committee.

The Group Audit Committee and Group Credit Committee (formerly known as Central Loans Committee) were formed at RHB Bank Berhad and also deliberate matters pertaining to RHB Investment Bank. RHB Investment Bank formerly maintained its own Executive Committee 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 Investment Bank. The Executive Committee has been dissolved with effect from 1 May 2009.

The functions and terms of reference of the Group Board Committees are clearly defined and comply with the relevant governing laws, regulations and guidelines among others the Code and the Revised BNM/GP1. The members of the Group Board Committees also comprise Directors of RHB Investment Bank and that of the operating entities within the Group to ensure a fair representation across the entities in pursuing the interest of the entities concerned.

The relevant minutes/extract minutes of meetings of all Group Board Committees are tabled to the Board for notation.

Group Nominating Committee

The Group Nominating Committee comprises NEDs, a majority of whom are independent.

Meetings of the Group Nominating Committee are held as and when required and at least once a year. The Group Nominating Committee met 9 times during financial year 2008.

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The composition of the Group Nominating Committee and the attendance of the members at meetings held in 2008 are as follows:

	Attendance at Meetings
Datuk Haji Faisal Siraj (Independent Non-Executive Director/Chairman)	9/9 (100%)
Datuk Azlan Zainol (Non-Independent Non-Executive Director)	8/9 (89%)
Datuk Tan Kim Leong (Independent Non-Executive Director)	9/9 (100%)
Johari Abdul Muid (Non-Independent Non-Executive Director)	7/9 (78%)
Ismael Fariz Ali (Independent Non-Executive Director)	8/9 (89%)

The salient terms of reference of the Group Nominating Committee are as follows:

- To provide a documented, formal and transparent procedure for the appointment of directors, board committee members, Group Shariah Committee members, chief executive officers and key senior management officers as well as assessment of effectiveness of individual directors, the board as a whole and the various committees of the board, the chief executive officers and key senior management officers of the Group;
- To assist the Board in ensuring that appointments are made on merit against an agreed specification;
- 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;
- To examine the size of the Board with a view of determining the impact of the number upon its effectiveness.

Group Audit Committee

The Group Audit Committee comprises NEDs, all of whom are independent.

The Group Audit Committee meets regularly with the internal auditors. Whenever deemed necessary, the Group Audit Committee together with the senior management of the respective companies in the Group meet with the external auditors in reviewing financial reporting including RHB Investment Bank. They also discuss the nature, scope and results of audit reviews and the effectiveness of the system of internal controls. During the financial year, a total of 10 Group Audit Committee meetings were held.

The Group Audit Committee also meets twice a year with the external auditors without the presence of the Management pursuant to the requirement of the terms of reference.

The composition of the Group Audit Committee and the attendance of the members thereof together with the terms of reference and activities of the Group Audit Committee during the financial year are set out in the Group Audit Committee Report at page 23 to page 29 of this Annual Report.

Group Remuneration and Human Resource Committee

The Group Remuneration and Human Resource Committee comprises NEDs, a majority of whom are independent.

Meetings of the Group Remuneration and Human Resource Committee are held as and when required and at least once a year. The Committee met 12 times during the financial year 2008.

The composition of the Group Remuneration and Human Resource Committee and the attendance of the members at meetings held in 2008 are as follows:

	Attendance at Meetings
Datuk Tan Kim Leong (Independent Non-Executive Director/Chairman)	12/12 (100%)
Datuk Azlan Zainol (Non-Independent Non-Executive Director)	10/12 (83%)
Datuk Haji Faisal Siraj (Independent Non-Executive Director)	12/12 (100%)
Johari Abdul Muid (Non-Independent Non-Executive Director)	9/12 (75%)
Ismael Fariz Ali (Independent Non-Executive Director)	9/12 (75%)

The salient Terms of Reference of the Committee are as follows:

- To provide a formal and transparent procedure for developing the remuneration policy for directors, board committee members, chief executive officers, Group Shariah Committee members and key senior management officers of the Group and ensuring that their compensation is competitive and consistent with the Group's culture, objectives and strategy;
- To recommend to the Board on the policies, strategies and framework for the RHB Capital Group in relation to staff remuneration, rewards and benefits;
- To oversee and review the scope and quality of human resource projects/programs of the Group; and
- To oversee the disciplinary procedures, regulations and preventive measures as well as to ensure implementation and adherence to the disciplinary procedures.

statement on corporate governance

Group Risk Management Committee

The Group Risk Management Committee comprises NEDs, all of whom are independent.

The Committee met 12 times during the financial year 2008.

The composition of the Committee and the attendance of the members at meetings held in 2008 are as follows:

	Attendance at Meetings
Dato' Mohd Salleh Hj Harun (Independent Non-Executive Director/Chairman)	12/12 (100%)
Datin Khamarzan Ahmed Meah (Independent Non-Executive Director)	9/12 (75%)
Datuk Tan Kim Leong (Independent Non-Executive Director)	11/12 (92%)
Haji Khairuddin Ahmad (Independent Non-Executive Director)	12/12 (100%)
Patrick Chin Yoke Chung (Independent Non-Executive Director)	12/12 (100%)

The salient terms of reference of the Committee are as follows:

- to provide oversight and governance of risks at the Group;
- 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;
- to promote the management of the Group's risk in accordance with a risk-return performance management framework;
- to deliberate and make recommendations to the Board of Directors of each relevant entity within the Group in respect of risk management matters of the respective entities.

Group Credit Committee (formerly known as Central Loans Committee)

The Group Credit Committee comprises NEDs, a majority of whom are independent.

The Committee met 27 times during the financial year 2008.

The composition of the Committee and the attendance of the members at meetings held in 2008 are as follows:

	Attendance at Meetings
Dato Abdullah Mat Noh (Independent Non-Executive Director/Chairman)	27/27 (100%)
Johari Abdul Muid (Non-Independent Non-Executive Director)	16/27 (59%)
Dato' Mohamed Khadar Merican (Independent Non-Executive Director)	24/27 (89%)
Haji Khairuddin Ahmad ^{1*} (Independent Non-Executive Director)	23/24 (96%)
<i>Previous Member:</i>	
Dato' Othman Jusoh ² (Independent Non-Executive Director)	2/3 (67%)
Ismael Fariz Ali ³ (Independent Non-Executive Director)	3/7 (43%)

1 Appointed as a Member on 1 March 2008

2 Resigned as a Member on 1 March 2008

3 Resigned as a Member on 29 April 2008

* Based on the number of meetings held since his appointment to the Committee

The salient terms of reference of the Committee are as follows:

- To affirm, veto or impose additional conditions on credits/debt and equity underwriting (excluding applications from Loan Recovery) for amounts above the defined thresholds of the Central Credit Committee;
- To ensure that credits and underwriting approved by Central Credit Committee adhere to the Group Credit Policy and the Underwriting Policy, Guidelines and Procedures of RHB Bank Bhd, RHB Bank (L) Ltd, RHB Investment Bank Bhd and RHB Islamic Bank Bhd; and
- To endorse all policy loans/financing and loans/financing required by Bank Negara Malaysia to be referred to the respective Boards for approval.



statement on corporate governance

Group Shariah Committee

Apart from the above Board Committees, the Group has also established its Group Shariah Committee, which is housed at RHB Islamic Bank Berhad. The Group Shariah Committee comprise of qualified local and foreign Shariah Professionals to act as the Shariah advisor for the Group.

The main duties and responsibilities of the Group Shariah Committee are as follows:

- to advise the Group on all Shariah matters to ensure the business operations of the Group comply with Shariah Principles where applicable; and
- to advise the Group to consult the National Shariah Advisory Council (“NASC”), where relevant, on any Shariah matters which has not been resolved or endorsed by NASC.

DIRECTORS’ REMUNERATION

The remuneration of Directors is determined at levels which enable RHB Investment Bank to attract and retain Directors with the relevant experience and expertise required to navigate RHB Investment Bank effectively. For the NEDs, the level of remuneration reflects the level of responsibilities undertaken by the particular NED concerned in RHB Investment Bank.

All NEDs are paid directors’ fees as well as attendance allowances for Board and Board Committee meetings that they attend. The directors’ fees payable to the NEDs are subject to the approval of the shareholder.

Under the existing remuneration framework, the annual directors’ fees for NEDs is RM60,000.00 per director. Apart from the abovementioned, meeting attendance allowances are paid for Board and Board Committee Members at the rate between RM1,000.00 and RM1,500.00 per meeting per director depending on the nature of the meeting. NEDs who hold memberships on the Board Committees are also entitled to Board Committee allowances payable on annual basis at the end of each financial year. The Board Committees allowance payable to NEDs are reflective of the duties and functions of the Board Committees in RHB Investment Bank and of the Group.

The remuneration strategy for the MDs within the Group is to pay competitively, and through the use of an integrated pay and benefits structure, to reward corporate and individual performance in line with their contribution

to the organization. The MD is not paid a Director’s fee nor is he entitled to receive any meeting attendance allowance for any of the Board and Board Committee meetings that he attends. His remuneration is solely derived from RHB Investment Bank.

Further details on Directors’ remuneration are disclosed under Note 28 of the Notes to the Financial Statements in this Annual Report.

COMMUNICATION WITH SHAREHOLDER AND INVESTORS

RHB Investment Bank believes in maintaining an effective and open line of communication with its shareholder, RHB Capital or employees who have direct interest in RHB Investment Bank, or customers whose interests are paramount for any business.

Information on new products and services is communicated to customers and shareholder through various media. RHB Investment Bank receives wide media coverage for its notable business activities and product launches.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board ensures that the shareholder is provided with a clear, balanced and meaningful assessment of RHB Investment Bank’s financial performance, position and its future prospect through the Annual Audited Financial Statements and quarterly report.

A Directors’ Responsibility Statement for the Annual Audited Financial Statements of RHB Investment Bank is set out on page 32 of this Annual Report.

Internal Control

An overview of RHB Investment Bank’s systems of internal control is contained in the Statement on Internal Control set out on pages 21 and 22 of this Annual Report.

Relationship with External Auditors

The Board maintains a formal and transparent professional relationship with the External Auditors via the Group Audit Committee. The role of the Group Audit Committee in relation to the External Auditors is disclosed in the Group Audit Committee Report set out on pages 23 to 29 of this Annual Report.

statement on internal control

INTRODUCTION

Pursuant to paragraph 15.27(b) of the Bursa Malaysia Securities Berhad's Listing Requirements, a listed issuer must ensure that its Board of Directors ("Board") includes in its annual report a statement about the state of its internal control. The revised 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.

Although RHB Investment Bank Berhad (the "Bank") is not a listed company, the Board has endeavoured to prepare its Internal Control Statement. Set out below is the Board's Statement on Internal Control, which has been prepared in accordance with the "Guidance for Directors of Public Listed Companies" issued by Bursa Malaysia Securities Berhad.

RESPONSIBILITY

The Board acknowledges its overall responsibility for the Bank's system of internal controls and for reviewing its adequacy and integrity. Such system covers not only financial controls but also controls relating to operations, risk management and compliance with applicable laws, regulations, rules, directives and guidelines.

Whilst the Board further acknowledges that total elimination of risks is not possible, the system of internal controls in place is designed to manage risks in meeting the Bank's business objectives, and can only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

KEY INTERNAL CONTROL PROCESSES

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 through its Group Risk Management Committee to ensure proper management of risks and appropriate measures are timely taken to mitigate any identified weaknesses in the control environment.

The Group Risk Management Committee is delegated with risk management oversight authority by the Boards of the Group. In discharging its overall duties and responsibilities, the Group Risk Management Committee is supported by the Group Risk Management function which monitors and evaluates the effectiveness of the Group's risk management system on an ongoing basis.

Amongst the other committees set up at major subsidiaries in the Group to manage specific areas of risk are the Group Assets and Liabilities Committee, Underwriting and Credit Committee, Securities Credit Committee, Central Loans Committee, Central Credit Committee and Group Basel II Steering Committee.

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 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.

Internal Audit

The Group Internal Auditors perform regular reviews of the Bank's operational processes and system of internal controls. Group Internal Audit adopts a risk-based approach to determine the auditable units and frequency of audit, and the annual audit plans are reviewed and approved by the Group Audit Committee ("Group AC"). Results of the audits conducted by the Group Internal Auditors are reported to the Group AC while follow-up and review of the status of actions taken on the auditors' recommendations are carried out by the management via the Management Audit Committee ("MAC"). The MAC which comprises senior management has been established at the Bank since July 2008. The minutes of the MAC meetings are tabled to the Group AC for notation.



statement on internal control

The Group AC holds regular meetings to deliberate on findings and recommendations for improvement highlighted by both the internal and external auditors as well as regulatory authorities on the state of the Bank's internal control system. The minutes of the Group AC meetings are subsequently tabled to the Board for notation.

Further details of the activities undertaken by the Group AC are set out in the Group AC Report.

Compliance

The compliance function established at Group level is to monitor the compliance with the regulatory requirements among others, Bursa Malaysia Securities Berhad's Listing Requirements. In addition, a centralised compliance unit established at subsidiary level is for the purpose of monitoring operational compliance of the relevant subsidiaries.

Compliance reporting to the Board is done on a monthly basis for both Group and operational compliance to keep the Board apprised of the Group's state of compliance with laws, regulations, policies and procedures, and internal codes.

Other Key Elements Of Internal Control

The other key elements of the Bank's internal control system which have been reviewed by the Board are described below:-

- The Group Managing Director oversees the operations of the Strategic Business Units ("SBU") and Strategic Functional Units ("SFU") within the Group. In addition to that, the Central Management Committee (comprising key management personnel of the Group) manages the Group's strategic direction and provides strategic guidance to the SBUs and SFUs. Appointment of the key management personnel of the Group requires the approval of their respective Boards and relevant regulatory authorities, where applicable;
- Specific responsibilities have been delegated to the relevant Board committees, all of which have written terms of references. These committees have the authority to examine all matters within their scope

of responsibilities and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters however lies with the 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;
- There is clear procedure for investment appraisal including equity investment or divestment and capital expenditure;
- There are proper guidelines for hiring and termination of staff, formal training programmes for staff, annual performance appraisal and other relevant procedures in place to ensure that staff are adequately trained and competent in carrying out their duties and responsibilities;
- Regular and comprehensive information is provided to the management for monitoring of performance against the strategic plan approved by the Board, covering all key financial and operational indicators; and
- 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. A reporting system on actual performance against approved budgets is in place and significant variances are followed up by Management and reported at the Board.

To complement the Group's system of internal controls, a comprehensive incident reporting and incident management framework has been rolled out across the Group to ensure proper escalation and management of incidents that had occurred as well as ensuring necessary steps are taken to effectively mitigate any potential risks that may arise.

group audit committee report

ACTIVITIES OF THE AUDIT COMMITTEE / GROUP AUDIT COMMITTEE AND THE INTERNAL AUDIT FUNCTION DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

On 1 July 2008, a Group Audit Committee (“Group AC”) was formally established at RHB Bank Berhad to undertake the roles and responsibilities of the ACs of RHB Bank Berhad, RHB Islamic Bank Berhad, RHB Investment Bank Berhad and RHB Insurance Berhad. Accordingly, the AC of RHB Investment Bank Berhad was dissolved on the same date.

Audit Committee – Composition And Attendance Of Meetings

Up to 30 June 2008, a total of 4 AC meetings were held. The AC comprised the following members and details of attendance of each member at the AC meetings held up to 30 June 2008 are as follows:-

Composition Of The AC	No. Of Meetings Attended Whilst In Office
Patrick Chin Yoke Chung (Chairman/Independent Non-Executive Director) Appointed as Chairman on 31 January 2008 Ceased as Chairman on 30 June 2008	3 out of 3 meetings
Lew Foon Keong (Member/Independent Non-Executive Director) Ceased as member on 30 June 2008	3 out of 4 meetings
Datin Khamarzan Ahmed Meah (Member/Independent Non-Executive Director) Ceased as member on 30 June 2008	3 out of 4 meetings
Dato’ Mohamed Khadar Merican (Chairman/Independent Non-Executive Director) Resigned as Chairman on 31 January 2008	1 out of 1 meeting

On 31 January 2008, Dato’ Mohamed Khadar Merican, an Independent Non-Executive Director, resigned as Chairman of the AC and in place, Patrick Chin Yoke Chung, an Independent Non-Executive Director, was appointed as the new Chairman of the AC.

group audit committee report

Group Audit Committee – Composition And Attendance Of Meetings

The Group AC presently comprises directors from RHB Bank Berhad, RHB Islamic Bank Berhad, RHB Investment Bank Berhad and RHB Insurance Berhad. From 1 July 2008 to 31 December 2008, a total of 10 Group AC meetings were held. The Group AC comprises the following members and details of attendance of each member at the Group AC meetings held from 1 July 2008 to 31 December 2008 are as follows:-

Composition Of The Group AC	No. Of Meetings Attended Whilst In Office
Ong Seng Pheow (Chairman/Independent Non-Executive Director)	10 out of 10 meetings
Dato' Mohd Salleh Haji Harun (Member/Independent Non-Executive Director)	10 out of 10 meetings
Dato' Othman Jusoh (Member/Independent Non-Executive Director)	9 out of 10 meetings
Datuk Tan Kim Leong (Member/Independent Non-Executive Director)	9 out of 10 meetings
Patrick Chin Yoke Chung (Member/Independent Non-Executive Director)	9 out of 10 meetings

The main activities undertaken by the AC/Group AC during the year are summarised as follows:

- Reviewed the unaudited quarterly and half-year financial results and the annual audited financial statements of the Bank and the Group prior to their approval by the Board. It also considered the accounting standards applicable in the preparation of the consolidated financial statements;
- Reviewed the related party transactions entered into by the Bank and its subsidiaries;
- Reviewed with the external auditors, their audit plan, audit strategy and scope of work for the year, as well as the results of their annual audit;
- Met twice with the external auditors for discussion without the presence of the Management;
- Reviewed the non-audit services rendered by the external auditors and the related fees;
- Evaluated the performance of the external auditors and made recommendations to the Board on their appointment and audit fees;
- Reviewed and approved the annual internal audit plan to ensure adequacy of scope and coverage of the identified auditable areas including staffing requirements;
- Reviewed the status of completion of the internal audit plan, the internal audit reports, audit recommendations made and Management's response to these recommendations as well as actions taken to improve the system of internal controls and procedures;

- Reviewed the new Terms of Reference of the Group AC and recommended the same for approval by the Board;
- Reviewed the new Group Internal Audit Charter of the group internal audit function and recommended the same for approval by the Board;
- Reviewed the inspection and examination reports issued by the regulatory authorities and the appropriate remedial actions taken in respect of any findings to satisfy itself that all matters highlighted in these reports have been adequately and promptly addressed by Management; and
- Tabled the minutes of each AC/Group AC meeting to the Board for notation, and for further direction by the Board, where necessary.

During the year, the AC/Group AC members have attended relevant training programmes, conferences and seminars on the following areas:-

- Banking and Finance
 - Financial Institutions Directors Education program
- Board and Corporate Governance
 - Effective governance the way forward
 - Director's duties, liabilities and governance reform 2008
- Risk Management
 - Risk and capital management
- Investment Banking
 - The Malaysian capital market - Capital Markets and Services Act 2007 and regulation of the securities market

Internal Audit Function

The Group has an in-house group internal audit function which is guided by its Group Internal Audit Charter and reports to the AC/Group AC. Its primary role is to assist the AC/Group AC to discharge its duties and responsibilities by independently reviewing and reporting on the adequacy and integrity of the Group's risk management, internal control and governance processes.

The AC/Group AC approves the annual internal audit plan at the beginning of each financial year. The group internal auditors adopt a risk-based approach towards the planning and conduct of audits, which is consistent with the Group's framework in designing, implementing and monitoring its internal control system.

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 AC/Group AC.

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 GROUP AUDIT COMMITTEE

Objectives

1. To provide independent oversight over the management of the financial reporting and internal control system and ensuring checks and balances for entities within RHB Banking Group ("the Group"), namely RHB Bank Berhad, RHB Investment Bank Berhad, RHB Islamic Bank Berhad and RHB Insurance Berhad.

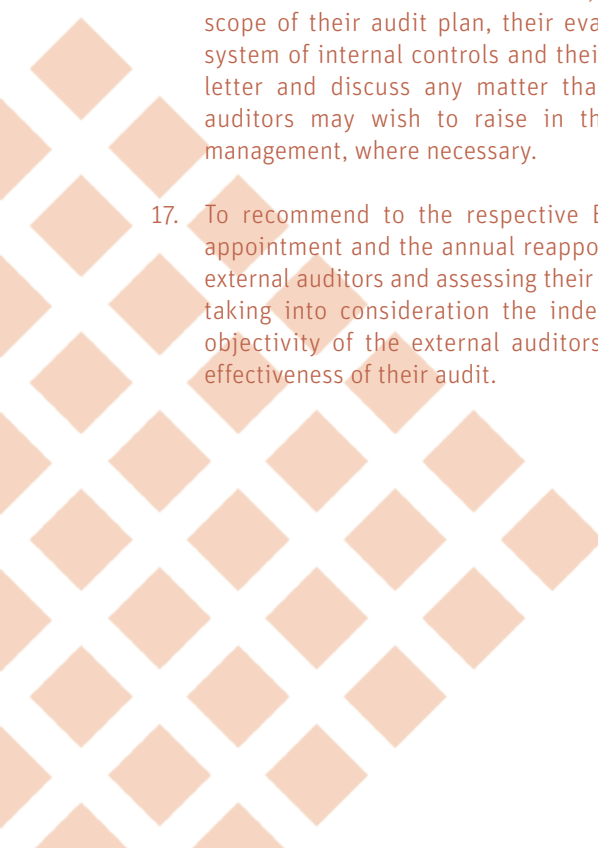


group audit committee report

2. To review the financial condition and performance of the Group.
3. To assist the Boards of the respective entities in the discharge of their responsibilities by reviewing the effectiveness, adequacy and integrity of the 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.
4. To reinforce the independence of the external auditors and thereby help assure that they will have free rein in the audit activities.
5. To provide, by way of regular meetings, a line of communication between the respective Boards and the external auditors.
6. To provide emphasis on the internal audit function by ensuring the objectivity and independence of the internal auditors and provide a forum for discussion that is among others independent of the Management.
7. To review the quality of the audits conducted by the internal and external auditors.
8. To enhance the perceptions held by stakeholders (including shareholders, regulators, creditors and employees) of the credibility and objectivity of financial reports.
3. To review the effectiveness of internal controls and risk management processes, including the scope of the internal audit programme and the appropriateness of the risk assessment methodology employed to determine the frequency and scope of audits.
4. To ensure that the reporting relationships of the internal audit staff do not impede the exercise of independent judgement by the internal auditors. In particular, the reports of internal auditors should not be subject to the clearance of the managing director/chief executive officer or any executive directors.
5. To ensure that all findings and recommendations are resolved effectively and in a timely manner.
6. To make appropriate public disclosure of the terms of reference and the activities of the Group AC in the respective licensed entities' financial statements.
7. To review the respective entities' quarterly results and year-end financial statements and to recommend the same to the respective Boards 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.
8. To review regularly the adequacy of provisions made and to recommend the same to the respective Boards for approval.

Duties And Responsibilities

1. The Group AC is directly accountable to the Boards of the respective entities and the Boards will continue to be accountable for all matters relating to their respective entities.
2. To ensure that the internal audit department is distinct and has the appropriate status within the overall organisational structure for the internal auditors to effectively accomplish their audit objectives.
9. To review any related party transaction and conflict of interest situation that may arise within the Group, including any transaction, procedure or course of conduct that raises questions of management integrity.
10. To review with the external and internal auditors whether the employees of the Group have given them appropriate assistance in discharging their duties.

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11. To review the adequacy of the scope, functions and resources of the internal audit function and that it has the necessary authority to carry out its work.
 12. To review and approve the internal audit plan, audit charter and the budget for the audit plan.
 13. To ensure that internal audit staff receives necessary training to perform audit work. There shall be a programme of continuing education and training to enable the internal auditors to keep abreast of business trends and latest developments at both the institution and industry levels, as well as to enhance technical skills required to effectively support the audit function.
 14. To appraise the performance of the head of internal audit and to review the appraisals of senior staff members of the internal audit function.
 15. To approve any appointment or termination of the head of internal audit and senior staff members of the internal audit function and to review any resignations of internal audit staff members and provide resigning staff members an opportunity to submit reasons for resigning, where necessary.
 16. 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.
 17. To recommend to the respective Boards on the appointment and the annual reappointment of the external auditors and assessing their audit fee, after taking into consideration the independence and objectivity of the external auditors and the cost effectiveness of their audit.
 18. To discuss and review with the external auditors any proposal from them to resign as auditors.
 19. To investigate reasons for any request made by management to dismiss the external auditors, or any resignation by the external auditors. The results of the investigation shall be disclosed to the respective full Board together with the recommendations on proposed actions to be taken.
 20. To review the non-audit services rendered by the external auditors together with the related fees and thereafter approving or recommending the same to the respective Boards for approval (whichever relevant), in accordance with the Group Policy on Non-Audit Fees payable to the external auditors.
 21. To review the co-ordination of audit activities between the external and internal auditors.
 22. To review the effectiveness of the infrastructure for ensuring Shariah compliance.
 23. 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.
 24. To review the following pertaining to RHB Insurance Berhad:-
 - i) The Chairman's statement, interim financial reports and preliminary announcements;
 - ii) Corporate governance disclosures made in the Directors' Report pursuant to the requirement in JPI/GPI 25: Prudential Framework of Corporate Governance for Insurers; and
 - iii) All representation letters signed by Management, and be satisfied that the information provided is complete and appropriate.



group audit committee report

25. To ensure that RHB Insurance Berhad complies with Section 95 of the Insurance Act which requires the Company to publish its accounts within fourteen (14) days of the laying of its accounts at its annual general meeting.
26. To perform any other functions as authorised by the respective Boards.

Authority

1. The Chairman of the Group AC should engage on a continuous basis with senior management, such as the managing director/chief executive officer, the chief operating officer, the chief financial officer, the head of internal audit and the external auditors in order to be kept informed of matters affecting the Group.
2. The Group AC is authorised by the respective Boards to investigate any matter within its terms of reference, to obtain the resources which it needs, and to have full and unrestricted access to relevant 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 Group AC.
3. The Group AC shall have direct communication channels with the external and internal auditors.
4. The Group AC is authorised by the respective Boards to obtain independent professional or other advice 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 and the frequency of meetings shall reflect the wider and increased responsibilities assumed. Meetings shall convene with a minimum quorum of two-thirds of the members and the majority of members present shall be independent non-executive directors.
2. The Group AC should not convene any meeting to discuss specific issues of a particular entity without the presence of the representative of the said entity.
3. The head of internal audit shall be in attendance at meetings of the Group AC. The Group AC 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.
4. At least twice a year, the Group AC shall meet with the external auditors without the presence of the Management or any executive Board members and upon the request of the external auditors, the Chairman of the Group AC shall convene a meeting to consider any matter which the external auditors believe should be brought to the attention of the respective Boards or shareholders.
5. The Company Secretary shall act as Secretary of the Group AC and shall be responsible for drawing up the agenda with the concurrence of the Chairman and circulating it, supported by explanatory documentation, to Group AC members within a reasonable timeframe prior to each meeting.

6. The Company Secretary shall also be responsible for keeping the minutes of meetings of the Group AC, their timely circulation to Group AC members and other members of the Boards, and following up on outstanding matters in relation to the meetings.
7. The Chairman of the Group AC shall provide reports to the respective Boards on the deliberations of the Group AC on a regular basis. In addition, the Chairman shall also present summary of all significant matters (highlighting the risks and implications) and resolutions made by the Group AC at the Board meetings.
8. The minutes of each Group AC meeting shall be tabled to the respective Boards. Thereafter, a copy of the minutes of the Group AC meeting pertaining to RHB Investment Bank Berhad shall be submitted to Bursa Malaysia Securities Berhad within thirty (30) days from the date of the minutes having been adopted by the Board.

Membership

1. The membership of the Group AC, including the position of Chairman shall be approved by the respective Boards based on the recommendation made by the Group Nominating Committee.
2. The Group AC shall comprise at least three (3) members and there should be a fair representative on the Group AC, from each entity within the Group. All members of the Group AC should be non-executive directors with majority of whom are independent.
3. The Chairman of the Group AC shall be an independent non-executive director.
4. No Group AC member shall be employed in an executive position in the Group, or otherwise have a relationship which in the opinion of the respective Boards will interfere with the exercise of independent judgement in carrying out the functions of the Group AC. In addition, members of the Group AC shall not be directly responsible for, or part of any committee involved in, the management functions within the Group.
5. No alternate director shall be appointed as a member of the Group AC.
6. Disclosure of customers' information to the members of the Group AC to be strictly on need to know basis and the members are to provide undertaking to preserve the confidentiality of the customers' information.
7. Collectively, the Group AC shall have a wide range of necessary skills to undertake its duties and responsibilities and are expected to be familiar with the areas included in the scope of internal audit, including the area of risk management.
8. All members of the Group AC shall be financially literate and at least one member shall be a member of an accounting association or body.
9. Details of the activities of Group AC, the number of audit meetings held in a year, details of attendance of each member in respect of meetings, and the details of relevant training attended by each member should be documented in an informative way.
10. The term of office and performance of the Group AC and each of its members must be reviewed by the respective Boards at least once every two (2) years.
11. If a member of the Group AC 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 respective 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

(I) CORPORATE AND INVESTMENT BANKING SERVICES

Corporate and Investment Banking Services (CIBS) provides advice on corporate strategy covering corporate restructuring, initial public offerings, mergers and acquisitions, and structuring and distribution of both equity and debt instruments. Services provided include advising and structuring of bilateral lending, project financing, loans syndication and infrastructure financing. Our dedicated relationship managers with expertise across all industries act as a liaison between clients and the relevant business units, enabling them to come up with integrated solutions for clients. The CIBS team is supported by the following product specialist teams.

DEBT CAPITAL MARKETS

Debt Capital Markets has undertaken many landmark transactions in Malaysia that are 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 department provides support in the origination and structuring of equity transactions such as initial public offerings, rights issues and private placements. We also manage syndication, marketing, and distribution of products through a quality network of 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. This includes corporate and debt restructuring, mergers and acquisitions (M&A), takeovers, stock exchange listings, public offerings of equity and debt instruments, private placements, underwriting and valuation of securities.

EQUITIES BROKING

Equities Broking offers facilities for share trading in the local stock market and in other markets such as Singapore, Thailand, Australia, UK, US as well as Hong Kong. We also provide access to the local market by electronic means for both retail and institutional clients. In this way clients have full control of their orders as they will be able to key in their orders directly into the market. This will give them full control of their orders. To complement these activities, we also provide share margin financing as well as custodian and nominees services.

FUTURES BROKING

Futures Broking provides products and services offered by Bursa Malaysia Derivatives Berhad such as KLCI Futures Index, KLCI Options Index, Crude Palm Oil Futures, FKB3 contracts and FMGS bonds futures contracts. Through our dual license holders, clients may also hedge their investments in the equity market.

ACQUISITION AND LEVERAGE FINANCING

Acquisition and Leverage Financing, in close liaison with CIBS and RHB Banking Group, offers a wide range of customised financing solutions for investment banking activities. These include structured acquisition and leverage financing, bridging for corporate fund raising exercises, loan syndication and cross-border financing.

(II) TREASURY

Treasury provides services to a wide range of clients with diverse needs, comprising government agencies, pension funds, mutual funds, insurance companies, corporations and inter-bank parties. These include market information dissemination, deposit-taking services, custodian services and provision of investment options.

Treasury is also involved in the proprietary trading of various financial products that include short-term money market instruments, long term securities and foreign exchange and derivatives products. It is supported by a well-established distribution network.

(III) RESEARCH

RHB Research Institute Sdn Bhd, a subsidiary of RHB Investment Bank Berhad, helps investors make informed decisions by providing comprehensive economic, equity and debt market research. The team of researchers will analyse investor implications with an outlook of the industry, economy and market conditions. We also provide financial analysis and business prospects on a broad range of listed companies on Bursa Malaysia. Clients also benefit from research, valuations and credit opinions of companies relating to potential corporate deals for CIBS.

(IV) INVESTMENT MANAGEMENT

RHB Investment Management Sdn Bhd, a subsidiary of RHB Investment Bank Berhad, has the expertise and skill in managing a full range of investment instruments customised according to client risk profile, including conventional and Shariah compliant instruments. The investments and mandates managed include equity, fixed income, hybrid structures, structured deposits, cash management, investment-linked and unit trust products. We also distribute a full array of domestic and global unit trust funds, encompassing conventional and Shariah compliant funds. Other investment services include product manufacturing, portfolio restructuring and managing of sinking 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 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 128 of the audited financial statements.



statutory financial statements

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directors' report

The directors submit herewith their report together with the audited financial statements of the Group and the Bank for the financial year ended 31 December 2008.

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 these principal activities during the financial year.

FINANCIAL RESULTS

	Group RM'000	Bank RM'000
Profit before taxation	133,838	135,709
Taxation	(36,596)	(36,053)
Net profit for the financial year	97,242	99,656

DIVIDENDS

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

At the forthcoming Annual General Meeting, a final gross dividend in respect of the current financial year of 30.6% less 25% tax amounting to RM60,506,757 will be proposed for shareholder's approval. These financial statements do not reflect this final dividend which will be accounted for in the shareholder's equity as an appropriation of retained profits in the financial year ending 31 December 2009 when approved by the shareholder.

CAPITAL REPAYMENT

Capital repayment during the financial year is disclosed in Note 41(a)(i) to the financial statements.

ISSUANCE OF SUBORDINATED NOTES

Issuance of Subordinated Notes during the financial year is disclosed in Note 41(a)(ii) to the financial statements.

RESERVES AND PROVISIONS

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

directors' report (continued)

BAD AND DOUBTFUL DEBTS

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

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

CURRENT ASSETS

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

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

VALUATION METHOD

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

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

CHANGE OF CIRCUMSTANCES

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

directors' report (continued)

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 and the Bank for the financial year in which this report is made.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

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

DIRECTORS 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 Zainol
Dato' Mohamed Khadar Merican
Akira Miyama
Lew Foon Keong
Datin Khamarzan Ahmed Meah
Patrick Chin Yoke Chung
Chay Wai Leong (Managing Director)
Datuk Tan Kim Leong (Appointed on 17 June 2008)

Pursuant to Article 93 of the Bank's Articles of Association, Dato Abdullah Mat Noh, Dato' Mohamed Khadar Merican and Datuk Azlan Zainol 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, Datuk Tan Kim Leong retires at the forthcoming Annual General Meeting and, being eligible, offers himself 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 during the financial year are as follows:

	Number of ordinary shares of RM1 each			As at 31.12.2008
	As at 1.1.2008	Bought	Sold	
Immediate Holding Company RHB Capital Berhad				
Dato' Mohamed Khadar Merican – Direct	40,000	19,770	–	59,770

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' report (continued)

DIRECTORS' BENEFITS

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

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.

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.

We set out below the abridged Corporate Governance as required under Bank Negara Malaysia's ('BNM') requirements. The full version of the Corporate Governance Statement will be included in the Annual Report.

(A) BOARD OF DIRECTORS

Composition of the Board

The Board currently has nine (9) members, comprising an Independent Non-Executive Chairman, two (2) Non-Independent Non-Executive Directors, five (5) Independent Non-Executive Directors and a Managing Director, details of which are as follows:

Name of Director	Designation
Dato Abdullah Mat Noh	Independent Non-Executive Chairman
Datuk Azlan Zainol	Non-Independent Non-Executive Director
Dato' Mohamed Khadar Merican	Independent Non-Executive Director
Lew Foon Keong	Independent Non-Executive Director
Akira Miyama	Non-Independent Non-Executive Director
Datin Khamarzan Ahmed Meah	Independent Non-Executive Director
Patrick Chin Yoke Chung	Independent Non-Executive Director
Chay Wai Leong	Managing Director
Datuk Tan Kim Leong (appointed on 17 June 2008)	Independent Non-Executive Director

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

directors' report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Duties And Responsibilities Of The Board

The Board's core responsibilities included among others, the review and approval of the Group's strategic directions, fundamental policies, monitoring financial performance and overseeing as well as evaluating the performance of the Management. In discharging its responsibilities, the Board always ensures that best practices in governance are subscribed to and ethical standards are upheld. Realising that the business is not only responsible to its shareholders but also to its stakeholders, the Board continuously review its corporate responsibility initiatives in ensuring positive social impact as well as long term sustainability and growth.

The day-to-day management of the Bank is delegated to the Managing Director ('MD') who is responsible to among others, ensure the successful implementation of the Board's decision. The distinct and separate duties and responsibilities of the MD and the other Non-Executive Directors ensures a balance of power and authority towards the establishment of an effective Board.

In addition thereto, pursuant to the transformation exercise undertaken by the Group in November 2007, the MD of the Bank is also now overseeing the day-to-day management of Corporate & Investment Banking Strategic Business Unit of the Group in his capacity as the Head.

Board Meetings

The Board meets monthly with special meetings held where any direction or decisions are required expeditiously from the Board between the scheduled meetings. Scheduled Board meetings are structured with a pre-set agenda.

The Board is provided with the meeting papers in advance of meetings to enable it to request for clarifications from the Management on issues at hand, if required and, formulate opinion on matters to be deliberated at the meetings. In line with the best practices, the Management will deliver Board materials/papers to Board Members at least seven (7) days prior to the scheduled Board Meeting date. At each Meeting, the Board receives updates from the respective Chairmen/representatives of the Group Audit Committee and Group Risk Management Committee on matters that have been deliberated at both committees as well as on matters that require attention. The Board also receives regular management reports and information on corporate and business issues to enable reviews of performance against business targets and objectives.

Each member of the Board is required to apply independent judgement to decision making in their capacity as a Director. Where appropriate, decisions are also taken by way of Directors' Circular Resolution in accordance with the Bank's Articles of Association.

The Board has direct access to information of the Bank and the Group through the Senior Management as well as the advice and services of the Company Secretary. In addition, Directors may also seek independent professional advice, at the Bank's expense, when deemed necessary for the proper discharge of their duties.

directors' report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

The Board convened fourteen (14) meetings for the financial year ended 31 December 2008. 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 (%)
Dato Abdullah Mat Noh	14/14	100
Datuk Azlan Zainol	14/14	100
Dato' Mohamed Khadar Merican	13/14	93
Lew Foon Keong	12/14	86
Akira Miyama	14/14	100
Datin Khamarzan Ahmed Meah	13/14	93
Patrick Chin Yoke Chung	13/14	93
Chay Wai Leong (MD)	14/14	100
Datuk Tan Kim Leong ^{(1)*}	7/8	88

Notes:-

⁽¹⁾ Appointed on 17 June 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.

BOARD COMMITTEES

Group Audit Committee

The Board has established an Audit Committee ('AC') since 23 June 1997. On 1 July 2008, the Group Audit Committee ('Group AC') was formally established at RHB Bank Berhad ('RHB Bank') to undertake the roles and responsibilities of the ACs within the RHB Banking Group (comprising RHB Bank, RHB Investment Bank, RHB Islamic Bank Berhad and RHB Insurance Berhad). Accordingly, the AC of RHB Investment Bank has been dissolved on the same date.

Currently, the Group AC comprises directors within RHB Bank, RHB Investment Bank, RHB Islamic Bank Berhad and RHB Insurance Berhad i.e. five (5) Independent Non-Executive Directors of whom one (1) is the Chairman. During the period from 1 July 2008 to 31 December 2008, a total of 10 meetings were held and the details of attendance of each member at the Group AC Meetings held during the financial year ended 31 December 2008 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Ong Seng Pheow (Chairman)	10/10	100
Dato' Mohd Salleh Harun	10/10	100
Dato' Othman Jusoh	9/10	90
Patrick Chin Yoke Chung	9/10	90
Datuk Tan Kim Leong	9/10	90

directors' report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Audit Committee (continued)

The Group AC meets regularly to provide independent oversight over the management of the financial reporting and internal control system and ensuring checks and balances for entities within RHB Banking Group. The Management, Head of Central 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 Group AC meets with the external auditors without the presence of the Management at least once a year.

Group Nominating Committee

The Board has established the Nomination Committee on 7 May 2003 and was renamed as Nominating Committee ('NC') on 31 July 2003. On 1 January 2008, the Group Nominating Committee ('Group NC') was formally established at RHB Capital Berhad ('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 Directors. During the financial year ended 31 December 2008, a total of 9 meetings were held and the details of attendance of each member at the Group NC Meetings held during the financial year ended 31 December 2008 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Datuk Faisal Siraj (Chairman)	9/9	100
Datuk Azlan Zainol	8/9	89
Datuk Tan Kim Leong	9/9	100
Johari Abdul Muid	7/9	78
Ismael Fariz Ali	8/9	89

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.

Group Remuneration and Human Resource Committee

The Board has established the Human Resource Committee on 31 October 2001 and was renamed as the Remuneration and Human Resource Committee ('RHRC') on 31 July 2003. On 1 January 2008, the Group Remuneration and Human Resource Committee ('Group RHRC') has also been established at RHB Capital to undertake the roles and responsibilities of the RHRCs within the RHB Banking Group. Arising therefrom, the RHRC of RHB Investment Bank has been dissolved.

directors' report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Remuneration and Human Resource Committee (continued)

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. During the financial year ended 31 December 2008, a total of 12 meetings were held and the details of attendance of each member at the Group RHRC Meetings held during the financial year ended 31 December 2008 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Datuk Tan Kim Leong (Chairman)	12/12	100
Datuk Azlan Zainol	10/12	83
Datuk Faisal Siraj	12/12	100
Johari Abdul Muid	9/12	75
Ismael Fariz Ali	9/12	75

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.

Group Risk Management Committee

The Board has established the Group Risk Management Committee ('GRMC') since 20 December 2001. The Group Risk Management Committee ('Group RMC') for RHB Capital Group has been established at RHB Capital effective 1 November 2007. Accordingly, the GRMC 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. During the financial year ended 31 December 2008, a total of 12 meetings were held and the details of attendance of each member at the Group RMC Meetings held during the financial year ended 31 December 2008 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Dato' Mohd Salleh Hj Harun (Chairman)	12/12	100
Haji Khairuddin Ahmad	12/12	100
Patrick Chin Yoke Chung	12/12	100
Datin Khamarzan Ahmed Meah	9/12	75
Datuk Tan Kim Leong ⁽¹⁾	11/12	92

Notes:-

⁽¹⁾ Appointed on 1 January 2008

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 Berhad, RHB Bank Berhad, RHB Investment Bank Berhad, RHB Islamic Bank Berhad and RHB Insurance Berhad.

directors' report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Central Loans Committee

The Board has adopted the Central Loans Committee ("CLC") which was established at RHB Bank in June 2007 to reflect its functions of affirming, imposing additional covenants or vetoing credits of RHB Banking Group (comprising RHB Bank, RHB Bank (L) Ltd, RHB Islamic Bank Berhad and RHB Investment Bank) which were duly approved by the Central Credit Committee.

Currently, the CLC comprises directors within RHB Bank, RHB Bank (L) Ltd, RHB Islamic Bank Berhad and RHB Investment Bank i.e. three (3) Independent Non-Executive Directors of whom one (1) is the Chairman, and a Non-Independent Non-Executive Director. During the financial year ended 31 December 2008, a total of 27 meetings were held and the details of attendance of each member at the CLC Meetings held during the financial year ended 31 December 2008 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Dato Abdullah Mat Noh (Chairman)	27/27	100
Johari Abdul Muid	16/27	59
Dato' Mohamed Khadar Merican	24/27	89
Tuan Haji Khairuddin Ahmad ^{(1)*}	23/24	96
Previous Member:		
Dato' Othman Jusoh ^{(2)*}	2/3	67
Ismael Fariz Ali ^{(3)*}	3/7	43

Notes:-

⁽¹⁾ Appointed on 1 March 2008

⁽²⁾ Resigned on 1 March 2008

⁽³⁾ Resigned on 29 April 2008

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

directors' report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Executive Committee

The Board has established the Executive Committee ('EXCO') since 9 September 1974.

The EXCO presently comprises directors of RHB Investment Bank i.e. two (2) Independent Non-Executive Directors of whom one (1) is the Chairman, one (1) Non-Independent Non-Executive Director and the MD of the Bank. During the financial year ended 31 December 2008, a total of 16 meetings were held and the details of attendance of each member at the EXCO Meetings held during the financial year ended 31 December 2008 are as follows:

Name of Member	Total Meetings Attended (%)	Percentage of Attendance
Dato Abdullah Mat Noh (Chairman)	16/16	100
Akira Miyama	16/16	100
Chay Wai Leong ⁽¹⁾	15/16	94
Dato' Mohamed Khadar Merican ^{(2)*}	13/15	87

Notes:

⁽¹⁾ Appointed on 1 January 2008

⁽²⁾ Appointed on 31 January 2008

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

The EXCO carries 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.

(B) RISK MANAGEMENT FRAMEWORK

The RHB Banking Group has put in place a Group Risk Management Framework which governs the management of risks in the banking group. The Framework operates on two interlocking layers. Firstly, it provides a holistic overview of the risk and control environment with the risk management going towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and balances in the organisation, as well as deficiencies in risk management culture. Secondly, it sets out the strategic progression of risk management towards becoming a value creation enterprise. This is effected through building up capabilities and infrastructure in risk management sophistication, and using the improvement in risk quantification to optimise risk-adjusted (or economic) returns.

The Framework enshrines five fundamental principles that drive the philosophy of risk management. They are:

- (i) Risk governance from the Board of Directors;
- (ii) Clear understanding of risk management ownership;
- (iii) Institutionalisation of a risk focused organization;
- (iv) Alignment of risk management to business strategies; and
- (v) Optimisation of risk adjusted economic and financial returns

The Board of Directors ensures that an effective risk management strategy is in place and uniformly understood across the Bank. The structured framework supports the Board's oversight responsibilities. Risk management processes are a collective responsibility and cooperation of business and functional units, risk management functions, top management and the Board.

directors' report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(B) RISK MANAGEMENT FRAMEWORK (CONTINUED)

The business and functional units have a clear segregation of duties with sufficient check and balance to ensure that business processes are functioning effectively. There is appropriate accountability delegated to the appropriate authority to execute their respective authorities in meeting the business strategies without compromising the risk management strategies.

The Banking Group's Asset and Liabilities Committee (ALCO) performs a critical role in the management of assets and liabilities. The ALCO meets regularly and is the forum where strategic and tactical decisions are made. Global and domestic economic data, information and events are synthesized at the ALCO which enables the Banking Group to determine its actions and reactions in the capital markets.

For effective control of operations, defined management action triggers and risk limits are established and actively monitored. Breaches of limits are not allowed. Should exposures or transactions set off pre-established triggers, management will deliberate and determine on course of actions required (whether remedial or otherwise) on a timely basis. Triggers and limits are determined based on the Bank's risk appetite and is advised by appropriate risk measures and attendant stress testing exercises.

The financial risk management objectives and policies of the Bank are set out in Note 39 to the Financial Statements.

(C) INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES

The Group has an in-house group internal audit function which is guided by its Group Audit Charter and reports to the Group Audit Committee of RHB Bank Berhad. Its primary role is to assist the Group Audit Committee in the discharge of their duties and responsibilities by independently reviewing and reporting on the adequacy and effectiveness of the Group's risk management, internal control and governance processes.

The Group Internal Auditors perform regular reviews of the Bank's operational processes and system of internal controls. Auditable units of priority and frequency of review are determined by adopting a risk-based approach, and the annual internal audit plan is reviewed and approved by the Group Audit Committee. Results of the audits conducted by the Group Internal Auditors are reported to the Group Audit Committee while follow-up and review of the status of actions taken on the auditors' recommendations are carried out by the Management via the Management Audit Committee which comprises senior management. The minutes of the Management Audit Committee meetings are tabled to the Group Audit Committee for notation.

The Group Audit Committee holds regular meetings to deliberate on findings and recommendations for improvement highlighted by both the internal and external auditors as well as regulatory authorities on the state of the Bank's internal control system. The minutes of the Group Audit Committee meetings are subsequently tabled to the Board for notation.

In addition to audit assignments, the Group Internal Audit is invited to participate on a consultative basis in the development of new products and systems, and information technology related initiatives as well as in the review of operational manuals and guidelines.

(D) MANAGEMENT REPORTS

Annual business plans and financial budgets are prepared by the Bank's strategic business units and operating subsidiaries and are reviewed and approved by the Board. The performance of business units and operating subsidiaries are assessed and monitored against the approved budget and any significant variances are explained to the Board.

directors' report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(D) MANAGEMENT REPORTS (CONTINUED)

The Board also receives and reviews monthly financial accounts, financial information reports and monthly progress reports from management on a regular basis. In addition, matters such as key business strategies and business plans, major capital expenditure, material contracts, new operational guidelines and new policies and guidelines are approved by the Board prior to it being implemented. Furthermore, minutes of meeting of various Board Committees of the Bank and changes on regulatory requirements, are also tabled for the Board's notation.

IMMEDIATE AND ULTIMATE HOLDING COMPANY/BODY

The directors regard RHB Capital Berhad, a company incorporated in Malaysia and the Employee 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 2008 AND OUTLOOK FOR 2009

In 2008, RHB Investment Bank retained its leading market position in the Malaysian capital markets, particularly in initial public offerings (IPOs) and the equity and bond markets. We ended the year by emerging 1st in the Bloomberg Main Board IPO league table, 2nd in the overall IPO league table (from 9th in 2007), 3rd in overall equity offerings (also 3rd in 2007) and 4th in the Ringgit bond market (similar position in 2007). Our market presence was notably enhanced, both by our market share across the capital markets and the significance of the deals launched, and the market took due cognisance of that as evidenced by the number of awards we have won for the year.

Amongst the most prestigious capital market awards, RHB Investment Bank was accorded the coveted "Malaysia Bond House of the Year 2008" award by IFR Asia, for our role in making Malaysia a strong regional player in the funding of foreign issuers. The deals that opened the path for us were the RM1 billion deal for Gulf Investment Corporation and another RM3 billion deal for The Export-Import Bank of Korea (KEXIM), both internationally well-known borrowers. The KEXIM deal was awarded the esteemed IFR Asia's "Issuer of the Year 2008" award. In addition, we also won "Malaysia Capital Markets Deal of the Year" from IFR Asia for our role as Joint Lead Manager in Binariang GSM's RM15.35 billion Islamic issuance.

We were also active in the area of Islamic finance where we won Finance Asia's "Best Islamic Financing Deal" for our lead role in MRCB Southern Link Berhad's RM845 million Islamic Senior Sukuk Programme.

There were less number of mergers & acquisitions (M&A) in 2008 but RHB Investment Bank nevertheless made up for the drop in those corporate exercises with its participation in other capital market activities. In the IPO market, we emerged with a sizeable market share of 34% for 2008. We advised the largest IPO of the year, Perwaja Holdings Berhad on its Main Board listing on Bursa Malaysia and that was voted "Best IPO of the Year" by The Edge Malaysia.

RHB Investment Bank also strengthened our regional franchise to Singapore and Vietnam during the year. We successfully completed the acquisition of a stockbroking associate in Vietnam and commenced investment banking activities in Singapore via RHB Bank (Singapore).

The market continues to value the research views given by our subsidiary RHB Research Institute Sdn Bhd. In 2008, RHB Research Institute won 1st place in The Edge's "Best Fixed Income Research House" and 3rd place for "Best Equity Research House". Amongst the many awards won by our analysts were 1st place for "Best Construction / Building Materials Analyst" and "Best Banking Analyst" and those by our economists were 3rd place for "Best Economist" and 3rd place for "Best Strategist".

directors' report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 AND OUTLOOK FOR 2009 (CONTINUED)

For 2009, we expect a better outlook for the capital markets in the second half of the year in line with the expected recovery in the Malaysian economy towards the end of 2009 and 2010. We also believe the competitive landscape in the capital markets industry will be more intense next year but RHB Investment Bank is expected to stay in the forefront of the industry with its strong pipeline of deals. We will strive to be more creative and responsive to the needs of the clients under such challenging market conditions.

RATINGS BY AGENCY

On August 2008, RAM Rating Services Berhad ('RAM') reaffirmed the Bank's long term rating of A2 and its short term rating of P1 respectively.

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.

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.

AUDITORS

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

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

DATO ABDULLAH MAT NOH

Chairman

Kuala Lumpur
11 March 2009

CHAY WAI LEONG

Managing Director

balance sheets

as at 31 December 2008

	Note	Group 2008 RM'000	2007 RM'000	Bank 2008 RM'000	2007 RM'000
ASSETS					
Cash and short term funds	2	1,354,445	1,870,982	1,317,411	1,838,232
Deposits and placements with banks and other financial institutions	3	120	183,320	120	183,320
Securities held-for-trading	4	2,655,100	3,855,830	2,651,634	3,852,457
Securities available-for-sale	5	1,522,877	566,636	1,520,445	564,321
Securities held-to-maturity	6	222,653	306,639	222,653	306,639
Loans and advances	7	468,244	851,544	468,244	851,544
Clients' and brokers' balances	8	175,303	246,870	175,303	246,870
Other assets	9	67,575	70,252	58,611	56,780
Derivative assets	10	50,538	3,756	50,538	3,756
Tax recoverable		24,625	22,017	25,103	23,832
Deferred tax assets	11	54	67	-	-
Statutory deposit with Bank Negara Malaysia	12	58,236	69,486	58,236	69,486
Investments in subsidiaries	13	-	-	58,270	48,270
Investments in joint venture	14	26,349	-	27,399	-
Property, plant and equipment	15	11,197	13,555	9,090	10,849
Goodwill	16	172,844	172,844	159,280	159,280
TOTAL ASSETS		6,810,160	8,233,798	6,802,337	8,215,636
LIABILITIES AND EQUITY					
Deposits from customers	17	3,106,487	3,658,780	3,106,487	3,658,780
Deposits and placements of banks and other financial institutions	18	2,318,958	3,213,655	2,318,958	3,213,655
Clients' and brokers' balances	19	289,053	368,436	289,053	368,436
Other liabilities	20	68,698	84,274	60,157	68,217
Derivative liabilities	10	62,291	11,422	62,291	11,422
Taxation		14	152	-	-
Deferred tax liabilities	11	1,559	389	1,367	376
Subordinated obligations	21	245,000	200,000	245,000	200,000
TOTAL LIABILITIES		6,092,060	7,537,108	6,083,313	7,520,886
Share capital	22	263,646	338,646	263,646	338,646
Reserves	23	454,454	358,044	455,378	356,104
TOTAL EQUITY		718,100	696,690	719,024	694,750
TOTAL LIABILITIES AND EQUITY		6,810,160	8,233,798	6,802,337	8,215,636
COMMITMENTS AND CONTINGENCIES	35	4,583,319	5,510,807	4,583,319	5,510,807

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

income statements

for the financial year ended 31 December 2008

		Group		Bank	
	Note	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Interest income	24	299,535	319,151	298,751	317,791
Interest expense	25	(226,809)	(245,749)	(226,809)	(245,749)
Net interest income		72,726	73,402	71,942	72,042
Other operating income	26	174,957	228,915	149,927	197,468
		247,683	302,317	221,869	269,510
Other operating expenses	27	(152,998)	(176,589)	(125,376)	(132,386)
Operating profit before allowances		94,685	125,728	96,493	137,124
Write-back on allowances for losses on loans and other losses	29	39,216	3,229	39,216	3,229
Impairment loss	30	-	(9,266)	-	(9,346)
		133,901	119,691	135,709	131,007
Share of results of joint venture	14	(63)	-	-	-
Profit before taxation		133,838	119,691	135,709	131,007
Taxation	31	(36,596)	(35,821)	(36,053)	(38,418)
Net profit for the financial year		97,242	83,870	99,656	92,589
Earnings per share (sen) - basic	32	34.4	24.8	35.2	27.3

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

statements of changes in equity

for the financial year ended 31 December 2008

	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
Group							
Balance as at 1 January 2008		338,646	278,549	8,113	(1,092)	72,474	696,690
Currency translation differences		-	-	-	(450)	-	(450)
Unrealised net gain on revaluation of AFS securities		-	-	8,183	-	-	8,183
Net transfer to income statement on disposal or impairment of AFS securities		-	-	(8,838)	-	-	(8,838)
Deferred tax		-	-	273	-	-	273
Income and expenses recognised directly in equity		-	-	(382)	(450)	-	(832)
Net profit for the financial year		-	-	-	-	97,242	97,242
Total recognised income and expenses for the financial year		-	-	(382)	(450)	97,242	96,410
Capital repayment	22	(75,000)	-	-	-	-	(75,000)
Balance as at 31 December 2008		263,646	278,549	7,731	(1,542)	169,716	718,100
Balance as at 1 January 2007		338,646	255,402	30,223	69	85,661	710,001
Currency translation differences		-	-	-	(1,161)	-	(1,161)
Unrealised net gain on revaluation of AFS securities		-	-	1,177	-	-	1,177
Net transfer to income statement on disposal or impairment of AFS securities		-	-	(32,191)	-	-	(32,191)
Deferred tax		-	-	8,904	-	-	8,904
Income and expenses 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)	-
Ordinary dividends	33	-	-	-	-	(73,910)	(73,910)
Balance as at 31 December 2007		338,646	278,549	8,113	(1,092)	72,474	696,690

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

statements of changes in equity

for the financial year ended 31 December 2008 (continued)

	Note	Share capital RM'000	Statutory reserve RM'000	AFS revaluation reserve RM'000	Distributable retained profits RM'000	Total RM'000
Bank						
Balance as at 1 January 2008		338,646	278,549	8,113	69,442	694,750
Unrealised net gain on revaluation of AFS securities		-	-	8,183	-	8,183
Net transfer to income statement on disposal or impairment of AFS securities		-	-	(8,838)	-	(8,838)
Deferred tax		-	-	273	-	273
Income and expenses recognised directly in equity		-	-	(382)	-	(382)
Net profit for the financial year		-	-	-	99,656	99,656
Total recognised income and expenses for the financial year		-	-	(382)	99,656	99,274
Capital repayment	22	(75,000)	-	-	-	(75,000)
Balance as at 31 December 2008		263,646	278,549	7,731	169,098	719,024
Balance as at 1 January 2007		338,646	255,402	30,223	73,910	698,181
Unrealised net gain on revaluation of AFS securities		-	-	1,177	-	1,177
Net transfer to income statement on disposal or impairment of AFS securities		-	-	(32,191)	-	(32,191)
Deferred tax		-	-	8,904	-	8,904
Income and expenses 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)	-
Ordinary dividends	33	-	-	-	(73,910)	(73,910)
Balance as at 31 December 2007		338,646	278,549	8,113	69,442	694,750

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

cash flow statements

for the financial year ended 31 December 2008

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation		133,838	119,691	135,709	131,007
Adjustments for items not involving movements of cash and cash equivalents:					
Property, plant and equipment					
– depreciation		5,089	7,894	4,305	7,052
– written off		-	1	-	-
– gain on transfer/disposal		(72)	(127)	-	(128)
Accretion of discount less amortisation of premium		(8,480)	(15,374)	(8,480)	(15,374)
Allowances for losses on loans		(4,755)	(3,311)	(4,755)	(3,311)
Allowances for other losses		96	(323)	96	(323)
Bad debts written off		5	408	5	408
Interest suspended		1,762	-	1,762	-
Allowances for impairment loss		-	9,266	-	9,346
(Gain)/loss on liquidation of subsidiaries		-	(69)	-	1
Interest income from:					
– securities held-to-maturity		(7,640)	(9,008)	(7,640)	(9,008)
– securities available-for-sale		(53,147)	(23,341)	(53,147)	(23,341)
Other income from securities held-to-maturity		-	(3,458)	-	(3,458)
Gain from early redemption/sales of:					
– securities held-to-maturity		(2,305)	(2,840)	(2,305)	(2,840)
– securities available-for-sale		(8,838)	(28,000)	(8,838)	(28,000)
Gross dividend income		(415)	(463)	(347)	(463)
Share of results of joint venture		63	-	-	-
Dividend income from subsidiaries		-	-	-	(20,147)
Unrealised loss/(gain) on revaluation of:					
– securities held-for-trading		7,872	63,078	5,917	62,258
– derivatives		4,086	(5,122)	4,086	(5,122)
Operating profit before working capital changes		67,159	108,902	66,368	98,557

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

cash flow statements

for the financial year ended 31 December 2008 (continued)

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)					
(Increase)/decrease in operating assets:					
Securities purchased under resale agreements		-	165,304	-	152,454
Deposits and placements with banks and other financial institutions		183,200	260,300	183,200	260,300
Securities held-for-trading		1,192,858	(748,918)	1,194,906	(750,272)
Loans and advances		386,288	(196,950)	386,288	(196,950)
Clients' and brokers' balances		71,429	(69,427)	71,429	(69,427)
Other assets		4,287	1,712	230	(5,766)
Derivative assets		(46,782)	(3,756)	(46,782)	(3,756)
Statutory deposit with Bank Negara Malaysia		11,250	(280)	11,250	(280)
Increase/(decrease) in operating liabilities:					
Deposits from customers		(552,293)	1,795,927	(552,293)	1,795,927
Deposits and placements of banks and other financial institutions		(894,697)	1,260,531	(894,697)	1,260,531
Obligations on securities sold under repurchase agreements		-	(1,809,837)	-	(1,809,837)
Clients' and brokers' balances		(79,383)	117,064	(79,383)	117,064
Other liabilities		(15,576)	(17,900)	(8,060)	(2,125)
Derivative liabilities		50,869	11,422	50,869	11,422
Cash generated from operations		311,450	765,192	316,957	759,285
Tax paid		(41,396)	(18,372)	(39,572)	(16,164)
Tax recovered		3,542	5,869	3,542	5,869
Net cash generated from operating activities		273,596	752,689	280,927	748,990

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

cash flow statements

for the financial year ended 31 December 2008 (continued)

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of securities held-to-maturity (net)		94,771	36,134	94,771	36,134
Purchase of securities available-for-sale (net)		(948,059)	(115,962)	(947,941)	(113,648)
Other income from securities held-to-maturity		-	(14,458)	-	(14,458)
Interest received from securities held-to-maturity		7,843	9,107	7,843	9,107
Interest received from securities available-for-sale		46,839	24,160	46,839	24,160
Property, plant and equipment:					
- purchase		(2,735)	(2,596)	(2,547)	(1,968)
- proceeds from disposal		76	301	1	301
Dividend income received		385	337	317	337
Dividend income received from subsidiaries		-	-	-	14,707
Dividend received from a subsidiary (from its pre-acquisition earnings)		-	-	-	784
Subscription of shares in subsidiaries		-	-	(10,000)	(11,000)
Capital repayment from liquidation of subsidiaries		-	37	-	37
Investments in joint venture		(27,399)	-	(27,399)	-
Net cash used in investing activities		(828,279)	(62,940)	(838,116)	(55,507)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid to shareholder		-	(73,910)	-	(73,910)
Net proceeds received from issuance of subordinated notes		45,000	35,000	45,000	35,000
Capital repayment to shareholder		(75,000)	-	(75,000)	-
Net cash used in financing activities		(30,000)	(38,910)	(30,000)	(38,910)
Net (decrease)/increase in cash and short-term funds		(517,524)	759,741	(520,821)	753,130
Cash and cash equivalents at beginning of the financial year		1,870,982	1,111,241	1,838,232	1,085,102
Effect of currency translation		987	-	-	-
Cash and cash equivalents at end of the financial year		1,354,445	1,870,982	1,317,411	1,838,232
ANALYSIS OF CASH AND CASH EQUIVALENTS:					
Clients trust account		137,025	167,985	137,025	167,985
Cash and short-term funds with banks & other financial institutions		1,217,420	1,702,997	1,180,386	1,670,247
Cash and short-term funds	2	1,354,445	1,870,982	1,317,411	1,838,232

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

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008

(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. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

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 (unless otherwise indicated in this 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 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 financial year. It also requires Directors to exercise their judgement in the process of applying the Group's and 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 those 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, amendments to published standards and interpretations to existing standards that are effective.

During the financial year, the Group and the Bank adopted the following revised FRS issued by MASB that are relevant and effective for financial periods beginning 1 January 2008. The revised FRS that are relevant to the Group and the Bank are as follows:

- FRS 107 Cash Flows Statements
- FRS 112 Income Taxes
- FRS 118 Revenue
- FRS 121 The Effects of Changes in Foreign Exchange Rates
- FRS 134 Interim Financial Reporting
- FRS 137 Provisions, Contingent Liabilities and Contingent Assets

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

(b) Standards, amendments to published standards and interpretations to existing standards that are not yet effective and have not been early adopted.

The new accounting standards and interpretations to existing standards that are relevant and mandatory for the Group and the Bank for financial periods beginning 1 January 2009 or later periods, but which the Group and the Bank have not early adopted, are as follows:

- IC Interpretation 9 Reassessment of Embedded Derivatives (effective for accounting periods beginning on or after 1 January 2010). IC Interpretation 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The adoption of IC 9 does not have any significant financial impact on the results of the Group and the Bank.

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation of the financial statements (continued)

(b) Standards, amendments to published standards and interpretations to existing standards that are not yet effective and have not been early adopted. (continued)

- IC Interpretation 10 Interim Financial Reporting and Impairment (effective for accounting periods beginning on or after 1 January 2010). IC Interpretation 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The adoption of IC 10 does not have any significant financial impact on the results of the Group and the Bank.
- FRS 139 Financial Instruments: Recognition and Measurement (effective for accounting periods beginning on or after 1 January 2010). FRS139 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.
- FRS 7 Financial Instruments: Disclosure (effective for accounting periods beginning on or after 1 January 2010). FRS 7 replaces the disclosures requirements currently in FRS 132: Financial Instruments: Disclosures and Presentation. FRS 7 requires disclosure of quantitative and qualitative information about exposure to risks arising from financial instruments, including minimum disclosures about credit risk, market risk and liquidity risk.

In respect of FRS139 and FRS7, the Group and the Bank have applied the transitional provisions in the respective standards which exempt the Group and the Bank from disclosing the possible impact arising from the initial application of the standard on the Group's and Bank's financial statements.

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 was 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 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2 Basis of consolidation (continued)

Subsidiaries (continued)

Identifiable assets, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of minority interests. The excess of the cost of acquisition over the Group's share of fair value of identifiable assets, liabilities and contingent liabilities at the date of acquisition is reflected as goodwill. See the accounting policy Note 5 on goodwill. If the cost of acquisition is less than the fair value of the identifiable assets, liabilities and contingent liabilities 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 the subsidiary's net assets together with the goodwill on acquisition on the date of disposal, is recognised in the consolidated income statement.

Joint venture

Investments in joint venture are accounted for in the consolidated financial statements using the equity method of accounting.

The Group's share of its joint venture post-acquisition profits or losses in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment, which includes goodwill identified at date of acquisition (net of accumulated impairment loss).

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture; unrealised losses are also eliminated unless the transaction provides evidence on impairment of the asset transferred. Where necessary, in applying the equity method, adjustments are made to the financial statements of joint venture to ensure consistency of accounting policies with those of the Group.

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 accumulated 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 20 on impairment of non-financial assets.

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4 Investments in joint venture

Joint ventures are those corporations or other entities over which there is contractually agreed sharing of control by the Group with one or more parties where the strategic financial and operating decisions relating to the entities requiring unanimous consent of the parties sharing control.

Investments in joint venture are stated at cost less accumulated 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 20 on impairment of non-financial assets.

5 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 stated at cost less any accumulated impairment loss and is tested at least annually for impairment. Impairment losses on goodwill are not reversed. Gain or loss on the disposal of a subsidiary or joint venture includes 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 CGU that are expected to benefit from the synergies of the business combination in which the goodwill arose. See accounting policy Note 20 on impairment of non-financial assets.

6 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 ('HFT')

Securities are classified as HFT 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 HFT are measured at fair value at initial recognition and subsequently carried at fair value. 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.

Pursuant to amendments to BNM Revised Guidelines on Financial Reporting for Licensed Institutions (BNM/GP8), the Bank and the banking subsidiaries are now permitted by BNM for the period from 1 July 2008 to 31 December 2009 to reclassify non-derivatives held-for-trading securities into held-to-maturity securities or available for sales securities.

Reclassifications are made at fair value as of the reclassification. The fair value of the securities on the date of reclassification becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. The effective interest rates for the securities reclassified to securities held-to-maturity are determined at the reclassification date. Further increases in estimates of cash flows adjust effecting interest rates prospectively.

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 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6 Securities (continued)

(b) Securities held-to-maturity ('HTM')

Securities HTM are securities with fixed or determinable payments and fixed maturity that the Group and the Bank have the positive intention and ability to hold to maturity. Securities HTM are measured at fair value at initial recognition and subsequently carried at amortised cost using the effective interest method, less accumulated impairment loss. Any gain or loss is recognised in the income statement when the securities are derecognised or impaired and through the amortisation process. See accounting policy Note 19 on impairment of securities.

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

If the Group and the Bank sold or reclassified more than an insignificant amount of the HTM securities portfolio before maturity (other than under those conditions specified in BNM/GP8) during the current financial year or the last two preceding financial years, the entire category would be tainted and reclassified as available-for-sale securities at fair value. The difference between the carrying value and fair value at the date of reclassification is recognised directly in equity.

(c) Securities available-for-sale ('AFS')

Securities AFS are securities that are not classified as HFT or HTM. Securities AFS are measured at fair value at initial recognition and subsequently carried at fair value less accumulated impairment loss. Any gain or loss arising from a change in fair value, net of income tax is recognised directly in equity, except for impairment losses and foreign exchange gains and losses.

Until the securities AFS are derecognised or impaired, at which time the cumulative gains or losses previously recognised in equity shall be transferred to the income statement.

Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less any impairment loss.

Interest calculated using the effective interest method is recognised in the income statement. Dividends on AFS 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 19 on impairment of securities.

7 Loans and advances

Loans and advances are recognised when cash is advanced to borrowers. They are initially recorded at fair value, which is the cash given to originate the loans and advances, and subsequently are carried at amortised cost, which is represented by the outstanding balance, net of allowances for bad and doubtful debts and unearned interest. They are derecognised when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. See accounting policy Note 18 on allowance for losses on non-performing debts.

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8 Receivables

Clients' and brokers' balances arising from share and stock-broking business are carried at cost, net of allowance for bad and doubtful debts (anticipated realisable values). The allowance for bad and doubtful debts is made in conformity with the minimum requirements of allowance for bad and doubtful debts specified in Rule 1104.1 of Schedule 7 (Chapter 11) of the Rules of Bursa Malaysia Securities Berhad.

Other receivables are carried at cost, net of allowance for bad and doubtful debts (anticipated realisable values). An estimate is made for allowance for bad and 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.

9 Property, plant and equipment and depreciation

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

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

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

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

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

At each balance sheet date, the Group and the Bank 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 20 on impairment of non-financial assets.

10 Derivative financial instruments and hedge accounting

Derivatives 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 and the Bank recognises profits on day one.

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10 Derivative financial instruments and hedge accounting (continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group and the Bank designate 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 and the Bank document, 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 and the Bank also document 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.

(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.

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11 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.

12 Other provisions

Provisions other than for non-performing loans and advances are recognised when the Group and the Bank have a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate of the amount can be made.

13 Borrowings

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

14 Contingent liabilities and contingent assets

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

15 Dividends payable

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

16 Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances and short term deposits maturing within one month.

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

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

17 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.

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

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

18 Allowance for losses on non-performing debts (continued)

The Group's and the Bank's allowance for non-performing debts is in conformity with the minimum requirements of BNM's revised guidelines on the 'Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debt' ('Revised BNM/GP3'). BNM has granted indulgence to the Group and the Bank from complying with the requirement on the impairment of loans under the revised BNM/GP3 which states that impaired credit facilities should be measured at their estimated recoverable amount (present value of estimated future cash flows discounted at original effective interest rate). This requirement superseded the loan impairment requirement previously in the 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 Securities.

19 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.

(b) Securities carried at fair value

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

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

20 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Non-financial 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 non-financial asset exceeds its recoverable amount.

The recoverable amount is the higher of a non-financial asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, non-financial 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 losses 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 non-financial assets, any subsequent increase in recoverable amount is recognised in the income statement.

21 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 accepts voluntary redundancy in exchange for these benefits.

22 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 joint venture on 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.

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.

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

22 Income taxes (continued)

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 and joint venture except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences 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.

23 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.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

(a) Allowance for losses on loans and advances

The Group and the Bank make allowance for losses based on assessment of recoverability. Whilst management's judgement is guided by the relevant BNM guidelines and Rules of the Bursa Securities, judgement is made about the future and other key factors in respect of the recovery of loans and advances. Among the factors considered are the Group's and the Bank's aggregate exposure to the borrower, the net realisable value of the underlying collateral value, the viability of the customer's business model and the capacity to generate sufficient cash flow to service debt obligations and the aggregate amount and ranking of all other creditor claims.

(b) Impairment of goodwill

The Group and the Bank perform 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.

(c) Impairment of securities

Assessment of impairment of securities is made in accordance with the guidance in the revised BNM/GP8 in determining when the investment is impaired. Management judgement is required to evaluate the duration and extent to which the fair value of the investment is below its carrying value and when there is indication of impairment in the carrying value of the securities.

(d) Fair value of financial instruments

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that are traded actively and have quoted market prices or parameters readily available, there is little-to-no subjectivity in determining fair value. When observable market prices and parameters do not exist, management judgment is necessary to estimate fair value. The fair value of financial instruments that are not traded in an active market are determined using valuation techniques based on assumptions of market conditions existing at the balance sheet date, including reference to quoted market prices and independent dealer quotes for similar securities and discounted cash flow method.

notes to the financial statements

for the financial year ended 31 December 2008

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 Group is involved in 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 these principal activities during the financial year.

The address of the registered office of the Bank is at Level 10, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia.

2 CASH AND SHORT TERM FUNDS

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Cash and balances with banks and other financial institutions	28,095	49,854	18,066	33,406
Money at call and deposit placements maturing within one month	1,326,350	1,821,128	1,299,345	1,804,826
	1,354,445	1,870,982	1,317,411	1,838,232

Included in the cash and short term funds are monies held in trust for clients and remisers:

	Group and Bank	
	2008 RM'000	2007 RM'000
Cash and balances with banks and other financial institutions	6,630	6,759
Money at call and deposit placements maturing within one month	130,395	161,226
	137,025	167,985

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2008 RM'000	2007 RM'000
Licensed banks	120	183,320

Included in deposits and placements of the Group and the Bank is RM120,000 (2007: 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 2008 (continued)

4 SECURITIES HELD-FOR-TRADING

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
At fair value				
Money market instruments:				
Khazanah bonds	11,367	171,920	11,367	171,920
Malaysian Government Investment Issue	47,695	147,877	47,695	147,877
Malaysian Government Securities	193,981	121,958	193,981	121,958
Bankers' acceptances	307,712	800,263	307,712	800,263
Negotiable instruments of deposits	829,367	1,278,675	829,367	1,278,675
Quoted securities:				
In Malaysia				
Unit trust	3,103	1,025	-	-
Outside Malaysia				
Shares	363	2,348	-	-
Unquoted securities:				
In Malaysia				
Private debt securities	1,261,512	1,331,764	1,261,512	1,331,764
	2,655,100	3,855,830	2,651,634	3,852,457

5 SECURITIES AVAILABLE-FOR-SALE

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
At fair value				
Money market instruments:				
Malaysian Government Investment Issue	64,497	-	64,497	-
Malaysian Government Securities	266,995	95,544	266,995	95,544
Quoted securities:				
In Malaysia				
Shares	72	912	72	912
Loan stocks	6,542	7,237	6,542	7,237
Warrants	695	-	695	-
Unquoted securities:				
In Malaysia				
Shares	2,200	2,200	2,200	2,200
Private debt securities	1,179,444	458,428	1,179,444	458,428
Outside Malaysia				
Loan stocks	2,432	2,315	-	-
	1,522,877	566,636	1,520,445	564,321

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

6 SECURITIES HELD-TO-MATURITY

	Group and Bank	
	2008	2007
	RM'000	RM'000
At amortised cost		
Money market instruments:		
Malaysian Government Securities	44,529	54,490
Khazanah bonds	–	54,009
Unquoted securities:		
In Malaysia		
Shares	2,200	2,200
Bonds	23	23
Prasarana bonds	98,852	98,534
Private debt securities	156,466	176,800
	302,070	386,056
Accumulated impairment losses	(79,417)	(79,417)
	222,653	306,639

Included in unquoted shares is RM1,000,000 (2007: 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 Group and the Bank.

7 LOANS AND ADVANCES

	Group and Bank	
	2008	2007
	RM'000	RM'000
Term loans	248,616	439,021
Share margin financing	62,544	122,247
Claims on customers under acceptance credits	10	12,273
Revolving credits	206,176	337,093
Staff loans	4,103	5,378
Gross loans and advances	521,449	916,012
Allowances for bad and doubtful debts		
– specific	(44,909)	(49,463)
– general	(8,296)	(15,005)
Net loans and advances	468,244	851,544

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

7 LOANS AND ADVANCES (CONTINUED)

	Group and Bank	
	2008	2007
	RM'000	RM'000
(a) The maturity structure of gross loans and advances are as follows:		
Maturing within one year	374,472	810,544
One year to three years	112,166	99,502
Three years to five years	19,125	2,784
Over five years	15,686	3,182
	521,449	916,012
(b) Loans and advances analysed by type of customers are as follows:		
Domestic non-bank financial institutions	95,173	115,358
Domestic business enterprises		
– small medium enterprise	–	714
– others	373,793	697,536
Individuals	51,622	100,249
Foreign entities	861	2,155
	521,449	916,012
(c) Loans and advances analysed by type of interest rate sensitivity are as follows:		
Fixed rate		
– Other fixed rate loans	66,664	128,029
Variable rate		
– Cost plus	454,785	787,983
	521,449	916,012
(d) Loans and advances analysed by purpose are as follows:		
Purchase of securities	118,236	278,485
Purchase of transport vehicles	1,150	2,167
Purchase of landed property:		
– residential	2,949	3,182
– non-residential	2,868	15,713
Purchase of property, plant and equipment other than land and building	3,482	15,762
Personal use	5	29
Construction	110,109	115,768
Working capital	155,080	280,736
Others	127,570	204,170
	521,449	916,012

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

7 LOANS AND ADVANCES (CONTINUED)

	Group and Bank	
	2008	2007
	RM'000	RM'000
(e) Non-performing loans and advances analysed by purpose are as follows:		
Purchase of securities	33,568	33,730
Purchase of landed property:		
- residential	294	266
- non-residential	1,365	7,666
Construction	1,214	6,183
Working capital	29,984	75,452
Others	-	285
	66,425	123,582
(f) Movements in the non-performing loans and advances are as follows:		
Balance as at the beginning of the financial year	123,582	196,814
Classified as non-performing during the financial year	3,396	-
Reclassified as performing during the financial year	(48,960)	-
Amount recovered	(5,085)	(34,108)
Amount written off	(6,508)	(39,124)
Balance as at the end of the financial year	66,425	123,582
Specific allowance	(44,909)	(49,463)
Net non-performing loans and advances	21,516	74,119
Ratio of net non-performing loans and advances as % of gross loans and advances, less specific allowance	4.52%	8.55%
(g) Movements in the allowances for bad and doubtful debts are as follows:		
General allowance		
Balance as at the beginning of the financial year	15,005	10,432
(Written back)/allowance made during the year	(6,709)	4,573
Balance as at the end of the financial year	8,296	15,005
% of total gross loans and advances less specific allowance	1.74%	1.73%
Specific allowance		
Balance as at the beginning of the financial year	49,463	96,458
Allowance made during the financial year	3,730	687
Amount recovered	(1,776)	(8,571)
Amount written off	(6,508)	(39,111)
Balance as at the end of the financial year	44,909	49,463

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

8 CLIENTS' AND BROKERS' BALANCE

Clients' and brokers' balances represent amount receivable from outstanding purchase contracts in respect of the Group's and the Bank's stockbroking business entered on behalf of clients, amount due from brokers and contra losses.

	Group and Bank	
	2008	2007
	RM'000	RM'000
Performing accounts	174,324	245,923
Non-performing accounts – Bad	21,626	20,150
– Doubtful	558	729
	196,508	266,802
Less: Allowances for bad and doubtful debts		
– Specific	(8,888)	(8,623)
– General	(146)	(273)
– Interest-in-suspense	(12,171)	(11,036)
	175,303	246,870

Movements in the allowances for bad and doubtful debts are as follows:

Specific allowance

Balance as at the beginning of the financial year	8,623	8,590
Allowance made during the financial year	265	997
Amount recovered	–	(964)
Balance as at the end of the financial year	8,888	8,623

General allowance

Balance as at the beginning of the financial year	273	1,130
Allowance written back during the financial year	(127)	(857)
Balance as at the end of the financial year	146	273

Interest-in-suspense

Balance as at the beginning of the financial year	11,036	10,484
Interest suspended during the financial year	2,379	2,040
Amounts written back in respect of recoveries	(1,234)	(949)
Amounts written off	(10)	(539)
Balance as at the end of the financial year	12,171	11,036

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

9 OTHER ASSETS

		Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Amounts due from immediate holding company	(i)	-	348	-	348
Amounts due from subsidiaries	(i)	-	-	1,061	544
Amounts due from related companies	(i)	4,482	1,210	274	89
Other debtors, deposits and prepayments		27,337	35,665	21,520	22,770
Accrued interest receivable		35,756	33,029	35,756	33,029
		67,575	70,252	58,611	56,780

The other debtors, deposits and prepayments balances of the Group and the Bank are stated net of allowance for bad and doubtful debts of RM555,000 (2007: RM1,441,000).

(i) Amounts due from immediate holding company, subsidiaries and related companies are unsecured, interest free and have no fixed terms of repayment.

10 DERIVATIVES ASSETS/(LIABILITIES)

Derivative financial instruments are off-balance sheet financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, interest rates and security prices) of the underlying instruments. These instruments are used by the Group and the Bank for economic hedges and also transacted in these instruments for proprietary trading purposes. The default classification for derivative financial instruments is trading, unless designated in a hedge relationship and are in compliance with the stringent requirements of hedge accounting mentioned in the Group's and the Bank's accounting policies.

The table below shows the Group's and the Bank's derivative financial instruments as at the balance sheet date. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative asset) and gross negative (derivative liability) fair values at balance sheet date are analysed below.

	Group and Bank					
	Contract/ Notional amount RM'000	2008 Year-end positive fair value RM'000	Year-end negative fair value RM'000	Contract/ Notional amount RM'000	2007 Year-end positive fair value RM'000	Year-end negative fair value RM'000
Foreign exchange related contracts:						
- forwards	-	-	-	33,040	993	-
Interest rate related contracts:						
- futures	1,980,000	-	(11,625)	3,630,000	855	(8,106)
- swaps	1,720,000	50,538	(50,666)	625,000	1,908	(3,316)
Total derivatives assets/(liabilities)	3,700,000	50,538	(62,291)	4,288,040	3,756	(11,422)

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

11 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	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Deferred tax assets	54	67	-	-
Deferred tax liabilities	(1,559)	(389)	(1,367)	(376)
	(1,505)	(322)	(1,367)	(376)

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.

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	Other temporary differences RM'000	AFS reserve RM'000	Total RM'000
Group 2008					
Balance as at the beginning of the financial year	(2,021)	3,972	577	(2,850)	(322)
Transfer to/(from) income statement (Note 31)	608	(1,861)	(203)	-	(1,456)
Transferred to AFS reserve	-	-	-	273	273
Balance as at the end of the financial year	(1,413)	2,111	374	(2,577)	(1,505)
2007					
Balance as at the beginning of the financial year	(1,997)	2,921	315	(11,754)	(10,515)
Transfer to/(from) income statement (Note 31)	(24)	1,051	262	-	1,289
Transferred to AFS reserve	-	-	-	8,904	8,904
Balance as at the end of the financial year	(2,021)	3,972	577	(2,850)	(322)

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

11 DEFERRED TAX ASSETS/(LIABILITIES) (CONTINUED)

	Property, plant and equipment RM'000	General allowance on loans and advances RM'000	Other temporary differences RM'000	AFS reserve RM'000	Total RM'000
Bank 2008					
Balance as at the beginning of the financial year	(1,798)	3,972	300	(2,850)	(376)
Transfer to/(from) income statement (Note 31)	615	(1,861)	(18)	-	(1,264)
Transferred to AFS reserve	-	-	-	273	273
Balance as at the end of the financial year	(1,183)	2,111	282	(2,577)	(1,367)
2007					
Balance as at the beginning of the financial year	(1,843)	2,921	-	(11,754)	(10,676)
Transfer to income statement (Note 31)	45	1,051	300	-	1,396
Transferred to AFS reserve	-	-	-	8,904	8,904
Balance as at the end of the financial year	(1,798)	3,972	300	(2,850)	(376)

12 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.

13 INVESTMENTS IN SUBSIDIARIES

	Bank 2008 RM'000	2007 RM'000
Unquoted shares at cost	142,643	132,643
Less: Allowance for impairment loss	(84,373)	(84,373)
	58,270	48,270

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The subsidiaries of the Bank are as follows:

Name of company	Country of incorporation	Paid-up share capital RM	Effective equity interest		Principal activities
			2008 %	2007 %	
RHB Investment Management Sdn Bhd	Malaysia	10,000,000	100	100	Asset management services and management of unit trust funds
RHB Research Institute Sdn Bhd	Malaysia	500,000	100	100	Research services
RHB Private Equity Holdings Sdn Bhd ¹	Malaysia	11,650,002	100	100	Private equity business and venture capital management
RHB Private Equity Management Ltd ²	Labuan, Malaysia	USD1	100	100	Investment advisor, investment consultant and other ancillary services only for private funds
RHB Private Equity Fund Ltd ³	Cayman Island	USD10,001	100	100	Investment company
RHB Nominees Sdn Bhd	Malaysia	25,000	100	100	Nominee and custodian services
RHB Nominees (Asing) Sdn Bhd	Malaysia	25,000	100	100	Nominee and custodian services for foreign beneficial shareholders
RHB Nominees (Tempatan) Sdn Bhd	Malaysia	25,000	100	100	Nominee and custodian services for Malaysian beneficial shareholders
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 Marketing Services Sdn Bhd	Malaysia	100,000	100	100	Dormant
RHB Venture Capital Sdn Bhd	Malaysia	2	100	100	Dormant
RHB Unit Trust Management Berhad ⁴	Malaysia	5,000,000	100	100	Dormant
RHB Progressive Sdn Bhd ⁵	Malaysia	13,500,000	100	100	Dormant
RHB Excel Sdn Bhd ⁵	Malaysia	200,000,000	100	100	Dormant

Notes:

¹ RHB Private Equity Holdings Sdn Bhd, a wholly owned subsidiary of the Bank has on 17 June 2008 issued RM10.0 million of Redeemable Preference Shares ('RPS') to the Bank in the form of 5.0 million RPS at a subscription price of RM2.00 each.

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 19 December 2007, all the assets, rights, title, interest, undertakings, obligations and liabilities were transferred to RHB Investment Management Sdn Bhd with effect from 1 January 2008.

⁵ 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.

All subsidiaries are audited by PricewaterhouseCoopers, Malaysia.

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

14 INVESTMENT IN JOINT VENTURE

	2008 RM'000	2007 RM'000
Group		
Share of net assets of joint venture	12,145	-
Premiums on acquisition	14,204	-
	26,349	-
Bank		
Unquoted shares at cost	27,399	-

The Group's share of income and expenses, assets and liabilities of the joint venture are as follows:

	2008 RM'000	2007 RM'000
Income	25	-
Expenses	(88)	-
Net losses for the year	(63)	-
Non-current assets	319	-
Current assets	12,640	-
Current liabilities	(814)	-
Net assets	12,145	-

There are no capital commitments or contingent liabilities relating to the Group's interest in joint venture as at 31 December 2008.

The details of investments in joint venture are as follows:

Name of Company	Country of incorporation	Paid-up share capital VND	Effective equity interest		Principal activities
			2008 %	2007 %	
Vietnam Securities Corporation ("VSEC")	Vietnam	135,000,000,000	49	-	Stockbroking and corporate finance advisory

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

15 PROPERTY, PLANT AND EQUIPMENT

	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
Group					
2008					
Cost					
Balance as at the beginning of the financial year	30,420	22,048	50,244	3,832	106,544
Additions	334	1,248	1,153	-	2,735
Disposal	(7)	-	-	(330)	(337)
Write-offs	(122)	(3)	(522)	-	(647)
Balance as at the end of the financial year	30,625	23,293	50,875	3,502	108,295
Accumulated depreciation					
Balance as at the beginning of the financial year	28,877	20,370	38,232	2,585	90,064
Charge for the financial year	654	384	3,445	606	5,089
Disposal	(3)	-	-	(330)	(333)
Write-offs	(122)	(3)	(522)	-	(647)
Balance as at the end of the financial year	29,406	20,751	41,155	2,861	94,173
Impairment losses					
Balance as at the beginning and end of the financial year	-	-	2,925	-	2,925
Net book value as at the end of the financial year	1,219	2,542	6,795	641	11,197

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
Group					
2007					
Cost					
Balance as at the 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 the end of the financial year	30,420	22,048	50,244	3,832	106,544
Accumulated depreciation					
Balance as at the 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 the end of the financial year	28,877	20,370	38,232	2,585	90,064
Impairment losses					
Balance as at the beginning and end of the financial year	-	-	2,925	-	2,925
Net book value as at the end of the financial year	1,543	1,678	9,087	1,247	13,555

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
Bank					
2008					
Cost					
Balance as at the beginning of the financial year	27,769	17,948	44,124	2,429	92,270
Additions	330	1,215	1,002	-	2,547
Disposal	(1)	-	-	-	(1)
Write-offs	(118)	(3)	(517)	-	(638)
Transfer to related companies	(1)	-	-	-	(1)
Balance as at the end of the financial year	27,979	19,160	44,609	2,429	94,177
Accumulated depreciation					
Balance as at the beginning of the financial year	26,478	16,734	33,881	1,403	78,496
Charge for the financial year	558	195	3,044	508	4,305
Disposal	-	-	-	-	-
Write-offs	(118)	(3)	(517)	-	(638)
Transfer to related companies	(1)	-	-	-	(1)
Balance as at the end of the financial year	26,917	16,926	36,408	1,911	82,162
Impairment losses					
Balance as at the beginning and end of the financial year	-	-	2,925	-	2,925
Net book value as at the end of the financial year	1,062	2,234	5,276	518	9,090

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
Bank					
2007					
Cost					
Balance as at the 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 the end of the financial year	27,769	17,948	44,124	2,429	92,270
Accumulated depreciation					
Balance as at the 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 the end of the financial year	26,478	16,734	33,881	1,403	78,496
Impairment losses					
Balance as at the beginning and end of the financial year	-	-	2,925	-	2,925
Net book value as at the end of the financial year	1,291	1,214	7,318	1,026	10,849

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Accumulated depreciation and impairment loss				
Balance as at the beginning of the financial year	92,989	85,744	81,421	75,136
Balance as at the end of the financial year	97,098	92,989	85,087	81,421

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

16 GOODWILL ON CONSOLIDATION

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Balance as at the beginning and end of the financial year	172,844	172,844	159,280	159,280

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

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Cash generating units				
Corporate banking and debt capital market	-	8,124	-	8,124
Financial advisory and underwriting	-	8,124	-	8,124
Stockbroking and other securities related business	-	50,981	-	37,417
Corporate investment banking	67,229	-	53,665	-
Treasury	105,615	105,615	105,615	105,615
	172,844	172,844	159,280	159,280

Due to the RHB Group transformation initiatives, the goodwill previously allocated to the CGUs of corporate banking and debt capital market, financial advisory and underwriting, stockbroking and other securities related business have been merged to the new CGU, namely corporate investment banking.

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets/forecasts approved by Directors covering a five-year period (2007: three-year). Cash flows beyond the five-year period are assumed to grow at 3.0% p.a. (2007: 2.5% p.a.) 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 12.99% (2007: 13.64%). The 12.99% (2007: 13.64%) discount rate is pre-tax and reflects risks relating to the relevant CGUs.

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

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

17 DEPOSITS FROM CUSTOMERS

	Group and Bank	
	2008 RM'000	2007 RM'000
Call money	30,670	3,000
Fixed deposits	1,962,047	2,694,588
Short term deposits	1,113,770	961,192
	3,106,487	3,658,780

(i) The maturity structure of fixed deposits is as follows:

Due within six months	2,884,327	3,454,780
Six months to one year	222,160	4,000
More than one year	-	200,000
	3,106,487	3,658,780

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

Federal Government and statutory bodies	420,000	256,697
Business enterprises	2,685,987	3,398,083
Others	500	4,000
	3,106,487	3,658,780

18 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2008 RM'000	2007 RM'000
Licensed banks	24,187	1,000,000
Other financial institutions	2,294,771	2,213,655
	2,318,958	3,213,655

(i) The maturity structure of deposits and placements are as follows:

Maturing within one year	2,315,827	3,120,609
One year to three years	3,131	93,046
	2,318,958	3,213,655

19 CLIENTS' AND BROKERS' BALANCES

Included in clients' and brokers' balances are clients' trust balances, held in trust for clients of RM211,995,000 (2007: RM181,537,000).

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

20 OTHER LIABILITIES

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Accrued interest payable	19,843	20,968	19,843	20,968
Amount due to related companies (i)	433	936	340	754
Amount due to immediate holding company (i)	769	741	62	-
Amount due to subsidiaries (i)	-	-	1,213	3,260
Amount payable for creation of units due to funds	298	4,053	-	-
Amount payable for redemption units	503	3,135	-	-
Remisiers' trust deposits	8,886	11,150	8,886	11,150
Accrued personnel costs	22,076	24,152	17,961	17,368
Other accruals and payables	15,890	19,139	11,852	14,717
	68,698	84,274	60,157	68,217

(i) Amounts due to immediate holding company, subsidiaries and related companies are unsecured, interest free and have no fixed terms of repayment.

21 SUBORDINATED OBLIGATIONS

	Group and Bank	
	2008 RM'000	2007 RM'000
5.3% RM200 million Tier II Subordinated Notes 2007/2017	200,000	200,000
5.5% RM45 million Tier II Subordinated Notes 2008/2018	45,000	-
	245,000	200,000

(a) 5.3% RM200 million Tier II Subordinated Notes 2007/2017

In year 2007, the Bank 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 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.

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

21 SUBORDINATED OBLIGATIONS (CONTINUED)

(a) 5.3% RM200 million Tier II Subordinated Notes 2007/2017 (continued)

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.

(b) 5.5% RM45 million Tier II Subordinated Notes 2008/2018

On 21 April 2008, the Bank has successfully issued the remaining RM45.0 million nominal value of the Sub Notes at par and qualify as Tier II Capital of the Bank for the purpose of Bank Negara Malaysia's capital adequacy requirements.

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 5.50% 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.

(c) Ratings by agency

RAM 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 (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.

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

22 SHARE CAPITAL

	Group and Bank	
	2008	2007
	RM'000	RM'000
Ordinary shares of RM1 each:		
Authorised	1,000,000	1,000,000
Issued and fully paid:		
Balance as at the beginning of the financial year	338,646	338,646
Capital repayment (Note 41 (a)(i))	(75,000)	-
Balance as at the end of the financial year	263,646	338,646

23 RESERVES

The statutory reserve represents non-distributable profits held by the Bank in compliance with Section 36 of the Banking and Financial Institutions Act, 1989. This fund is not distributable as cash dividends.

The translation reserve comprises all foreign exchange differences from the translation of the financial statements of foreign subsidiaries and joint venture.

Available-for-sale reserve is arising from a change in the fair value of securities classified as available-for-sale. The unrealised gains or losses are transferred to the income statement upon disposal, derecognition or impairment of such securities.

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.

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 2008.

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

24 INTEREST INCOME

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Loans and advances				
– interest income other than recoveries from NPLs	39,097	49,298	39,097	49,298
– recoveries from NPLs	925	3,776	925	3,776
Money at call and deposit placements with banks and other financial institutions	66,513	80,683	65,729	79,323
Securities held-for-trading	118,302	132,719	118,302	132,719
Securities available-for-sale	53,147	23,341	53,147	23,341
Securities held-to-maturity	7,640	9,008	7,640	9,008
Others	7,193	4,952	7,193	4,952
	292,817	303,777	292,033	302,417
Amortisation of premium less accretion of discount	8,480	15,374	8,480	15,374
Interest suspended	(1,762)	–	(1,762)	–
	299,535	319,151	298,751	317,791

25 INTEREST EXPENSE

	Group and Bank	
	2008 RM'000	2007 RM'000
Deposits and placements of banks and other financial institutions	88,395	78,465
Deposits from customers	120,679	150,767
Subordinated obligations	12,358	13,353
Others	5,377	3,164
	226,809	245,749

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

26 OTHER OPERATING INCOME

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Fee income:				
Brokerage	63,221	122,046	63,221	122,046
Fund management fees	23,299	11,029	-	-
Fees on loans and advances	3,265	5,369	3,265	5,369
Corporate advisory fees	13,527	18,057	13,527	18,057
Guarantee fees	1,991	3,607	1,991	3,607
Underwriting fees	4,879	4,463	4,879	4,463
Unit trust fee income	2,895	39,032	-	-
Other fee income	26,819	19,711	26,035	18,972
	139,896	223,314	112,918	172,514
Net gain/(loss) arising from sale/redemption of securities and derivatives:				
Net gain from sale of				
– Securities held-for-trading	34,558	30,586	34,713	30,523
– Securities available-for-sale	8,838	28,000	8,838	28,000
Net gain from redemption of				
– Securities held-to-maturity	2,305	2,840	2,305	2,840
Derivatives	(455)	(1,381)	(455)	(1,381)
	45,246	60,045	45,401	59,982
Unrealised (loss)/gain on revaluation of securities held-for-trading and derivatives:				
Securities held-for-trading	(7,872)	(63,078)	(5,917)	(62,258)
Derivatives	(4,086)	5,122	(4,086)	5,122
	(11,958)	(57,956)	(10,003)	(57,136)
Gross dividend income from:				
Securities held-for-trading	181	-	113	-
Securities held-to-maturity	133	463	133	463
Securities available for sale	101	-	101	-
Subsidiaries	-	-	-	20,147
	415	463	347	20,610

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

26 OTHER OPERATING INCOME (CONTINUED)

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Other income:				
Foreign exchange gain				
– Realised	886	(2,957)	886	(2,957)
– Unrealised	(241)	259	(257)	259
Gain on transfer/disposal of property, plant and equipment	72	127	–	128
Gain/(loss) from liquidation of subsidiaries	–	69	–	(1)
Others	641	5,551	635	4,069
	1,358	3,049	1,264	1,498
Total other operating income	174,957	228,915	149,927	197,468

27 OTHER OPERATING EXPENSES

Personnel costs				
Salaries, allowances and bonus	74,065	63,831	58,922	48,069
Defined contribution plans	11,637	8,456	9,388	6,953
Other staff costs	8,489	15,522	7,260	14,284
	94,191	87,809	75,570	69,306
Establishment costs				
Property, plant and equipment				
– written off	–	1	–	–
– depreciation	5,089	7,894	4,305	7,052
Rental of premises	9,182	9,516	7,617	7,942
Information technology expenses	3,268	4,303	2,852	3,608
Others	6,314	8,035	5,683	7,515
	23,853	29,749	20,457	26,117
Marketing expenses				
Sales commission	3,463	17,107	–	–
Advertising and publicity	1,535	1,405	1,341	1,324
Others	8,552	16,110	7,973	13,263
	13,550	34,622	9,314	14,587
Administration and general expenses				
Auditors' remuneration				
– statutory audit fees	280	257	185	170
– non audit fee	160	256	140	151
Communication expenses	5,827	6,854	5,258	5,929
Legal and professional fees	1,618	2,277	1,324	2,007
Others	13,519	14,765	13,128	14,119
	21,404	24,409	20,035	22,376
Total other operating expenses	152,998	176,589	125,376	132,386

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

28 DIRECTORS' REMUNERATION

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

Dato Abdullah Mat Noh (Chairman)
 Datuk Azlan Zainol
 Dato' Mohamed Khadar Merican
 Akira Miyama
 Lew Foon Keong
 Datin Khamarzan Ahmed Meah
 Patrick Chin Yoke Chung
 Chay Wai Leong (Managing Director)
 Datuk Tan Kim Leong (appointed on 17 June 2008)
 Johari Abdul Muid (resigned on 3 January 2008)

The aggregate remuneration of the Directors and Managing Director ('MD') of the Bank is as follows:

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Managing Director				
– Salary and other remuneration	2,614	1,608	2,614	1,608
– Benefits-in-kind (based on an estimated money value)	35	33	35	33
Non-Executive Directors				
– Fees	533	700	473	472
– Allowances	370	652	359	601
– Others	66	69	37	69
	3,618	3,062	3,518	2,783

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

RM	Group		Bank	
	2008 No. of Directors	2007 No. of Directors	2008 No. of Directors	2007 No. of Directors
Managing Director				
Above 1,500,000	1	1	1	1
	1	1	1	1
Non-Executive				
0 - 50,000	1	1	1	1
50,001 - 100,000	5	3	5	3
100,001 - 150,000	1	1	2	3
150,001 - 200,000	1	2	1	1
200,001 - 250,000	1	1	-	-
250,001 - 300,000	-	-	-	-
300,001 - 350,000	-	-	-	1
350,001 - 400,000	-	-	-	-
Above 400,000	-	1	-	-
	9	9	9	9

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

29 ALLOWANCES FOR LOSSES ON LOANS AND OTHER LOSSES

	Group and Bank	
	2008 RM'000	2007 RM'000
Allowance for losses on loans :		
Specific allowance		
- Made during the financial year	3,730	687
- Written back	(1,776)	(8,571)
	1,954	(7,884)
General allowance		
- (Write-back)/made during the financial year	(6,709)	4,573
Allowance for losses on clients' and brokers' balances		
Specific allowance		
- Made during the financial year	265	997
- Written back	-	(964)
	265	33
General allowance	(127)	(857)
Bad debts		
- Recovered	(34,562)	(3)
- Written off	5	408
(Write-back)/specific allowance for other debtors	(42)	501
	(39,216)	(3,229)

30 IMPAIRMENT LOSS

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Charge/(reversal) for the financial year				
- Securities available-for-sale	-	(4,191)	-	(4,191)
- Securities held-to-maturity	-	13,457	-	13,457
- Investment in a subsidiary	-	-	-	80
	-	9,266	-	9,346

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

31 TAXATION

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Income tax based on profit for the financial year				
– Malaysian income tax	35,586	36,870	35,260	39,648
Deferred taxation (Note 11)	1,456	(1,289)	1,264	(1,396)
(Over)/under provision in respect of prior years	(446)	240	(471)	166
Tax expense	36,596	35,821	36,053	38,418

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

	Group		Bank	
	2008 %	2007 %	2008 %	2007 %
Group and Bank average applicable tax rate	26.0	27.0	26.0	27.0
Tax effects in respect of:				
Non allowable expenses	0.9	2.5	0.9	2.1
Effect of different tax rate	-	0.1	-	0.1
Current year's tax losses	0.7	0.1	-	-
(Over)/under provision in respect of prior years	(0.3)	0.2	(0.3)	0.1
Average effective tax rate	27.3	29.9	26.6	29.3

32 BASIC EARNINGS PER SHARE

The basic earnings per share has been calculated by dividing the net profit for the financial year of the Group and the Bank of RM97,242,000 (2007: RM83,870,000) and RM99,656,000 (2007: RM92,589,000) by the weighted average number of ordinary shares in issue during the financial year of 282,908,000 (2007: 338,646,000).

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

33 ORDINARY DIVIDENDS

	Group and Bank			
	2008		2007	
	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 2008 are as follows:				
Ordinary shares:				
Special dividend	-	-	21.40	52,910
Proposed final dividend	30.60	60,507	-	-
	30.60	60,507	21.40	52,910
Dividends recognised as distribution to ordinary equity holders are as follows:				
Final dividend	-	-	8.49	21,000
Special dividends	-	-	21.40	52,910
	-	-	29.89	73,910

At the forthcoming Annual General Meeting, a final gross dividend in respect of the current financial year of 30.6% less 25% tax amounting to RM60,506,757 will be proposed for shareholder's approval. These financial statements do not reflect this final dividend which will be accounted for in the shareholder's equity as an appropriation of retained profits in the financial year ending 31 December 2009 when approved by the shareholder.

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

34 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
RHB Capital Berhad	Immediate holding company
Subsidiaries of EPF as disclosed in its financial statements	Subsidiaries of the ultimate holding body

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

34 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):

Related parties

Subsidiaries and associates of RHB Capital Berhad as disclosed in its financial statements

Subsidiaries

The key management personnel of the Group and the Bank consist of:

- All Directors of the Bank, its key subsidiaries and RHB Capital Berhad
- RHB Capital Berhad Central Management Committee
- Key management personnel of EPF who are in charge of the RHB Capital Group

(i) Close family members and dependents of key management personnel

(ii) Entities that are controlled, joint venture 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.

Relationship

Subsidiaries and associates of immediate holding company

As disclosed in Note 13

Key management personnel

Related parties of key management personnel (deemed as related to the bank)

(b) Significant related party transactions and balances

In addition to the 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 in previous years, 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 2008 (continued)

34 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
Financial year ended 31.12.2008				
Significant related party transactions of the Group:				
Income				
Interest on deposits	-	-	-	4,629
Fee income	-	1,000	-	604
Brokerage fees	8,050	-	-	-
Fund management fees	3,177	-	-	3,587
Revaluation of interest rate swap	-	-	-	10,218
	11,227	1,000	-	19,038
Expenditure				
Insurance premium	-	-	-	117
Interest expense on deposits and placements	-	-	-	5,143
Interest expense on subordinated obligations	-	-	-	266
Rental of premises	-	-	-	9,017
Personnel expenses	-	-	-	566
Establishment expenses	-	-	-	160
Marketing expenses	-	-	-	1,191
Administration and general expenses	-	-	-	1,003
	-	-	-	17,463

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

34 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
As at 31.12.2008				
Related party balances of the Group:				
Amount due from				
Cash and short term funds	-	-	-	437,534
Clients' and brokers' balances	688	-	-	-
Derivative financial assets	-	-	-	12,454
Interest rate swap coupon receivable	-	-	-	66
Other assets	-	-	-	4,482
	688	-	-	454,536

Amount due to				
Deposits and placements of financial institutions	-	-	-	24,187
Clients' and brokers' balances	3	-	77	-
Subordinated obligations	-	-	-	5,000
Other liabilities	-	769	-	433
	3	769	77	29,620

	Ultimate holding body RM'000	Immediate holding company RM'000	Key management personnel RM'000	Other related companies RM'000
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Financial year ended 31.12.2007

Significant related party transactions
of the Group:

Income				
Interest on deposits	-	-	-	4,588
Fee income	-	2,837	-	3,457
Brokerage fees	3,060	-	13	-
Fund management fees	-	-	1	422
	3,060	2,837	14	8,467

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

34 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
Financial year ended 31.12.2007				
Significant related party transactions of the Group:				
Expenditure				
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
	497	-	-	16,692
As at 31.12.2007				
Related party balances of the Group:				
Amount due from				
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
	4,096	348	964	94,043
Amount due to				
Deposits and placements of financial institutions	300,000	-	-	200,000
Clients' and brokers' balances	52,420	-	-	-
Subordinated obligations	-	-	-	5,000
Other liabilities	-	741	-	936
	352,420	741	-	205,936

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

34 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
Financial year ended 31.12.2008					
Significant related party transactions of the Bank:					
Income					
Interest on deposits	-	-	-	-	3,851
Fee income	-	1,000	-	-	104
Revaluation of interest rate swap	-	-	-	-	10,218
Brokerage Fee	8,050	-	-	-	-
	8,050	1,000	-	-	14,173
Expenditure					
Insurance premium	-	-	-	-	862
Interest expense on deposits and placements	-	-	-	-	5,143
Rental of premises	-	-	-	-	7,632
Interest expense on subordinated obligations	-	-	-	-	266
Personnel expenses	-	-	-	-	476
Establishment expenses	-	-	-	-	160
Administration and general expenses	-	-	8,055	-	140
	-	-	8,055	-	14,679
As at 31.12.2008					
Related party balances of the Bank:					
Amount due from					
Other assets	-	-	1,061	-	274
	-	-	1,061	-	274
Amount due to					
Clients' and brokers' balances	3	-	-	77	-
Subordinated obligations	-	-	-	-	5,000
Other liabilities	-	62	1,213	-	340
	3	62	1,213	77	5,340

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

34 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
Financial year ended 31.12.2007					
Significant related party transactions of the Bank:					
Income					
Interest on deposits	-	-	-	-	3,233
Dividends	-	-	20,147	-	-
Fee income	-	2,837	-	-	3,207
Brokerage Fee	3,060	-	-	13	-
	3,060	2,837	20,147	13	6,440
Expenditure					
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
As at 31.12.2007					
Related party balances of the Bank:					
Amount due from					
Cash and short term funds	-	-	-	-	38,897
Clients' and brokers' balances	4,096	-	-	-	-
Securities available-for-sale	-	-	-	-	25,000
Other assets	-	348	544	-	89
	4,096	348	544	-	63,986
Amount due to					
Deposits and placements of financial institutions	300,000	-	-	-	200,000
Clients' and brokers' balances	52,420	-	-	-	-
Subordinated obligations	-	-	-	-	5,000
Other liabilities	-	-	3,260	-	754
	352,420	-	3,260	-	205,754

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

34 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

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	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Short-term employee benefits				
– Salary and other remuneration	5,156	4,593	2,614	1,608
– Benefits-in-kind (based on an estimated money value)	158	83	72	33
	5,314	4,676	2,686	1,641

The above remuneration includes directors' remuneration as disclosed in Note 28 to the financial statements.

(d) Credit exposures arising from transactions with connected parties

There is no credit exposures with connected parties as per Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties.

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

35 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	Group and Bank	
	31.12.2008	31.12.2007
	Principal amount	Principal amount
	RM'000	RM'000
Direct credit substitutions	162,267	210,667
Transaction-related contingent items	140,913	343,046
Other asset sold with recourse	18,792	2,514
Forward asset purchases	22,752	-
Obligations under an on-going underwriting agreements	116,660	150,660
Foreign exchange-related contracts:		
- less than one year	-	33,040
Interest rate related contracts:		
- less than one year	1,000,000	1,410,000
- one to less than five years	2,420,000	2,690,000
- five years and above	280,000	155,000
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	200,684	230,660
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	221,251	285,220
	4,583,319	5,510,807

Contingencies

Pursuant to the vesting order as stated in Note 13, all legal proceedings which have not been completed and in which or where RHB Excel Sdn Bhd ('RHB Excel') is a party, will be continued by the Bank as if the Bank is party instead of RHB Excel.

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

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

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

35 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies (continued)

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

Given that RHB Excel had won the counterclaim and the appeal from the plaintiff has yet to be heard, the management is of the view that no provision is necessary at this juncture.

36 LEASE COMMITMENTS

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

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Future minimum lease payments				
Not later than 1 year	10,891	9,703	9,444	8,856
Over 1 year to 5 years	2,695	-	2,566	-
More than 5 years	952	-	952	-
	14,538	9,703	12,962	8,856

37 CAPITAL COMMITMENTS

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Capital expenditure for property, plant and equipment:				
- authorised and contracted for	3,508	1,034	3,508	1,034
- authorised and not contracted for	-	534	-	-

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

38 CAPITAL ADEQUACY

With effect from 1 January 2008, the capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia's revised Risk-Weighted Capital Adequacy Framework: Standardised Approach for Credit and Market Risk, and Basic Indicator Approach for Operational Risk (Basel II). For the previous financial year, the capital adequacy ratios of the Group and the Bank are computed in accordance with BNM's Guidelines on Risk Weighted Capital Adequacy Framework for Credit and Market (Basel I).

The capital adequacy ratios of the Bank are as follows:

	2008	2007
	RM'000	RM'000
Tier I Capital		
Paid-up share capital	263,646	338,646
Statutory reserve	278,549	278,549
Retained profits	169,098	69,442
	711,293	686,637
Deferred tax (assets)/liabilities	(1,210)	376
Goodwill	(159,280)	(159,280)
Total Tier I Capital	550,803	527,733
Tier II Capital		
General allowance for bad and doubtful debts	8,442	15,278
Subordinated bonds	245,000	200,000
Total Tier II capital	253,442	215,278
Total capital	804,245	743,011
Less: Investments in subsidiaries	(58,270)	(48,270)
Investments in joint venture	(27,399)	-
Holding of other financial institutions subordinated instruments	-	(25,000)
Total capital base	718,576	669,741
Before deducting proposed dividends		
Core capital ratio	19.25%	14.61%
Risk-weighted capital adequacy ratio	25.12%	18.55%
After deducting proposed dividends		
Core capital ratio	17.14%	14.61%
Risk-weighted capital adequacy ratio	23.00%	18.55%

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

38 CAPITAL ADEQUACY (CONTINUED)

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.

The Bank has applied paragraph 7.2 of the Concept Paper – Risk Weighted Capital Adequacy Framework (Basel II) and Capital Adequacy Framework for Islamic Banks (CAFIB) – Disclosure Requirements (Pillar 3) dated 5 December 2008, where the Bank is exempted from disclosing comparative figures of the corresponding period in the previous financial year.

Total risk weighted assets and capital requirements as at 31 December 2008:

Exposure Class	Gross Exposures RM'000	Net Exposures RM'000	Risk weighted assets RM'000	Capital requirements RM'000
(a) Credit Risk				
On-balance sheet exposures				
Sovereigns/central banks	1,316,558	1,316,558	–	–
Banks, development financial institutions	576,944	576,944	115,389	9,231
Corporates	1,656,531	1,656,531	851,841	68,147
Regulatory retail	6,258	6,258	4,694	376
Residential mortgages	1,241	1,241	488	39
Other assets	220,621	220,621	73,746	5,899
Defaulted exposures	134,751	134,751	161,384	12,911
Total on-balance sheet exposures	3,912,904	3,912,904	1,207,542	96,603
Off-balance sheet exposures				
Credit derivatives	129,263	129,263	25,853	2,068
Off balance sheet exposures other credit derivatives	477,190	477,190	251,734	20,139
Total off-balance sheet exposures	606,453	606,453	277,587	22,207
Total on and off-balance sheet exposures	4,519,357	4,519,357	1,485,129	118,810
(b) Market Risk				
	Long Position	Short Position		
Interest rate risk	3,662,937	717,264	–	953,319
Foreign currency risk	1,322	–	–	1,322
Options risk	–	–	–	20,095
(c) Operational risk			400,971	32,078
Total risk weighted assets and capital requirements			2,860,836	228,868

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

38 CAPITAL ADEQUACY (CONTINUED)

Risk weight as at 31 December 2008:

Risk Weighted	Sovereigns and Central Banks RM'000	PSEs RM'000	Banks, MDBs and FDI's RM'000	Insurance Cos, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other assets RM'000	Specialised Financing/ Investment RM'000	Securitisation RM'000	Equity RM'000	Total Exposures after Netting & Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
0%	1,316,558	-	-	-	36,658	-	-	-	138,359	-	-	-	1,491,575	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	734,726	-	1,091,486	-	-	-	23,670	-	-	-	1,849,882	369,976
35%	-	-	-	-	-	-	1,097	-	-	-	-	-	1,097	384
50%	-	-	-	-	204,674	57	360	-	-	-	-	-	205,091	102,546
75%	-	-	-	-	-	10,588	-	-	-	-	-	-	10,588	7,941
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	802,897	-	294	-	71,617	-	-	-	874,808	874,808
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	86,244	-	-	72	-	-	-	-	86,316	129,474
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250.0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	1,316,558	-	734,726	-	2,221,959	10,645	1,751	72	233,646	-	-	-	4,519,357	1,485,129

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

38 CAPITAL ADEQUACY (CONTINUED)

Off-balance sheet and counterparty risk as at 31 December 2008:

	Group and Bank As at 31.12.2008		
	Principal amount RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000
Direct credit substitutions	162,267	162,267	68,277
Transaction-related contingent items	140,913	70,457	8,585
Other asset sold with recourse	18,792	18,792	3,758
Forward asset purchases	22,752	22,752	4,550
Obligations under an on-going underwriting agreements	116,660	58,330	23,195
Foreign exchange-related contracts:			
– less than one year	–	–	–
Interest rate related contracts:			
– less than one year	1,000,000	1,725	345
– one to less than five years	2,420,000	100,643	20,129
– five years and above	280,000	26,895	5,379
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	200,684	100,342	100,200
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	221,251	44,250	43,169
	4,583,319	606,453	277,587

* 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 2008 (continued)

39 USE OF FINANCIAL INSTRUMENTS

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

A Financial risk management objectives and policies

Overview and Organisation

Risk is inherent in banking business and sound risk management is the cornerstone of prudent and successful banking.

In compliance with best practices under the Malaysian Code of Corporate Governance, the Board of Directors ('Board' or 'BOD') through the Group Risk Management function ('GRM function') and Group Risk Management Committee ('GRMC'), is responsible for identifying principal risks and ensuring that there is an ongoing process to continuously manage the Bank's risks actively.

The GRMC provides oversight and management of all risks in an integrated way. The GRM function is independent and reports directly to this Committee. The GRM function assists the GRMC and Board in formulating risk related policies, advises the Board on the risk impact of business strategies, and reviews compliance by the management to the risk policy framework that is approved by the Board.

The GRMC comprises non-executive directors with at least five (5) members. Members of the GRMC are directors who are exclusively non-executive in all of their directorships in the RHB Capital Bhd group.

Overriding Objectives of the GRMC:

- (i) To provide oversight and governance of risks of the Bank, and the overall RHB Banking Group ('Group');
- (ii) To oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning;
- (iii) To deliberate and make recommendations to the Bank's BOD, and the BODs of each relevant entity within the Group in respect of risk management matters of the respective entities.

Primary responsibility for managing risks, however, rests with business managers. They are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. There is a continuous review of business activities and processes to identify significant risk areas and implement control procedures to operate within established corporate policies and limits. Additionally, the management of risks associated with financial instruments is continuously carried out in the organisation. The Board has set up policies and procedures to manage the risks that may arise in connection with the use of financial instruments.

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

A Financial risk management objectives and policies (continued)

Major Areas of Risk

As a banking institution covering corporate banking and advisory services, treasury products and services, and securities and futures related businesses, the Bank is subject to business risks which are inherent in the financial services industry. Generally, these business risks can be broadly classified as follows:

- (i) Market risk - the risk of potential loss resulting from adverse movements in the level of market prices, interest rate and foreign currency exchange.
- (ii) Liquidity risk - the risk of the Bank being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost.
- (iii) Credit risk - the risk of potential loss due to changes in the quality of counter-parties and the market price for credit risk (collateral).
- (iv) Operational risk - the risk of loss resulting from inadequate or failed internal processes, people, systems or external events as well as the risk of breaches of applicable laws and regulatory requirements.

Market risk

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

The GRM function plays an independent role in the monitoring and assessing of risk exposures arising from these, and reports independently to the GRMC. Advanced risk measurement techniques and stress testing regimes are applied to the Bank's portfolio on a regular basis.

A framework of approved risk policies, measurement methodologies and limits, as approved by the Board, controls financial market activities as well as identifies potential risk areas early to mitigate any adverse effects from market volatility.

As 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 periodically.

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.

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.

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

A Financial risk management objectives and policies (continued)

Currency Risk

Approved position limits are applied for each currency and there is also an overall total limit. Trading loss limits are imposed on each trading desk and on each individual dealer. The levels of these exposures (including off-balance sheet items), by currency and overall total for both intra-day and overnight positions, are monitored daily for compliance with the approved limits. These limits are reviewed regularly and are in line with strategies set by the Asset and Liability Committee ('ALCO').

Interest Rate Risk

The ALCO monitors the balance sheet position and assesses it for profit and loss impacts arising from sensitivity to interest rate movements. The ALCO also sets and reviews limits on the level of mismatch of interest rate re-pricing that may be undertaken. Likewise, fixed rate assets, especially long term assets, are subject to various limit parameters.

Credit Risk

The Bank abides strictly by a Board approved credit policy which supports the development of a strong credit culture with the objectives of maintaining a well diversified, evaluated and current portfolio. Market best practices are incorporated into this policy.

The Bank ensures that measures and processes are in place before credit proposals are approved. All credit proposals are first evaluated by the originating business units before being independently evaluated by an independent credit evaluation and management function. The Underwriting and Credit Committee, the Central Credit Committee and the Central Loans Committee sanction credits beyond well established prudential threshold. The adherence to the discretionary powers sanctioned by the Board is monitored by the Central Compliance function.

A risk rating system is used to categorize the risk of individual credits and determine whether the Bank is adequately compensated. Clients' accounts are reviewed at regular intervals and weakening credits are transferred to Loan Recovery for more effective management.

Counter-party, industry and product exposure limits/directions are set and risk reward relationships are mapped with the aim of maintaining a diverse credit profile and track changing risk concentrations in response to market changes and external events.

The Bank is moving towards the advanced Basel II approaches by implementing key program components which include:

- (i) enhancing the economic returns of the Bank using established and proven credit risk framework and methodologies,
- (ii) implementing and using empirical credit scoring models for consumer financing and credit grading models for business loans, and
- (iii) designing and implementing modelling of expected and unexpected losses. In addition, an economic capital management framework incorporating advanced risk based pricing and funds transfer pricing has been developed, which also facilitates the Bank in meeting the Pillar II requirements of the Basel II Accord Internal Ratings Based Approach.

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

A Financial risk management objectives and policies (continued)

Credit Risk (continued)

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.

Liquidity Risk

ALCO plays a fundamental role in the asset/liability management of the Bank, and establishes strategies that assist in controlling and reducing any potential exposures to liquidity risk.

Limits on the minimum portion of maturing funds available to meet obligations and the minimum level of inter-bank and other borrowing facilities are set to ensure adequate cover for withdrawals at unexpected levels of demand. Defined liquidity management ratios are maintained and monitored on an active basis.

The Bank's liquidity framework is subject to periodic stress tests and the results are constantly reviewed to ensure constant compliance with BNM's Liquidity Framework.

The Bank has established a comprehensive Group Liquidity Policy Statement. In addition, detailed plans to manage any potential adverse liquidity incidences have also been put in place; and can be implemented on a timely basis so that appropriate actions can be taken to remedy any unexpected market developments.

Operational risk

The GRM function is responsible for the development of bank-wide operational risk policies, frameworks and methodologies, and providing inputs to the business units on operational risk areas. The respective business units are primarily responsible for managing operational risk on a day-to-day basis.

The Bank uses an operational risk management system. This system has integrated applications for supporting the entire operational risk management process for loss event data collection and management, loss event analysis, assessment and monitoring of the quality of the internal control environment, risk scenario analysis and measurement, comprehensive reporting of operational risks and internal control quality, and tracking of risk mitigation and control improvement actions. This system facilitates the Bank's capabilities for the Advanced Measurement Approach of the Basel II Framework.

The Bank has an ongoing and actively managed Business Continuity Planning ('BCP') programme for its major critical business operations and activities. The BCP programme is subject to regular testing to ensure efficacy, reliability and functionality.

The Bank continually refines and strengthens existing policies, procedures and internal controls measures; and continually conduct internal reviews, compliance monitoring, and comprehensive audits to prevent or minimize unexpected losses.

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

A Financial risk management objectives and policies (continued)

Stockbroking

Market risk

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

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

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

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.

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

39 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 31.12.2008								Effective average interest rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000	Trading book RM'000	Total RM'000	
Assets									
Cash and short-term funds	1,326,350	-	-	-	-	28,095	-	1,354,445	3.23
Deposits and placements with banks and other financial institutions	-	-	120	-	-	-	-	120	3.70
Securities held-for-trading	-	-	-	-	-	11,538	2,643,562	2,655,100	4.46
Securities available-for-sale	-	9,941	71,179	336,524	1,093,291	11,942	-	1,522,877	5.49
Securities held-to-maturity	-	-	126,808	153,259	19,781	(77,195)	-	222,653	6.30
Loans and advances – performing	291,299	159,622	-	1,155	2,948	-	-	455,024	6.82
– non-performing	-	-	-	-	-	13,220	-	13,220	-
Clients' and brokers' balances	87,944	-	-	-	-	87,359	-	175,303	2.21
Other assets	1,895	-	34	147	336	65,163	-	67,575	2.61
Derivative assets	-	-	-	-	-	-	50,538	50,538	-
Tax recoverable	-	-	-	-	-	24,625	-	24,625	-
Deferred tax assets	-	-	-	-	-	54	-	54	-
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	58,236	-	58,236	-
Investments in joint venture	-	-	-	-	-	26,349	-	26,349	-
Property, plant and equipment	-	-	-	-	-	11,197	-	11,197	-
Goodwill	-	-	-	-	-	172,844	-	172,844	-
Total assets	1,707,488	169,563	198,141	491,085	1,116,356	433,427	2,694,100	6,810,160	

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Group 31.12.2008							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		
Liabilities									
Deposits from customers	2,295,884	531,655	278,948	-	-	-	-	3,106,487	3.40
Deposits and placements of banks and other financial institutions	1,752,873	285,798	277,156	3,131	-	-	-	2,318,958	3.44
Clients' and brokers' balances	-	-	-	-	-	289,053	-	289,053	-
Other liabilities	-	-	-	-	-	68,698	-	68,698	-
Derivative liabilities	-	-	-	-	-	-	62,291	62,291	-
Taxation	-	-	-	-	-	14	-	14	-
Deferred tax liabilities	-	-	-	-	-	1,559	-	1,559	-
Subordinated obligations	-	-	-	245,000	-	-	-	245,000	5.34
Total liabilities	4,048,757	817,453	556,104	248,131	-	359,324	62,291	6,092,060	
Total equity	-	-	-	-	-	718,100	-	718,100	
Total liabilities and equity	4,048,757	817,453	556,104	248,131	-	1,077,424	62,291	6,810,160	
On-balance sheet interest sensitivity gap	(2,341,269)	(647,890)	(357,963)	242,954	1,116,356				
Off-balance sheet interest sensitivity gap	(155,000)	(255,000)	(740,000)	(990,000)	-				
Net interest rate gap	(2,496,269)	(902,890)	(1,097,963)	(747,046)	1,116,356				

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Group 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		
Assets									
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	-	70,252	3.11
Derivative assets	-	-	-	-	-	-	3,756	3,756	-
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	-
Total assets	2,108,825	463,002	153,417	413,807	466,283	785,113	3,843,351	8,233,798	

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Group 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		
Liabilities									
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	-	84,274	-
Derivative liabilities	-	-	-	-	-	-	11,422	11,422	-
Taxation	-	-	-	-	-	152	-	152	-
Deferred tax liabilities	-	-	-	-	-	389	-	389	-
Subordinated obligations	-	-	-	-	200,000	-	-	200,000	5.30
Total liabilities	5,168,878	1,133,635	276,876	293,046	200,000	453,251	11,422	7,537,108	
Total equity	-	-	-	-	-	696,690	-	696,690	
Total liabilities and equity	5,168,878	1,133,635	276,876	293,046	200,000	1,149,941	11,422	8,233,798	
On-balance sheet interest sensitivity gap	(3,060,053)	(670,633)	(123,459)	120,761	266,283				
Off-balance sheet interest sensitivity gap	(150,000)	(655,000)	(800,000)	(2,310,000)	-				
Net interest rate gap	(3,210,053)	(1,325,633)	(923,459)	(2,189,239)	266,283				

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Bank 31.12.2008							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		
Assets									
Cash and short-term funds	1,299,345	-	-	-	-	18,066	-	1,317,411	3.27
Deposits and placements with banks and other financial institutions	-	-	120	-	-	-	-	120	3.70
Securities held-for-trading	-	-	-	-	-	8,072	2,643,562	2,651,634	4.46
Securities available-for-sale	-	9,941	71,179	336,524	1,093,291	9,510	-	1,520,445	5.49
Securities held-to-maturity	-	-	126,808	153,259	19,781	(77,195)	-	222,653	6.30
Loans and advances									
- performing	291,299	159,622	-	1,155	2,948	-	-	455,024	6.82
- non-performing	-	-	-	-	-	13,220	-	13,220	-
Clients' and brokers' balances	87,944	-	-	-	-	87,359	-	175,303	2.21
Other assets	1,895	-	-	-	-	56,716	-	58,611	2.21
Derivative assets	-	-	-	-	-	-	50,538	50,538	-
Tax recoverable	-	-	-	-	-	25,103	-	25,103	-
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	58,236	-	58,236	-
Investments in subsidiaries	-	-	-	-	-	58,270	-	58,270	-
Investments in joint venture	-	-	-	-	-	27,399	-	27,399	-
Property, plant and equipment	-	-	-	-	-	9,090	-	9,090	-
Goodwill	-	-	-	-	-	159,280	-	159,280	-
Total assets	1,680,483	169,563	198,107	490,938	1,116,020	453,126	2,694,100	6,802,337	

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Bank 31.12.2008							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		
Liabilities									
Deposits from customers	2,295,884	531,655	278,948	-	-	-	-	3,106,487	3.40
Deposits and placements of banks and other financial institutions	1,752,873	285,798	277,156	3,131	-	-	-	2,318,958	3.44
Clients' and brokers' balances	-	-	-	-	-	289,053	-	289,053	-
Other liabilities	-	-	-	-	-	60,157	-	60,157	-
Derivative liabilities	-	-	-	-	-	-	62,291	62,291	-
Deferred tax liabilities	-	-	-	-	-	1,367	-	1,367	-
Subordinated obligations	-	-	-	245,000	-	-	-	245,000	5.34
Total liabilities	4,048,757	817,453	556,104	248,131	-	350,577	62,291	6,083,313	
Total equity	-	-	-	-	-	719,024	-	719,024	
Total liabilities and equity	4,048,757	817,453	556,104	248,131	-	1,069,601	62,291	6,802,337	
On-balance sheet interest sensitivity gap	(2,368,274)	(647,890)	(357,997)	242,807	1,116,020				
Off-balance sheet interest sensitivity gap	(155,000)	(255,000)	(740,000)	(990,000)	-				
Net interest rate gap	(2,523,274)	(902,890)	(1,097,997)	(747,193)	1,116,020				

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Bank 31.12.2007						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					
Assets										
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	-	56,780	2.46	
Derivative assets	-	-	-	-	-	-	3,756	3,756	-	
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	-	
Total assets	2,092,523	463,002	153,330	413,216	465,618	784,596	3,843,351	8,215,636		

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Bank 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	
Liabilities									
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	-	68,217	-
Derivative liabilities	-	-	-	-	-	-	11,422	11,422	-
Deferred tax liabilities	-	-	-	-	-	376	-	376	-
Subordinated obligations	-	-	-	-	200,000	-	-	200,000	5.30
Total liabilities	5,168,878	1,133,635	276,876	293,046	200,000	437,029	11,422	7,520,886	
Total equity	-	-	-	-	-	694,750	-	694,750	
Total liabilities and equity	5,168,878	1,133,635	276,876	293,046	200,000	1,131,779	11,422	8,215,636	
On-balance sheet interest sensitivity gap	(3,076,355)	(670,633)	(123,546)	120,170	265,618				
Off-balance sheet interest sensitivity gap	(150,000)	(655,000)	(800,000)	(2,310,000)	-				
Net interest rate gap	(3,226,355)	(1,325,633)	(923,546)	(2,189,830)	265,618				

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 2008 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

C Credit risk

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

	Group 31.12.2008							
	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	-	-	-	14,788	-	-	14,788	-
Mining and quarrying	-	-	-	-	19,004	-	19,004	-
Manufacturing	-	357,007	87,005	63,261	17,005	4,401	528,679	82,860
Electricity, gas and water	-	125,130	107,431	-	-	1,365	233,926	227,880
Construction	-	81,373	51,108	-	40,240	904	173,625	33,469
Real estate	-	42,020	24,141	-	105,331	779	172,271	110,153
General commerce	-	54,819	57,139	-	-	427	112,385	110,960
Wholesale & retail trade and restaurants & hotels	-	-	-	-	8,952	-	8,952	-
Transport, storage and communication	-	288,740	373,971	98,852	3,508	2,638	767,709	71,164
Finance, insurance and business services	700,998	1,449,502	478,649	-	196,992	72,782	2,898,923	3,783,545
Government and government agencies	653,500	253,043	331,492	44,529	-	7,483	1,290,047	-
Purchase of landed property	-	-	-	-	2,948	-	2,948	-
Purchase of securities	-	-	-	-	61,149	175,449	236,598	-
Purchase of transport vehicles	-	-	-	-	1,150	-	1,150	-
Consumption credit	-	-	-	-	5	-	5	-
Others	-	-	-	-	20,256	27,226	47,482	163,288
Total	1,354,498	2,651,634	1,510,936	221,430	476,540	293,454	6,508,492	4,583,319

* Comprises credit equivalent balances of credit related contracts and derivatives amounting to RM477,190,000 and RM129,263,000 respectively.

Risk concentrations for commitments and contingencies are based on the credit equivalent amount, which 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 2008 (continued)

39 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

C Credit risk (continued)

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

	Group 31.12.2007							
	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
Total	2,054,244	3,852,457	553,972	305,416	866,549	320,878	7,953,516	5,510,807

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

Risk concentrations for commitments and contingencies are based on the credit equivalent amount, which 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 2008 (continued)

39 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 31.12.2008							
	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	-	-	-	14,788	-	-	14,788	-
Mining and quarrying	-	-	-	-	19,004	-	19,004	-
Manufacturing	-	357,007	87,005	63,261	17,005	4,401	528,679	82,860
Electricity, gas and water	-	125,130	107,431	-	-	1,365	233,926	227,880
Construction	-	81,373	51,108	-	40,240	904	173,625	33,469
Real estate	-	42,020	24,141	-	105,331	779	172,271	110,153
General commerce	-	54,819	57,139	-	-	427	112,385	110,960
Wholesale & retail trade and restaurants & hotels	-	-	-	-	8,952	-	8,952	-
Transport, storage and communication	-	288,740	373,971	98,852	3,508	2,638	767,709	71,164
Finance, insurance and business services	663,974	1,449,502	478,649	-	196,992	69,632	2,858,749	3,783,545
Government and government agencies	653,500	253,043	331,492	44,529	-	7,483	1,290,047	-
Purchase of landed property	-	-	-	-	2,948	-	2,948	-
Purchase of securities	-	-	-	-	61,149	175,449	236,598	-
Purchase of transport vehicles	-	-	-	-	1,150	-	1,150	-
Consumption credit	-	-	-	-	5	-	5	-
Others	-	-	-	-	20,256	21,520	41,776	163,288
Total	1,317,474	2,651,634	1,510,936	221,430	476,540	284,598	6,462,612	4,583,319

* Comprises credit equivalent balances of credit related contracts and derivatives amounting to RM477,190,000 and RM129,263,000 respectively.

Risk concentrations for commitments and contingencies are based on the credit equivalent amount, which 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 2008 (continued)

39 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 31.12.2007							
	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	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
Total	2,021,506	3,852,457	553,972	305,416	866,549	307,406	7,907,306	5,510,807

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

Risk concentrations for commitments and contingencies are based on the credit equivalent amount, which is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

40 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

In addition, fair value information for non-financial assets and liabilities is excluded as they do not fall within the scope of Financial Reporting Standards ('FRS') 132 which requires the fair value information to be disclosed. These include property, plant and equipment, investments in subsidiaries, joint venture 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 and Bank 2008	
	Carrying amount RM'000	Fair value RM'000
Financial assets		
Securities held-to-maturity	222,653	227,740
Financial liabilities		
Subordinated obligations	245,000	234,487
	Group and Bank 2007	
	Carrying amount RM'000	Fair value RM'000
Financial assets		
Securities held-to-maturity	306,639	308,750
Financial liabilities		
Deposits from customers	3,658,780	3,660,242
Deposits and placements of banks and other financial institutions	3,213,655	3,210,601
Subordinated obligations	200,000	200,166

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.

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

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 obligations

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.

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

40 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

41 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

(a) Corporate Proposals

(i) Cancellation of RM75.0 million of paid-up share capital

In accordance with Section 64 of the Companies Act, 1965, the Bank has on 4 April 2008 cancelled RM75.0 million, comprising 75.0 million ordinary shares of RM1.00 each, being its existing issued and paid-up share capital and returning the same to its shareholder. Accordingly, the Bank's issued and paid-up share capital has been reduced from RM338,646,000 comprising 338,646,000 shares to RM263,646,000 comprising 263,646,000 shares.

(ii) Issuance of Subordinated Notes 2008/2018

During the financial year ended 31 December 2007, the Bank has proposed the issuance of up to RM245.0 million nominal value of subordinated Notes ('Sub Notes') under a Subordinated Note Programme. The Bank has issued an aggregate nominal value of RM200.0 million of the Sub Notes at par on 10 December 2007 that qualified as Tier II Capital of the Bank for the purpose of Bank Negara Malaysia's capital adequacy requirements.

On 21 April 2008, the Bank has successfully issued the remaining RM45.0 million nominal value of the Sub Notes at par. The Sub Notes proceeds raised shall be utilised for the Bank's general working capital.

(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. The Securities Commission had, vide its letter dated 30 September 2008, granted for an extension of time up to 10 October 2009 for the implementation of the Proposed Issuance of HT1 Securities.

(b) Transfer of Unit Trust Business

The Securities Commission ('SC') had in year 2007 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 ('RHBIM'), both being the Bank's wholly owned subsidiaries.

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

41 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.

The business transfer does not have any significant financial impact on the results of the Group and the Bank.

(c) Acquisition of a 49.0% stake in Vietnam Securities Corporation (“VSEC”)

On 28 March 2008 that the Bank entered into a Share Subscription Agreement (‘SSA’) with VSEC for the subscription of new common shares in VSEC, representing 49.0% of the total enlarged issued and paid-up share capital for a total consideration of VND66,150,000,000 or equivalent to approximately RM13,266,563 (at the prevailing exchange rate of RM1 : VND 4,986.22) to be satisfied entirely by cash (‘Proposed Subscription’). The Proposed Subscription is conditional upon, among others, the approvals of the relevant regulatory authorities in Malaysia and Vietnam.

The Bank also entered into a First Right of Refusal Agreement with the existing Vietnamese shareholders, granting the Bank the right to arrange for the sale of 2% of VSEC shares held by the existing shareholders to permitted prospective purchasers under the applicable Vietnamese laws after the Proposed Subscription.

VSEC established on 27 November 2006 in Hanoi, The Socialist Republic of Vietnam (‘Vietnam’), is a securities company licensed under the laws of Vietnam to engage in the business of securities brokerage, securities financial and investment consultancy, securities investment portfolio management and securities depository services (‘Business’).

VSEC was issued its Business Operation Licence by the Vietnam State Securities Commission on 8 December 2006. In 2007, VSEC was approved as a member of the Vietnam Securities Depository, and accepted as a member of the Hanoi Securities Trading Centre (‘HASTC’) and the Ho Chi Minh Stock Exchange (‘HOSE’). VSEC commenced trading activities on 6 March 2007.

On 10 September 2008, Bank Negara Malaysia had, vide its letter dated 8 September 2008, approved the Proposed Subscription, subject to the Bank obtaining the necessary approvals from the Vietnam regulator(s) and shall fully comply with Vietnam’s applicable laws and regulations.

On 13 October 2008, the Securities Commission (‘SC’) and the State Securities Commission of Vietnam had, vide their letters dated 7 October 2008 and 8 October 2008 respectively, approved the Proposed Subscription.

The Proposed Subscription is deemed completed on 21 November 2008, upon fulfillment and satisfaction of all conditions precedent under the SSA dated 28 March 2008.

There is no material effect of the acquisition on the financial results of the Group for the current financial year.

The effect of the acquisition on the financial position of the Group is disclosed in Note 14.

42 APPROVAL OF FINANCIAL STATEMENTS

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

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 47 to 127 are drawn up so as to give a true and fair view of the state of affair of the Group and of the Bank as of 31 December 2008 and of their financial results and cash flows for the year then ended 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
11 March 2009

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 47 to 127 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 11 March 2009 before me.

MOHD RADZI BIN YASIN
COMMISSIONER FOR OATHS

independent auditors' report

to the member of RHB INVESTMENT BANK BERHAD

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of RHB Investment Bank Berhad, which comprise the balance sheets as at 31 December 2008 of the Group and of the Bank, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 47 to 127.

Directors' Responsibility for the Financial Statements

The directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2008 and of their financial performance and cash flows for the year then ended.

independent auditors' report

to the member of RHB INVESTMENT BANK BERHAD

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- (b) 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 financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- (c) Our audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS

(No. AF: 1146)

Chartered Accountants

SOO HOO KHOON YEAN

(No. 2682/10/09 (J))

Chartered Accountant

Kuala Lumpur
11 March 2009