



RHB Investment Bank Berhad

# Delivering an Outstanding Performance



ANNUAL REPORT

2010

## Cover Rationale

We continue to garner a wealth of skills and experience from the diverse markets that we play in. By leveraging these elements, as well as through executing sound strategies that position us for future growth, RHB continues to deliver an outstanding performance.



### ◆ Driven to Perform

**RHB Bank Berhad**



### ◆ Marching to a New Beat

**RHB Islamic Bank Berhad**



### ◆ Playing to a New Tune

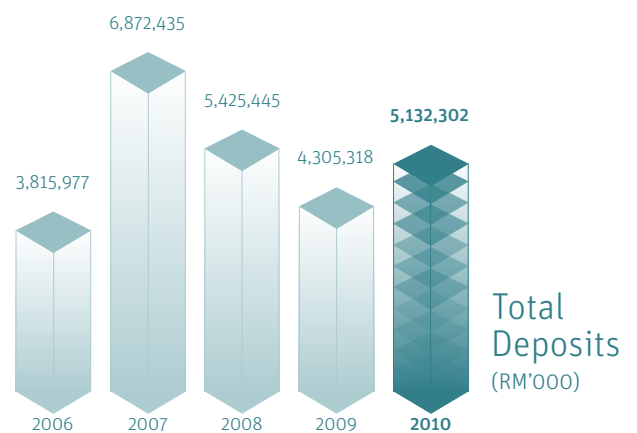
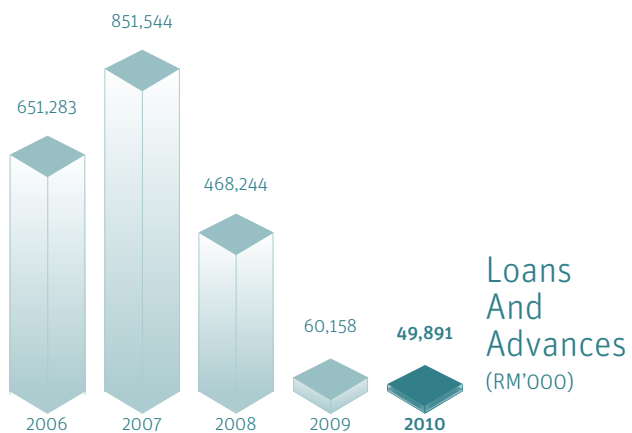
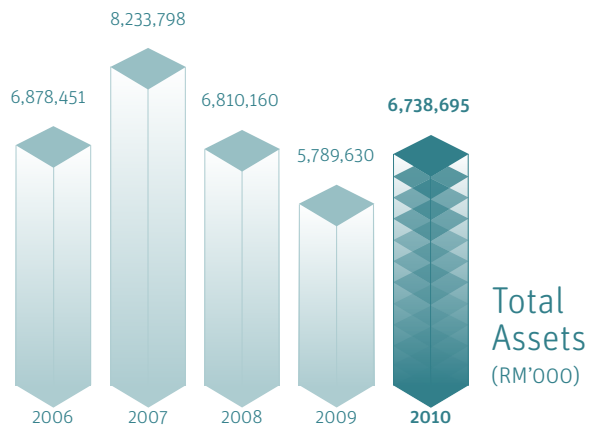
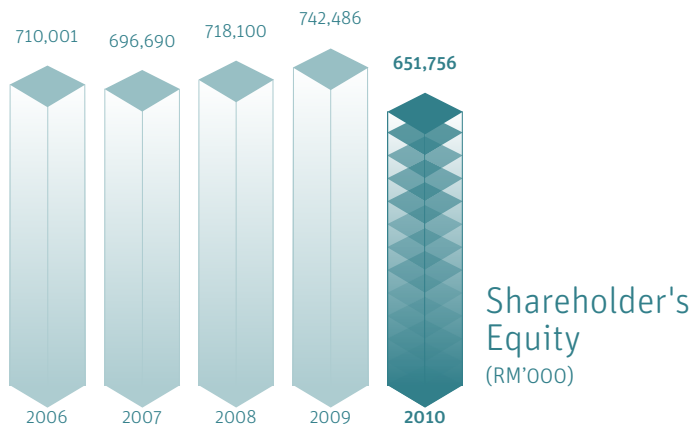
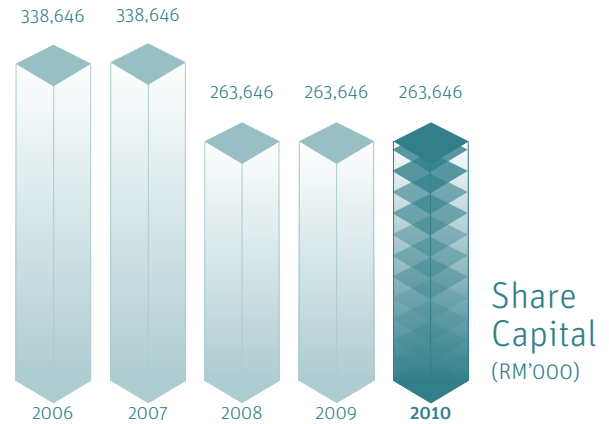
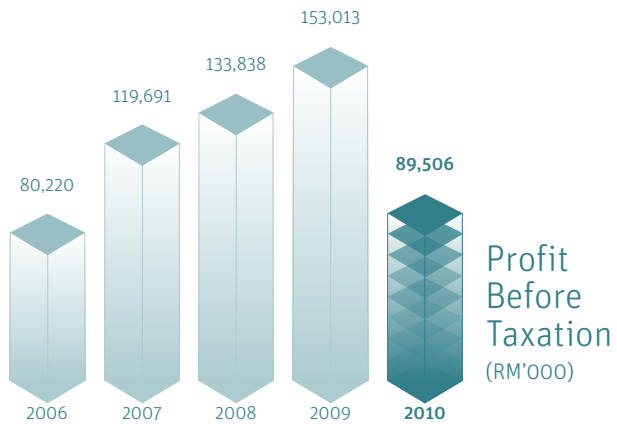
**RHB Insurance Berhad**

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# Group Financial Highlights

	2010	2009	2008	2007	2006
<b>RESULTS (RM'000)</b>					
Profit before taxation	<b>89,506</b>	153,013	133,838	119,691	80,220
Net profit for the financial year	<b>67,235</b>	113,243	97,242	83,870	64,729
Net dividends	<b>69,998</b>	185,870	60,507	52,910	162,942
<b>STATEMENTS OF FINANCIAL POSITION (RM'000)</b>					
Share capital	<b>263,646</b>	263,646	263,646	338,646	338,646
Shareholder's equity	<b>651,756</b>	742,486	718,100	696,690	710,001
Total assets	<b>6,738,695</b>	5,789,630	6,810,160	8,233,798	6,878,451
Loans and advances	<b>49,891</b>	60,158	468,244	851,544	651,283
Total deposits	<b>5,132,302</b>	4,305,318	5,425,445	6,872,435	3,815,977
<b>RATIOS</b>					
Earnings per share - (sen)	<b>25.5</b>	43.0	34.4	24.8	19.1
Gross dividend per share - (sen)	<b>35.4</b>	94.0	30.6	21.4	66.7
Net tangible assets per share - (sen)	<b>181.6</b>	216.1	192.7	154.7	158.6
Return on shareholder's equity - (%)	<b>9.6</b>	15.5	13.7	11.9	8.6



# Corporate Information

As At 10 February 2011

## BOARD OF DIRECTORS

Dato Abdullah Mat Noh  
*Independent Non-Executive Chairman*

Dato' Mohamed Khadar Merican  
*Senior Independent Non-Executive Director*

Tan Sri Azlan Zainol  
*Non-Independent Non-Executive Director*

Arul Kanda Kandasamy  
*Non-Independent Non-Executive Director*

Akira Miyama  
*Non-Independent Non-Executive Director*

Lew Foon Keong  
*Independent Non-Executive Director*

Patrick Chin Yoke Chung  
*Independent Non-Executive Director*

Dato' Saw Choo Boon  
*Independent Non-Executive Director*

Abdul Aziz Peru Mohamed  
*Independent Non-Executive Director*

Chay Wai Leong  
*Managing Director*

## BOARD COMMITTEES

### Group Audit Committee#

Ong Seng Pheow  
*Chairman*

Dato' Othman Jusoh

Patrick Chin Yoke Chung

Dato' Saw Choo Boon

Haji Md Ja'far Abdul Carrim

### Group Nominating Committee\*

Datuk Haji Faisal Siraj  
*Chairman*

Johari Abdul Muid

Dato' Mohamed Khadar Merican

Dato' Saw Choo Boon

Dato' Teo Chiang Liang

### Group Remuneration And Human Resource Committee\*

Datuk Haji Faisal Siraj  
*Chairman*

Johari Abdul Muid

Dato' Mohamed Khadar Merican

Dato' Saw Choo Boon

Dato' Teo Chiang Liang

### Group Risk Management Committee\*

Haji Khairuddin Ahmad  
*Chairman*

Patrick Chin Yoke Chung

Johari Abdul Muid

Haji Md Ja'far Abdul Carrim

Choong Tuck Oon

### Group Credit Committee #

Dato Abdullah Mat Noh  
*Chairman*

Johari Abdul Muid

Dato' Mohamed Khadar Merican

Haji Khairuddin Ahmad

### Group Recovery Committee#

Haji Khairuddin Ahmad  
*Chairman*

Dato' Mohamed Khadar Merican

Dato Abdullah Mat Noh

Dato' Teo Chiang Liang

### Group IT & Transformation Strategy Committee#

Choong Tuck Oon  
*Chairman*

Ong Seng Pheow

Johari Abdul Muid

Dato' Tajuddin Atan

Dato' Mohd Ali Mohd Tahir

## COMPANY SECRETARY

Azman Shah Md Yaman

## SENIOR MANAGEMENT

Dato' Tajuddin Atan  
*Group Managing Director, RHB Capital Berhad*

Renzo Christopher Viegas  
*Director, Retail Banking*

Chay Wai Leong  
*Director, Corporate & Investment Banking*

Kellee Kam Chee Khiong  
*Director, Group Finance*

Norazzah Sulaiman  
*Director, Group Corporate Services*

Michael Lim Kheng Boon  
*Director, Group Transaction Banking*

Amy Ooi Swee Lian  
*Director, Business Banking*

Wan Mohd Fadzmi Wan Othman  
*Director, Global Financial Banking*

Haji Abd Rani Lebai Jaafar<sup>^</sup>  
*Director, Islamic Banking*

Koh Heng Kong  
*Head, Insurance*

Sharifatul Hanizah Said Ali  
*Head, Investment Management*

Datin Zaimah Zakaria  
*Director, Group Treasury (Acting)*

Azaharin Abd Latiff  
*Director, Group Human Resources (Acting)*

#### MANAGEMENT

Chay Wai Leong  
*Managing Director*

#### MANAGEMENT OF SUBSIDIARIES

##### RHB Investment Management Sdn Bhd

Sharifatul Hanizah Said Ali  
*Managing Director/Head,  
Investment Management*

##### RHB Research Institute Sdn Bhd

Lim Chee Sing  
*Executive Director/Head,  
Research Institute*

#### 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  
Malaysia  
Tel : (03) 9287 3888  
Fax : (03) 9281 5000

##### Melaka Branch

Lot 9 & 10, 1st Floor  
Bangunan Tabung Haji  
Jalan Banda Kaba  
75000 Melaka  
Tel : (06) 283 3622  
Fax : (06) 284 9886

##### Kuching Desk Office

Suite 102, 1st Floor  
Crown Tower  
88 Jalan Pending  
93450 Kuching  
Sarawak  
Tel : (082) 332 898, 342 898  
Fax : (082) 335 989

##### RHB Research Institute Sdn Bhd

Level 11, Tower One  
RHB Centre  
Jalan Tun Razak  
50400 Kuala Lumpur  
Tel : (03) 9285 2233  
Fax : (03) 9284 8693

#### RHB Investment Management Sdn Bhd

Level 10, Tower One  
RHB Centre  
Jalan Tun Razak  
50400 Kuala Lumpur  
Hotline : 1 800 88 3656  
Tel : (03) 9286 2666  
Fax : (03) 9286 2407  
*(Branches in Cheras, Penang, Sabah &  
Sarawak)*

#### JOINTLY CONTROLLED ENTITY

##### Vietnam Securities Corporation

8th Floor  
59 Quang Trung Street, Nguyen Du Ward  
Hai Ba Trung District  
Hanoi  
Vietnam  
Tel : (84) 4 944 6066, 67, 68, 69  
Fax : (84) 4 944 6070

#### AUDITORS

PricewaterhouseCoopers  
Chartered Accountants  
Level 10, 1 Sentral  
Jalan Travers, Kuala Lumpur Sentral  
50470 Kuala Lumpur, Malaysia.  
Tel : (03) 2173 1188  
Fax : (03) 2173 1288

#### Notes:

- \* The Committee resides at RHB Capital Berhad and is shared with relevant subsidiaries of the Group.
- # The Committee resides at RHB Bank Berhad and is shared with relevant subsidiaries of the Group.
- ^ Appointed on 14 February 2011.

# Profile Of The Board Of Directors

As At 10 February 2011

## **DATO ABDULLAH MAT NOH**

(69 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 2004, 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 and a Member of Group Recovery Committee.

## **TAN SRI AZLAN ZAINOL**

(60 years of age – Malaysian)

Non-Independent Non-Executive Director

Tan Sri Azlan Zainol (“Tan Sri Azlan”) is also currently the Chief Executive Officer of the Employees Provident Fund Board. He has more than 29 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.

Tan Sri Azlan is a Fellow of the Institute of Chartered Accountants in England and Wales, Member of the Malaysian Institute of Accountants and Member of the Malaysian Institute of Certified Public Accountants.

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

Tan Sri Azlan was appointed as a Director of RHB Investment Bank on 27 July 2005.





**ARUL KANDA KANDASAMY**

(34 years of age – Malaysian)

Non-Independent Non-Executive Director

Arul Kanda Kandasamy ("Mr Arul") is currently the Executive Vice President, Head of Investment Banking Group and Head of Corporate Finance Division, Abu Dhabi Commercial Bank. Prior to this, Mr Arul was the Head of Islamic Financing Solutions at Barclays Capital, based in Dubai. He previously held various senior positions in CALYON, both in London and Bahrain, among others, as Director-Head of Islamic Banking, Director-Capital Markets, Calyon Bahrain and Associate Director-Securitisation, Calyon London.

Mr Arul holds an LL.B from the London School of Economics, an LL.M (with distinction in Corporate & Commercial Law) from University College London and is a UK qualified Barrister.

Mr Arul's other directorships in public companies include RHB Capital Berhad and RHB Islamic Bank Berhad.

Mr Arul was appointed as a Director of RHB Investment Bank on 20 July 2009.

**DATO' MOHAMED KHADAR MERICAN**

(54 years of age – Malaysian)

Senior Independent Non-Executive Director

Dato' Mohamed Khadar Merican ("Dato' Mohamed Khadar") has had more than 25 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) 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 a Director of RHB Investment Bank Berhad on 4 December 2003. He also serves as a Member of the Group Credit Committee, Group Recovery Committee, Group Nominating Committee and Group Remuneration and Human Resource Committee.

**AKIRA MIYAMA**

(59 years of age – Japanese)

Non-Independent Non-Executive Director

Akira Miyama ("Mr Miyama") is currently the Head, Group Japanese Business of RHB Banking Group. 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.

Mr Miyama holds a Bachelor of Laws degree from Keio University, Tokyo.

He is also 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.

## Profile Of The Board Of Directors

### LEW FOON KEONG

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

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

Mr Lew’s other directorships in public companies include RHB Islamic Bank Berhad and Singapore Medical Group.

Mr Lew was appointed as a Director of RHB Investment Bank on 15 March 2004.

### PATRICK CHIN YOKE CHUNG

(65 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 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 RHB Bank (L) Ltd (Chairman), 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.

### DATO’ SAW CHOO BOON

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

Dato’ Saw Choo Boon (“Dato’ Saw”) holds a Bachelor of Science (Chemistry) from the University of Malaya. He joined Shell in 1970 as a Refinery Technologist in Shell Refining Company (Federation of Malaya) Berhad. He then served in various capacities in manufacturing, supply, trading and planning in Malaysia, Singapore and Netherlands. In 1996, Dato’ Saw was appointed Managing Director of Shell MDS (Malaysia) Sendirian Berhad. In 1998 – 1999, he assumed the positions of Managing Director for Oil Products (Downstream) Shell Malaysia and Managing Director of Shell Refining Company (Federation of Malaya) Berhad. In 1999, with the globalisation of the Shell Oil Products business, he was appointed the Vice-President of the commercial business in the Asia-Pacific region and in 2004 he became the President of Shell Oil Product East. Since 2006, he has been managing the global marine business and special projects.

Dato' Saw was appointed the Chairman of Shell Malaysia on 1 March 2006. He was also the Vice President Business Development Asia Pacific responsible for the developing of commercial businesses in new market entries in Asia – China, India, Indonesia and Vietnam. From 1 January 2010, Dato' Saw was appointed as the Senior Adviser of Shell Malaysia until his retirement on 30 June 2010.

Currently, Dato' Saw's other directorships in public companies are RHB Capital Berhad, Shell Refining Company (Federation of Malaya) Berhad and Digi.Com Berhad.

Dato' Saw was appointed as a Director of RHB Investment Bank on 1 April 2010. He also serves as a Member of the Group Audit Committee, Group Nominating Committee and Group Remuneration and Human Resource Committee.

#### **ABDUL AZIZ PERU MOHAMED**

(62 years of age – Malaysian)

Independent Non-Executive Director

Abdul Aziz Peru Mohamed (“Encik Aziz Peru”) is currently the Chief Executive Officer/Director of as-Salihin Trustee Berhad, a trust company specialized in Islamic estate planning. He held various Senior Management positions in the banking industry with almost 30 years accomplished career track spanning management of branch network and retail banking. He spent most of his working years at Malayan Banking Berhad, where his last position was General Manager, Consumer Banking Division. He was also formerly the Senior General Manager of AmBank Berhad from 2002 to 2005. During the years in the banking industry, he was appointed as the Chairman of Rules Committee of Association of Banks of Malaysia and has held several other key positions including a Board Member of Mayban Property Trust and Mayban Trustees Bhd.

Encik Aziz Peru attended various training programs at the Harvard Business School and Pacific Bankers Rim programs in United States.

Encik Aziz Peru was appointed as a Director of RHB Investment Bank on 7 February 2011.

#### **CHAY WAI LEONG**

(47 years of age - Singaporean)

Managing Director

Chay Wai Leong (“Mr Chay”) was appointed as the Chief Executive Officer of RHB Investment Bank on 1 November 2006 and subsequently as the Managing Director on 8 October 2007. In addition thereto, pursuant to the transformation exercise undertaken by the Group in November 2007 and further enhancement of the Group's internal organisational structure in 2010, Mr Chay is also now overseeing the day-to-day management of Corporate & Investment Banking Strategic Business Group of the RHB Banking Group.

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, one of 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.

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, RHB Research Institute Sdn Bhd (Chairman) and Securities Industry Development Corporation.

# RHB Banking Group Corporate Structure

As at 10 February 2011



## 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

## INVESTMENT BANKING GROUP

## OTHERS

## RHB INVESTMENT BANK BERHAD

- ◆ RHB Investment Management Sdn Bhd
  - ◆ RHB Islamic Asset 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 Unit Trust Management Berhad
- ◆ Vietnam Securities Corporation (49%)

- ◆ RHB Insurance Berhad (94.7%)
- ◆ RHB Equities Sdn Bhd <sup>(1)</sup>
  - ◆ KYB Sdn Bhd
- ◆ RHB Capital (Jersey) Limited (*Channel Island*)
  - ◆ Rashid Hussain Securities (Philippines), Inc. (*Philippines*) <sup>(2)</sup>
- ◆ RHB Hartanah Sdn Bhd
  - ◆ Positive Properties Sdn Bhd
  - ◆ RHB Property Management Sdn Bhd
- ◆ Straits Asset Holdings Sdn Bhd
  - ◆ SSSB Services (Melaka) Sdn Bhd
  - ◆ SFSB Services (Melaka) Sdn Bhd
- ◆ RHBF Sdn Bhd
  - ◆ KYF Sdn Bhd
- ◆ RHB Venture Capital Sdn Bhd
- ◆ RHB Kawal Sdn Bhd

**Notes:**

The subsidiary companies are wholly-owned unless otherwise stated.

■ ■ ■ Dormant Company

■ Jointly Controlled Entity

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

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

Country of incorporation is in Malaysia unless otherwise indicated in italics

# 2010 Awards

## RHB INVESTMENT BANK BERHAD

Awards	Description
The Asset Triple A Country Awards	◆ <b>Malaysia – Best M&amp;A House</b>
IFR Asia	◆ <b>Best Islamic Deal – Cagamas RM1 billion Sukuk ALIm</b> <ul style="list-style-type: none"> <li>• Joint Principal Adviser, Joint Lead Arranger, Joint Bookrunner &amp; Joint Lead Manager</li> </ul>
Islamic Finance News	◆ <b>Malaysia Deal of the Year – Cagamas RM1 billion Sukuk ALIm</b> <ul style="list-style-type: none"> <li>• Joint Principal Adviser, Joint Lead Arranger, Joint Bookrunner &amp; Joint Lead Manager</li> </ul>
	◆ <b>10 Groundbreaker Deals – Cagamas RM1 billion Sukuk ALIm</b> <ul style="list-style-type: none"> <li>• Joint Principal Adviser, Joint Lead Arranger, Joint Bookrunner &amp; Joint Lead Manager</li> </ul>
Alpha Southeast Asia 4th Annual Deal & Solution Awards	◆ <b>Best Deal of the Year in South East Asia – Petronas Chemicals Group RM12.8 billion (US4.1 billion) IPO</b> <ul style="list-style-type: none"> <li>• Joint Underwriter</li> </ul>
	◆ <b>Best REIT Deal of the Year in South East Asia – Sunway REIT RM1.5 billion IPO</b> <ul style="list-style-type: none"> <li>• Sole Financial Adviser, Joint Global Coordinator &amp; Joint Bookrunner (Institutional)</li> </ul>
The Edge Malaysia	◆ <b>Deal of the Year – Best M&amp;A – Privatisation of Tanjong Plc for RM7.89 billion by Tanjong Capital Sdn Bhd</b> <ul style="list-style-type: none"> <li>• Adviser</li> </ul>
	◆ <b>Deal of the Year – Best Share Placement (Notable Mention) – Placement of 4.5% equity interest in RHB Capital Sdn Bhd for RM746.2 million by the Employees Provident Fund Board</b> <ul style="list-style-type: none"> <li>• Joint Bookrunner</li> </ul>
	◆ <b>Deal of the Year – Best IPO (Notable Mention) – Sunway REIT RM1.5 billion IPO</b> <ul style="list-style-type: none"> <li>• Sole Financial Adviser, Joint Global Coordinator &amp; Joint Bookrunner (Institutional)</li> </ul>

## RHB RESEARCH INSTITUTE SDN BHD

Awards	Description
Asiamoney	<ul style="list-style-type: none"> <li>◆ <b>Brokers Poll</b> <ul style="list-style-type: none"> <li>• Best Overall Macroeconomics (2nd place)</li> <li>• Best Overall Strategy (3rd place)</li> <li>• Best Overall Capital Goods (3rd place)</li> </ul> </li> </ul>
The Edge / StarMine Awards	<ul style="list-style-type: none"> <li>◆ <b>Broker Ranking Awards</b> <ul style="list-style-type: none"> <li>• FTSE Bursa Malaysia 30 Index – Recommendations: Rank (1)</li> <li>• Malaysia Mid-and Small-Cap Stocks – Recommendations: Rank (3)</li> </ul> </li> <li>◆ <b>Analyst Awards – Industry Award Winners</b> <ul style="list-style-type: none"> <li>• Energy – 1st place Joseph Wong Chi Wai</li> <li>• Real Estate – 2nd place Low Yee Huap</li> <li>• Financials – 3rd place Low Yee Huap</li> </ul> </li> </ul>
The Edge Malaysia	<ul style="list-style-type: none"> <li>◆ <b>Best Construction Sector Call</b> – Joshua Ng</li> </ul>
StarMine	<ul style="list-style-type: none"> <li>◆ <b>The Financial Times &amp; Starmine Analyst Awards – Pan Asia</b> <ul style="list-style-type: none"> <li>• Media – 1st place – David Chong</li> <li>• Banks – 2nd place – Low Yee Huap</li> <li>• Construction &amp; Engineering – 2nd place – Joshua Ng</li> <li>• Energy &amp; Chemicals – 3rd place – Yap Huey Chiang</li> </ul> </li> </ul>

## RHB INVESTMENT MANAGEMENT SDN BHD

Awards	Description
The Asset	<ul style="list-style-type: none"> <li>◆ <b>Benchmark Survey</b> <ul style="list-style-type: none"> <li>• One of the Most Astute Investors in Malaysian Ringgit Bond</li> </ul> </li> </ul>
The Edge-Lipper Malaysia Fund Awards	<ul style="list-style-type: none"> <li>◆ <b>Best Bond Malaysian Ringgit-Islamic Fund : 3 Years</b> <ul style="list-style-type: none"> <li>• RHB Islamic Bond Fund</li> </ul> </li> </ul>

# Corporate Governance Statement

## OUR COMMITMENT TO GOOD CORPORATE GOVERNANCE

The Board of Directors (“Board”) of RHB Investment Bank Berhad (“RHB Investment Bank ” or “the Investment Bank ”) recognises that good corporate governance is and has been fundamental to the success of our business. Not only has it helped establish the RHB Group’s credibility and bolster our corporate reputation, it has also enhanced our shareholder value, provided an assurance to investors, strengthened customers’ trust in our businesses and improved the Group’s competitive positioning. To ensure the highest standards of integrity, business ethics and professionalism are upheld across our organisation, we have adopted best market practices to establish accountability and transparency within the Investment Bank as well as preserve the integrity of the Board and Management.

Our corporate governance structure is principally based on the Malaysian Code on Corporate Governance (“the Code”), the Guidelines on Corporate Governance for Licensed Institutions (“BNM’s CG Guidelines”) issued by Bank Negara Malaysia (“BNM”) and international best practices. While stringent corporate governance practices and internal controls are already in place, we believe there is always room for improvement and are always exploring new avenues and measures to enhance the Investment Bank’s system of governance. In doing so, the Board not only pays attention to ethical conduct, value enrichment and the implementation of best practices, but also makes a significant effort to understand and manage stakeholders’ expectations. Such understanding is essential to ensure that our position and reputation as an investment bank is held in good stead. Moreover, this understanding enables us to fulfil the evolving needs of our stakeholders and supports the Group’s efforts to compete at the global level.

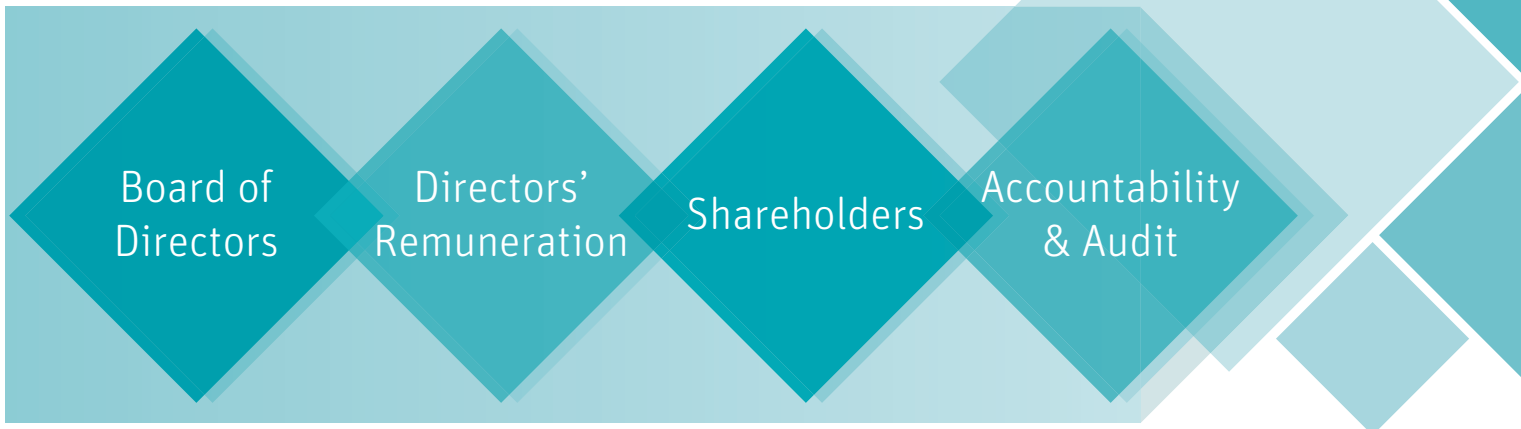
As a testament to our strong corporate governance efforts, the RHB Banking Group was the proud recipient of a Merit Award and was named Second Runner-up in the Best Return to Shareholders Category at the 2010 Malaysian Business–CIMA Enterprise Governance Awards.

In addition, the Group was also named as Top 10 Best-Managed Company and Best Corporate Governance Company by FinanceAsia.





## THE BASIC PRINCIPLES OF CORPORATE GOVERNANCE



### BOARD OF DIRECTORS

#### Board Composition and Balance

The Board currently comprises an (1) Independent Non-Executive Chairman, five (5) Independent Non-Executive Directors (“NEDs”), three (3) Non-Independent Non-Executive Directors and the Managing Director (“MD”). The structure and composition of the Board comply with the Code as well as the BNM’s CG Guidelines. The presence of the six (6) Independent NEDs ensures there is an effective check and balance in the functioning of the Board. These Independent NEDs are not involved in the day-to-day management of the Investment Bank, nor do they participate in any business dealings of the Investment Bank. This ascertains that they remain free of any conflict of interest and can undertake their roles and responsibilities as Independent NEDs in an effective manner.

#### COMPOSITION OF THE BOARD



- ◆ Independent
- ◆ Non Independent
- ◆ Executive (Management Director)

#### Directors’ Qualifications and Experience

As a major financial services group, the Board recognises 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 the Group as a whole. Furthermore, being on the Board of an investment bank, Board Members are required to be responsive to the constantly changing global financial landscape. The Board regularly reviews the composition of its own Board as well as the Boards of its major subsidiaries and the Group’s Board Committees to ensure that appropriate balance is maintained and that there is an adequate mix of skills and experience.

Our Directors bring on board a wealth of knowledge and experience in business, financial and risk management skills that are drawn from the relevant industry and regulatory environment in which the Group operates. A brief profile of each member of the Board outlining their qualifications, experience and skills is presented on pages 6 to 9 of this Annual Report.

#### Duties and Responsibilities of the Board

The Board is responsible for governing the administration of the Investment Bank and for exercising all such powers pursuant to the Articles of Association of the Investment Bank. In general, the Board is also responsible for:

- ◆ providing strategic leadership to the Investment Bank and the Group;
- ◆ reviewing, approving and monitoring the implementation of the Investment Bank’s and the Group’s strategic business plans and policies;

## Corporate Governance Statement

- ◆ ensuring the Investment Bank and the Group maintain an effective system of internal controls and is able to identify and the Group and manage principal risks resulting in efficiency in operations and a stable financial environment;
- ◆ acting as a guardian of the Investment Bank's and the Group's corporate values and ethical principles in parallel with the goal to enhance shareholders' value;
- ◆ monitoring as well as evaluating the performance of the Management to ensure that the performance criteria remains dynamic; and
- ◆ ensuring the formulation of a succession plan for the Investment Bank and the Group for long-term business continuity.

### ROLES OF THE CHAIRMAN, MANAGING DIRECTOR, NON-EXECUTIVE DIRECTORS AND SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

#### Chairman

It is widely recognised that a Chairman should also be a NED and that the roles of the Chairman and the MD must be clearly demarcated. The Chairman is responsible for leading the Board and ensuring it performs in an effective manner.

The Chairman presides over Board and General Meetings of the Investment Bank. He ensures that the Board is well informed and effective; that Members, individually and as a group, have the opportunity to air differences, explore ideas and generate the collective views and wisdom necessary for the proper operation of the Board and the Investment Bank. Additionally, the Chairman has to ensure that General Meetings are conducted efficiently and that the shareholder has adequate opportunity to air its views and obtain answers to its queries.

In furtherance thereto, the Chairman is also responsible to:

- ◆ provide effective leadership in the determination of the Investment Bank and the Group's strategy and in the achievement of the Investment Bank and the Group's objectives;
- ◆ work with the Company Secretary to schedule Board and Committee meetings and ensure that Directors receive accurate, timely and clear information, in particular on the Investment Bank's performance and issues arising, to enable the Board to make sound decisions, conduct effective monitoring and provide sensible advice in achieving the Investment Bank's objectives;
- ◆ ensure that Board Committees are properly established and composed, with the appropriate terms of reference;
- ◆ ensure that all important agenda are appropriately discussed by the Board;
- ◆ ensure the independence of the Board in discharging its duties. This includes encouraging NEDs of the Board to meet regularly to deliberate on matters of concern and ensure that the Board engages independent advisors where required (subject to the proper approval process);
- ◆ ensure that the Board and individual Directors fully exercise their responsibilities and adhere to applicable laws, regulations, rules, directives, policies and guidelines;
- ◆ consider and address the development needs of individual Directors and the Board as a whole to maintain the necessary depth and breadth of knowledge and skills to enhance the effectiveness of the Board;
- ◆ promote effective relationships and open communication between the Board and Senior Management team in relation to corporate governance and corporate performance; and
- ◆ ensure effective relationships are maintained with all major stakeholders in the business.

#### Managing Director

The day-to-day management of the Investment Bank is delegated to the MD who is responsible in managing the business and operations of the Investment Bank and in ensuring the successful implementation of policies and directions as formulated by the Board. The distinct and separate duties and responsibilities of the MD and the Chairman ensure the balance of power and authority in relation to the establishment of a fully effective Board.

The MD is also the Director of Corporate and Investment Banking, one of the Strategic Business Groups ("SBGs") within the RHB Banking Group, and a member of the Central Management Committee ("CMC").

The MD's integral role is to implement the policies and decisions of the Board, oversee the operations as well as coordinate the development and implementation of business and corporate strategies. In addition thereto, he is also responsible for the following tasks:

- ◆ manage the business and operations and to put in place the policies and strategies adopted by the Board;

- ◆ ensuring that the financial results are accurate and not misleading as well as ensuring that the financial management practices of the Investment Bank are carried out with the highest standards of integrity and transparency for the benefit of all stakeholders;
- ◆ ensuring that the business and affairs of the Investment Bank are carried out in an ethical manner and in full compliance with the relevant laws and regulations;
- ◆ overseeing the internal control systems and the risk management processes and ensuring these are appropriate and effective;
- ◆ ensuring succession planning and talent management programs are in place in the interest of human capital development;
- ◆ maintaining effective relationship between the Management, the Board and other stakeholders; and
- ◆ developing and maintaining strong communication programmes and dialogue with the stakeholders.

In carrying out these tasks, the Group is supported by the CMC, which comprises key Management members of the Group including the MD of the Investment Bank. The CMC is governed by its terms of reference and has several objectives, which include the following:

- ◆ to provide strategic guidance to the SBGs and Strategic Functional Groups (“SFG”);
- ◆ to recommend key strategic business plans and policies to the Board of the holding company and other entities within the Group; and
- ◆ to assist the Board of the holding company and other entities within the Group to review the performance and business efficiency of the Group.

### Non-Executive Directors

The roles of the NEDs are wide and varied. They provide considerable depth of knowledge collectively gained from their experience in a variety of public and private companies and other enterprises. The Independent Directors provide unbiased and independent views in ensuring that the strategies proposed by the Management are fully deliberated on and take into account the interests of its stakeholders in which the Investment Bank conducts its business. The independence of the Independent Directors is constantly reviewed and benchmarked against best practices and regulatory provisions.

A Senior Independent Non-Executive Director (“SINED”) has the following additional responsibilities:

- ◆ to be available to shareholder if it has concerns relating to matters where contact through the normal channels of the Chairman or MD has failed to resolve issues, or for which such contact is inappropriate; and
- ◆ to maintain contact as required with the shareholder to have a balanced understanding of its issues and concerns.

### BOARD CHARTER

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 professionalism within the ambit of the law to serve the interest of the Investment Bank’s shareholder and stakeholders.

### CODE OF ETHICS AND BUSINESS CONDUCT

The Board has 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:

- ◆ to establish a uniform ethical standard for Directors emphasising conduct free from conflicts of interest; and
- ◆ to uphold the spirit of corporate responsibility and accountability in line with the governing laws, regulations and guidelines.

The Group has in place a Group Code of Ethics and Conduct that is applicable to all its employees to ensure a high standard of ethical and professional conduct is upheld by all its employees in the performance of their duties and responsibilities.

## Corporate Governance Statement

### COMPANY SECRETARY

The Company Secretary serves and advises the Board on matters relating to the affairs of the Board and ensures that Board meetings are properly convened and an accurate and proper record of the proceedings and minutes of the meetings are kept. The Company Secretary assists the Chairman and Directors in the conduct of meetings and their governance obligations and responsibilities as Directors of the Investment Bank. The Company Secretary also facilitates the communication of key decisions and policies between the Board, Board Committees and the Senior Management.

Apart from performing the duties and responsibilities of a named Secretary to the Board, the Company Secretary also undertakes the following roles:

- ◆ ensuring that the Board are kept well informed / updated on legal / regulatory requirements that affects the duties and responsibilities of Directors;
- ◆ ensures that the relevant companies within the Group complies with its statutory obligations under relevant laws and regulations;
- ◆ manages Board and shareholder processes group-wide;
- ◆ provides guidance to Directors and Senior Management on various corporate administration matters;
- ◆ assists in managing shareholder relations and resolving their enquiries;
- ◆ manages relationship with external share registrar; and
- ◆ acts as custodian of statutory records of the Group.

### BOARD MEETINGS AND ACCESS TO INFORMATION

The Board meets on a monthly basis. Special meetings are 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 to allow the Members of the Board to digest the issues at hand, seek clarification from the Management, if required and formulate opinions on matters to be deliberated at the meetings. In line with 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 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. This practice also applies for the rest of the entities of the Group. The Board also reviews regular management reports and information on corporate and business issues to assess 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 urgency prevails and if appropriate, decisions are also taken by way of a Directors' Circular Resolution in accordance with the Investment Bank's Articles of Association.

The Board is able to seek clarifications and advise as well as request for information on matters pertaining to the Group from the Senior Management and the Company Secretary. Should the need arise, the Directors may also seek independent professional advice, at the Investment Bank's expense, when deemed necessary for the proper discharge of their duties.

The Group has in place a "Standard Procedures for Directors to Have Access to Independent Advice" which lays down the procedures for Directors seeking internal and/or external professional independent advice. The objectives of these guidelines among others are as follows:

- ◆ to ensure consistency throughout the RHB Banking Group on the procedures for Directors of the Group to have access to independent professional advice; and
- ◆ to enable Directors to have an enhanced perception of issues within the Group by allowing them to obtain independent opinion/advice/consultation from leading professionals in the relevant areas.

The adoption of the above guidelines is in line with the various regulatory requirements and best practices that the respective companies are obliged to adhere to.

The Board convened twelve (12) meetings for the financial year ended 31 December 2010. The attendance of each Director in office at the end of the financial year at the aforesaid Board meetings is set out below:

Name of Director	No. of Meetings Attended	Total Percentage of Attendance (%)
Dato Abdullah Mat Noh	11/12	92
Tan Sri Azlan Zainol	11/12	92
Arul Kanda Kandasamy	12/12	100
Dato' Mohamed Khadar Merican	10/12	83
Lew Foon Keong	12/12	100
Akira Miyama	12/12	100
Patrick Chin Yoke Chung	12/12	100
Dato' Saw Choo Boon <sup>1</sup>	9/9	100*
Chay Wai Leong (MD)	12/12	100
Datuk Tan Kim Leong <sup>2</sup>	4/4	100 <sup>^</sup>

**Notes:**

<sup>1</sup> Appointed on 1 April 2010.

<sup>2</sup> Retired on 10 May 2010.

\* Based on the number of meetings attended since his appointment in 2010.

<sup>^</sup> Based on the number of meetings attended during his tenure of appointment in 2010.

Pursuant to the BNM's CG Guidelines, individual directors must attend at least 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.

## APPOINTMENTS AND RE-ELECTION TO THE BOARD

RHB Investment Bank is governed by the BNM's CG Guidelines in relation to 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 reviews and assesses the appointments/re-appointments of Directors. During such assessment, the Group Nominating Committee also refers to the results of the individual assessments conducted via the Board Effectiveness Evaluation. The recommendation of the Group Nominating Committee will thereafter be presented to the Board. Upon the approval by the Board, the application for the appointment/re-appointment of Directors will be submitted to BNM for approval.

The Group has in place 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. Independent Directors over seventy (70) years of age will not be eligible for appointment or re-appointment on the Board of any of the companies within the RHB Capital Group and shall retire at the next Annual General Meeting of the Investment Bank concerned.

Article 93 of the 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 appointment.

## TRAINING & DEVELOPMENT

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

## Corporate Governance Statement

The Group had adopted a guideline on the Standard Procedures on Directors' In-house Orientation and Continuing Education Programme for the RHB Banking Group, the objectives of which are as follows:

- ◆ to ensure consistency throughout the RHB Banking Group in developing an in-house orientation and continuing education programme for its Directors to familiarise themselves with the industry and the Investment Bank/Group; and
- ◆ to provide Directors with a better understanding of the nature of business, corporate strategy, risks of the business, financial overview, risk management strategy, legal

requirements, duties, responsibilities and rights from the legal viewpoint, moral and ethical obligations as well as good corporate governance in the ever-changing economic climate.

The NEDs of the Investment Bank and the Group also attend local and/or overseas training programmes organised by credible training organisations under the Board High Performance Programme ("BHPP"). This programme is intended 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 organisational excellence.

Conferences, seminars and training programmes attended by the Directors of the Investment Bank and the Group in 2010 encompassed various topics, including the following:

 <b>Board &amp; Corporate Governance</b>	<ul style="list-style-type: none"> <li>• Directors' Duties &amp; Governance Conference 2010: Towards Boardroom Excellence &amp; Corporate Governance Best Practices</li> <li>• BNM Financial Institutions Director Education Programme (FIDE): Performance Pays - The Report On Non-Executive Directors Remuneration</li> <li>• Executive Duties, Compliance &amp; Conscious Governance 2010</li> <li>• Performance Management Workshop</li> </ul>
 <b>Banking &amp; Finance</b>	<ul style="list-style-type: none"> <li>• BNM FIDE Programme: Banking Insights: Everything You Wanted To Know About Banking But Didn't Dare Ask</li> <li>• Islamic Banking &amp; Finance Fundamentals: Shariah Framework &amp; Governance</li> <li>• BNM FIDE Programme: Financial Industry Conference 2010</li> <li>• Updates on Malaysia Financial Reporting Standards</li> <li>• Briefing by PwC On Goods &amp; Services Tax</li> <li>• Understanding FRS 139 and Revised BNM GP3</li> <li>• Finance For Directors &amp; Executive Management</li> <li>• Forum On The Challenges Of Implementing FRS 139</li> </ul>
 <b>Management &amp; Leadership</b>	<ul style="list-style-type: none"> <li>• Leadership Best Practices</li> <li>• ICLIF's Global Leadership Development Programme</li> <li>• MINDA's Chairman's Forum 2010: Leading Championship Strategies</li> <li>• 16th Senior Management Leadership Programme</li> </ul>
 <b>Risk Management</b>	<ul style="list-style-type: none"> <li>• BNM FIDE Programme: Managing Risks in Financial Institutions</li> <li>• Composite Risk Rating Issues</li> <li>• Managing Risk At Board Level</li> </ul>
 <b>Others</b>	<ul style="list-style-type: none"> <li>• Invest Malaysia 2010</li> <li>• Global Exchanges Trend and Development</li> <li>• Advance Negotiations: Street Smart Tactics</li> <li>• IBM CEO Study Talk: Capitalising On Complexity</li> <li>• Oliver Wyman's Presentation On Annual State Of The Financial Services Industry 2010</li> </ul>

## BOARD PERFORMANCE EVALUATION

The Board has since 2006 undertaken the Board Effectiveness Evaluation (“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 the Investment Bank for consideration. The 2009 assessment produced very useful information to enhance the governance of the Board, among others.

## GROUP 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 the RHB Capital Berhad (“RHB Capital”) or at RHB Bank Berhad (“RHB Bank”) 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.**

In addition, the following Group Board Committees reside at the RHB Bank level and serve the relevant entities of the Group:

- ◆ **Group Audit Committee**
- ◆ **Group Credit Committee**
- ◆ **Group Recovery Committee**
- ◆ **Group IT & Transformation Strategy Committee**

The functions and terms of references of the Group Board Committees are clearly defined and comply with the relevant governing laws, regulations and guidelines among others the Code and the BNM’s CG Guidelines. The members of the Group Board Committees comprise the Directors of the Investment Bank and that of the operating entities within the Group to ensure a fair representation across the entities in pursuing the interests of the entities concerned.

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

## BELOW ARE THE GROUP BOARD COMMITTEES THAT RESIDE AT RHB CAPITAL LEVEL.

### Group Nominating Committee

The Group Nominating Committee comprises NEDs, the 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 six (6) times during the financial year 2010. The composition of the Group Nominating Committee and the attendance of the members at meetings held in 2010 are as follows:

	Attendance at Meetings
Datuk Haji Faisal Siraj <i>(Independent Non-Executive Director/Chairman)</i>	6/6 (100%)
Johari Abdul Muid <i>(Non-Independent Non-Executive Director)</i>	5/6 (83%)
Dato’ Mohamed Khadar Merican <i>(Independent Non-Executive Director)</i>	6/6 (100%)
Dato’ Saw Choo Boon <sup>1</sup> <i>(Independent Non-Executive Director)</i>	3/3* (100%)
Dato’ Teo Chiang Liang <sup>2</sup> <i>(Independent Non-Executive Director)</i>	2/2* (100%)
Datuk Tan Kim Leong <sup>3</sup> <i>(Independent Non-Executive Director)</i>	3/3* (100%)
Tan Sri Azlan Zainol <sup>4</sup> <i>(Non-Independent Non-Executive Director)</i>	4/4^ (100%)

#### Notes:

<sup>1</sup> Appointed as a Member on 20 May 2010

<sup>2</sup> Appointed as a Member on 2 August 2010

<sup>3</sup> Retired on 19 May 2010

<sup>4</sup> Relinquished Membership on 1 August 2010

\* Based on the number of meetings attended since his appointment as a Member in 2010

^ Based on the number of meetings attended during his tenure of appointment in 2010

## Corporate Governance Statement

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 the 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 agreed upon criteria;
- ◆ 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; and
- ◆ to examine the size of the Board with a view to determining the impact the number of Members has upon its effectiveness.

### Group Remuneration and Human Resource Committee

The Group Remuneration and Human Resource Committee comprises NEDs, the 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 ten (10) times during the financial year 2010.

The composition of the Group Remuneration and Human Resource Committee and the attendance of the members at meetings held in 2010 are as follows:

	Attendance at Meetings
Datuk Haji Faisal Siraj <sup>1</sup> <i>(Independent Non-Executive Director/Chairman)</i>	10/10 (100%)
Johari Abdul Muid <i>(Non-Independent Non-Executive Director)</i>	9/10 (90%)
Dato' Mohamed Khadar Merican <i>(Independent Non-Executive Director)</i>	10/10 (100%)
Dato' Saw Choo Boon <sup>2</sup> <i>(Independent Non-Executive Director)</i>	6/6* (100%)
Dato' Teo Chiang Liang <sup>3</sup> <i>(Independent Non-Executive Director)</i>	4/4* (100%)
Datuk Tan Kim Leong <sup>4</sup> <i>(Independent Non-Executive Director)</i>	4/4^ (100%)
Tan Sri Azlan Zainol <sup>5</sup> <i>(Non-Independent Non-Executive Director)</i>	6/6^ (100%)

#### Notes:

- <sup>1</sup> Appointed as the Chairman on 20 May 2010
- <sup>2</sup> Appointed as a Member on 20 May 2010
- <sup>3</sup> Appointed as a Member on 2 August 2010
- <sup>4</sup> Retired on 19 May 2010
- <sup>5</sup> Relinquished Membership on 1 August 2010
- \* Based on the number of meetings attended since his appointment as a Member in 2010
- ^ Based on the number of meetings attended during his tenure of appointment in 2010

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 the best policies, strategies and framework to be implemented 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/programmes 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.

### Group Risk Management Committee

The Group Risk Management Committee comprises NEDs, the majority of which are independent.

The Committee met fifteen (15) times during the financial year 2010.

The composition of the Committee and the attendance of the members at meetings held in 2010 are as follows:

	Attendance at Meetings
Haji Khairuddin Ahmad <i>(Independent Non-Executive Director/Chairman)</i>	15/15 (100%)
Patrick Chin Yoke Chung <i>(Independent Non-Executive Director)</i>	15/15 (100%)
Johari Abdul Muid <i>(Non-Independent Non-Executive Director)</i>	12/15 (79%)
Haji Md Ja'far Abdul Carrim <i>(Independent Non-Executive Director)</i>	15/15 (100%)
Choong Tuck Oon <sup>1</sup> <i>(Independent Non-Executive Director)</i>	10/10*(100%)
Datuk Tan Kim Leong <sup>2</sup> <i>(Independent Non-Executive Director)</i>	4/5^ (100%)

#### Notes:

<sup>1</sup> Appointed as a Member on 20 May 2010

<sup>2</sup> Retired on 19 May 2010

\* Based on the number of meetings attended since his appointment as a Member.

^ Based on the number of meetings attended during his tenure of appointment as a Member.

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; and
- ◆ 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.

### BELOW ARE THE GROUP BOARD COMMITTEES THAT RESIDE AT RHB BANK LEVEL

#### Group Audit Committee

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

The Group Audit Committee meets regularly with the internal auditors. The Group Audit Committee together with the Senior Management of the respective companies in the Group meet with the external auditors in reviewing the Bank's and the Group's financial reporting, the nature, scope and results of audit reviews and the effectiveness of the system of internal controls. During the financial year, a total of twenty-three (23) 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 in compliance with 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 30 to page 35 of this Annual Report.

## Corporate Governance Statement

### Group Credit Committee

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

The Committee met thirty-two (32) times during financial year 2010.

The composition of the Committee and the attendance of the Members at meetings held in 2010 are as follows:

	Attendance at Meetings
Dato Abdullah Mat Noh <i>(Independent Non-Executive Director/Chairman)</i>	30/32 (94%)
Johari Abdul Muid <i>(Non-Independent Non-Executive Director)</i>	27/32 (84%)
Dato' Mohamed Khadar Merican <i>(Independent Non-Executive Director)</i>	26/32 (81%)
Haji Khairuddin Ahamd <i>(Independent Non-Executive Director)</i>	32/32 (100%)

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

- ◆ to affirm, veto or impose additional conditions on credits/debts and equity underwriting (excluding applications from Credit 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, RHB Bank (L) Ltd, RHB Investment Bank and RHB Islamic Bank Bhd; and
- ◆ to endorse all policy loans/financing and loans/financing required by BNM to be referred to the respective Boards for approval.

### Group Recovery Committee

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

The Committee met twenty-three (23) times during financial year 2010.

The composition of the Committee and the attendance of the Members at meetings held in 2010 are as follows:

	Attendance at Meetings
Haji Khairuddin Ahamd <i>(Independent Non-Executive Director/Chairman)</i>	23/23 (100%)
Dato' Mohamed Khadar Merican <i>(Independent Non-Executive Director)</i>	17/23 (74%)
Dato Abdullah Mat Noh <i>(Independent Non-Executive Director)</i>	20/23 (87%)
Dato' Teo Chiang Liang <sup>1</sup> <i>(Independent Non-Executive Director)</i>	14/15* (93%)
Tan Sri Azlan Zainol <sup>2</sup> <i>(Non-Independent Non-Executive Director)</i>	11/13^ (85%)

#### Notes:

- <sup>1</sup> Appointed as a Member on 20 May 2010
- <sup>2</sup> Relinquished Membership on 1 August 2010
- \* Based on the number of meetings attended since his appointment as a Member in 2010
- ^ Based on the number of meetings attended during his tenure of appointment in 2010

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

- ◆ to affirm, veto or include additional conditions on credit applications under Non-Performing Loan (NPL)/Non-Performing Account (NPA) as well as all credit/renewal applications from Loan/Asset Recovery (including the equivalent unit from each of the entity within the RHB Banking Group) for amounts above the defined thresholds of the Central Credit Committee;
- ◆ to oversee the management of NPL/NPA as well as monitor the recovery of NPL/NPA to enhance the Committee's oversight of the loan/asset recovery functions;
- ◆ to oversee the performance of rescheduled and restructured accounts under NPL/NPA to minimize credit loss and maximize the recovery of such accounts;
- ◆ to endorse and recommend all write-offs to the respective Boards for approval; and
- ◆ to endorse all policy loans/financing and loans/financing required by BNM to be referred to the respective Boards for approval in relation to NPL/NPA.

### Group IT & Transformation Strategy Committee

The Group IT & Transformation Strategy Committee comprises three (3) Independent NEDs, a Non-Independent NED and the Group MD of RHB Capital.

The Committee met thirteen (13) times during financial year 2010.

The composition of the Committee and the attendance of the Members at meetings held in 2010 are as follows:

	Attendance at Meetings
Choong Tuck Oon <sup>1</sup> (Independent Non-Executive Director/Chairman)	6/6* (100%)
Ong Seng Pheow <sup>2</sup> (Independent Non-Executive Director)	13/13 (100%)
Johari Abdul Muid (Non-Independent Non-Executive Director)	9/13 (69%)
Dato' Mohd Ali Mohd Tahir <sup>3</sup> (Independent Non-Executive Director)	N/A
Dato' Tajuddin Atan (Group Managing Director)	12/13 (92%)
Kellee Kam Chee Khiong <sup>4</sup> (Director, Group Finance)	13/13 (100%)
Ho Sin Kheong <sup>4</sup> (Head, Information Technology)	13/13 (100%)

#### Notes:

- <sup>1</sup> Appointed as the Chairman/Member on 20 May 2010
- <sup>2</sup> Ceased as the Chairman on 20 May 2010
- <sup>3</sup> Appointed as a Member on 1 February 2011
- <sup>4</sup> Ceased as a Member on 17 December 2010
- \* Based on the number of meetings attended since his appointment as the Chairman/Member in 2010.

The principal responsibility of the Committee is to provide guidance on the Group's planning and/or execution of programmes and initiatives within the realm of information technology and transformation management.

### Group Shariah Committee

Apart from the above Group Board Committees, the Group has also established its Group Shariah Committee, which is housed at RHB Islamic Bank Berhad. The Group Shariah Committee comprises qualified local and foreign Shariah scholars who act as Shariah advisors to 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 ("NASAC"), where relevant, on any Shariah matters which have not been resolved or endorsed by NASAC.

### DIRECTORS' REMUNERATION

The remuneration of Directors is set at levels which enable the Group to effectively attract and retain Directors with the relevant experience and expertise required for stewardship of the Group. For the NEDs, the level of remuneration reflects the level of responsibilities undertaken by the particular NED concerned in the Company and of the Group. The remuneration strategy takes into consideration the remuneration level of Directors within the industry and is reviewed at least once every two years.

The remuneration package of the NEDs of the Group comprises the following:

#### i) Annual Fees

The NEDs are entitled to an annual Directors' fees. The annual Directors' fees are subject to shareholder's approval at the Annual General Meeting of the Investment Bank.

#### ii) Allowances

NEDs are also entitled to meeting attendance allowances when they attend any Board/Board Committee meetings. In addition, NEDs who sit on Board Committees are entitled to receive Board Committee allowances which shall be paid on an annual basis at the end of each financial year.

#### iii) Benefits-in-kind

Benefits accorded to the Chairmen of the Group, consisting of the provision of a Company car, driver and petrol allowance.

The remuneration strategy for the MDs within the Group dictates that they be paid in a competitive manner through an integrated pay and benefits structure which rewards corporate and individual performance in line with contributions to the organisation. 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, which includes among others salary, bonus and benefits-in-kind, 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.

## Corporate Governance Statement

### COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

#### Stakeholder Communications

The RHB Banking Group is committed to, and takes pride for being able to communicate effectively with our shareholders and investors to ensure that they are informed of all material business matters affecting the Group. As part of good corporate governance practices, the Group is also committed to maintaining transparency and accountability with all stakeholders apart from ensuring regulatory reporting requirements are met.

The Group places a strong emphasis on the clear, comprehensive, timely and equitable dissemination of information on the Group's business activities, the milestones achieved, the developments that have taken place and our financial performance. This information is released through various mediums including quarterly results, annual reports, press releases and announcements to Bursa Malaysia Securities Berhad as well as via company visits, annual general meetings and other company activities.

To help shareholders and investors to gain further insights into the RHB Banking Group's latest corporate and financial developments, all relevant information is posted on the Investor Relations section of the Groups' corporate website at [www.rhb.com.my](http://www.rhb.com.my).

#### Investor Relations

As part of best investor relations practice, RHB Banking Group seeks to provide accurate, consistent and timely information about the Group, including our strategies and activities through a continuous and dynamic investor relations programme. The Group also maintains close rapport with analysts and fund managers, whose analysis and reports help investors make their investment decisions.

Formal briefings are held on quarterly basis to coincide with the release of the Group's quarterly results to enable the Management to brief the investment community on the Group's financial performance and to provide them the opportunity to raise question or seek clarification. Through these briefings, the Group has also managed to obtain valuable feedback from the investing community.

RHB Banking Group's Management also regularly hold one-to-one meeting with analysts, fund managers and shareholders to provide updates on quarterly financial performance and regulatory developments. They also address any questions or clarify matters relating to the business or operations of the Group.

Participation in both foreign and local investment conferences and road shows was stepped up in 2010, with the aim of expanding investors' coverage. In 2010, the Group completed

four (4) investment conference and/or non-deal road shows covering Singapore, Hong Kong and the United Kingdom. During these conferences and road shows, senior management representatives communicated details of the Group's strategy and operations as well as provided updates on various initiatives undertaken by RHB.

In 2010, the investor relations team met with close to 400 analysts, fund managers, shareholders and investors via formal briefings, face-to-face meetings, tele-conferencing, tours, conferences and road shows.

### ACCOUNTABILITY AND AUDIT

#### Financial Reporting

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

A Directors' Responsibility Statement for the Annual Audited Financial Statements of the Investment Bank and the Group is set out on page 38 of this Annual Report.

#### Internal Control

An overview of the Investment Bank's systems of internal control is contained in the Statement on Internal Control set out on pages 27 to 29 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 30 to 35 of this Annual Report.

### COMPLIANCE WITH THE CODE

The Board is satisfied that the Investment Bank has complied with the principles and best practices outlined in the Code as at 31 December 2010.

This Statement of Corporate Governance was approved by the Board of Directors on 26 January 2011.

# Statement On Internal Control

## INTRODUCTION

Pursuant to paragraph 15.26(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 "Investment 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 that it has a responsibility for the Investment Bank's system of internal controls and for reviewing the adequacy and integrity thereof. Such a system covers not only financial controls but also controls relating to governance, operations, risk management and compliance with applicable laws, regulations, rules, directives, guidelines as well as internal policies, processes and procedures.

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

The Board has established an ongoing process for identifying, evaluating, managing and reporting the significant risks that may affect the achievement of the Investment Bank's business objectives. This covers the period throughout the financial year under review and up to the date of this report.

Management continuously assists the Board in the implementation of approved policies and procedures on risk and control for application/adherence across the Investment Bank.

## KEY INTERNAL CONTROL PROCESSES

The key processes that the Board has established in reviewing the adequacy and integrity of the system of internal controls include the following:-

- **Risk Management Framework**

The risk management process seeks to identify, measure, monitor and control risk. It also seeks to ensure that risk exposures are adequately managed and that the expected returns compensate the risks taken. This is all the more important given that the risks within the industry we operate in continually change and evolve. This process is regularly reviewed by the Board through its Group Risk Management Committee which ensures the proper management of risks and takes the appropriate measures to mitigate any identified weaknesses in the control environment.

The Group Risk Management Committee is delegated with oversight authority by the respective 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 and operations on an ongoing basis.

Amongst the other committees set up in the Group to manage specific areas of risk are the Group Assets & Liabilities Management Committee, Central Credit Committee, Group Credit Committee, Group Recovery Committee, Group IT and Transformation Strategy Committee, and Group Basel II Steering Committee.

In line with regulatory requirements and industry best practices, the Group has instilled the principle that risk management is a core responsibility of the respective business and operating units. This is enshrined in the risk management frameworks of the Group.

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 entities in the Group as part of the risk management process. These entities are required to identify as well as document the controls and processes for managing the risks arising from their business activities as well as assess their effectiveness thereof.

- **Internal Audit Function**

Group Internal Audit performs regular reviews of the Investment Bank's operational processes and system of internal controls. Group Internal Audit adopts a risk-based approach in determining the auditable units and frequency of audits. The annual audit plan is reviewed and approved by the Group Audit Committee ("Group AC").

## Statement On Internal Control

The results of the audits conducted by Group Internal Audit 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") whose members comprise senior management. The minutes of meetings of MAC are tabled to the Group AC for notation.

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 Investment Bank's internal control system. The minutes of meetings of the Group AC 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.

- **Group Compliance Framework**

Compliance risk in RHB is defined as the risk of impairment to the Group's business model, reputation and financial condition from failure to meet laws and regulations, internal policies and expectations of stakeholders.

Compliance management is the collective responsibility of the Board, senior management and each and every employee of the Group. It is expected that each individual promotes self-regulation and be accountable for his/her own activities and maintains ethical principles and behaviour in everything that he/she does.

The Group's state of compliance with laws, regulations and internal policies and procedures are reported to Group Risk Management Committee and Board on a monthly basis. In addition, the Group has in place an incident escalation and reporting process wherein any incident affecting the reputation of the Group is escalated to the senior management and respective Boards within 24 hours of the incident occurring. This escalation process ensures adequate oversight and guidance is provided by the Board in managing reputational risk.

Compliance in collaboration with the business and operating units, continuously assesses and recommends improvements to controls by carrying out root cause analysis on common incidences of non-compliance, negligence and fraud (all of which are reported on a daily basis).

To mitigate compliance risk, briefings as well as various awareness and learning initiatives were conducted throughout the year to ensure continuous compliance with existing controls and to embed a compliance culture within the Group.

- **Board Committees**

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 and/or consider all matters within their scope of responsibilities and make recommendations to the Board for approval, if such is required.

- **Central Management Committee**

The Central Management Committee ("CMC"), comprising key management personnel of the Group and chaired by the Group Managing Director, manages the Group's strategic direction and provides strategic guidance to the Strategic Business Groups ("SBG") and Strategic Functional Groups ("SFG"). Being a forum where all strategic and operational matters are discussed, the CMC meets regularly and special meetings are convened to discuss urgent issues.

- **Authority Limits**

Delegation of authority including authorisation limits at various levels of Management in the Group are documented and designed to ensure accountability and responsibility.

- **Internal Policies and Procedures**

Policies, procedures and processes governing the Group's businesses and operations are documented and are made available to employees across the Group through the Group's myOnePortal. These policies, procedures and processes are reviewed and updated by the SBG and SFG through a structured process of review to cater to changes in laws and regulations as well as changes to the business and operational environment. Furthermore, a review of the policies, procedures and processes are also carried out to ensure that appropriate controls are in place to manage operational risks.

There is clear procedure for investment appraisal including equity investment or divestment and capital expenditure.

- **Budgeting Process**

A detailed budgeting process is established requiring all key operating companies in the Group to prepare budgets and business plans annually for approval by the respective Boards. The Group's budget and business plans as well as strategic initiatives are discussed by the Group's senior management and the Board at an annual business planning and budgetary session.

A reporting system on actual performance against approved budgets is in place and significant variances are followed up by the Management and reported to the Boards.

- **Performance Review**

Regular and comprehensive information are shared by the Management for monitoring of their performance against the strategic business plan approved by the Board, covering all key financial and operational indicators as well as key strategic initiatives undertaken by the Group during the year.

The Central Management Committee and the Board receive and review the monthly accounts and financial information reports at their monthly or regular meetings.

- **Human Resource**

The Group acknowledges that one of the key constituents of any internal control system is its people and that our system of internal controls is dependent on the responsibility, integrity and judgement that people apply to their work.

Hence, the Group has in place policies and procedures that govern recruitment and appointment, performance management, talent management, succession planning, compensation and reward, learning and human capital development as well as policies and procedures that govern discipline, termination and dismissal.

The Group places much emphasis on human capital development and talent management with the objective of ensuring that staff of all levels are adequately trained both from a technical perspective as well as equipped with management and leadership capabilities.

- **Group Code of Ethics and Conduct**

The Group Code of Ethics and Conduct ("the Code") sets out the standards of good and ethical banking practices, and aims to maintain confidence in the security and integrity of the Group's business practices.

It is a requirement that all employees of the Group understand and observe the Code and sign the Employee Declaration of Compliance Form.

- **Suspicious Transaction Reporting and Whistle Blowing**

There is an established process for reporting anyone found to be abusing or circumventing the processes and controls of the Group. Everyone is given the opportunity to report via the Suspicious Transaction Report or Whistle-Blowing mechanism knowing that it shall be dealt with confidentially and that the reporter's identity is duly protected.

- **Anti-Money Laundering / Counter Financing of Terrorism (AML/CFT)**

An AML/CFT Program was drawn up and put in place to meet the regulatory requirements as well as to combat money laundering and financing of terrorism activities. All employees are expected to carry out their functions with the highest ethical and professional standards, in accordance with the AML/CFT Program and be continuously vigilant against the Bank being used as a vehicle to launder money or finance illegal activities including terrorist financing.

- **Incident Management Framework**

To complement the Group's system of internal controls, a comprehensive incident reporting and incident management framework has been implemented to ensure proper escalation and management of incidents that have occurred. The framework also ensures the necessary steps are taken to effectively mitigate any potential risks that may arise. This enables decision makers to be kept up to date on the situation and effectively manage risks and undertake informed decision making.

# Group Audit Committee Report

## ACTIVITIES OF THE GROUP AUDIT COMMITTEE AND THE INTERNAL AUDIT FUNCTION DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

### Group Audit Committee (“Group AC”) - Composition And Attendance Of Meetings

The Group AC presently comprises five (5) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2010 (“year”), a total of 23 Group AC meetings were held and details of attendance of each member at the Group AC meetings held during the year are as follows:-

Composition Of The Group AC	No. Of Meetings Attended Whilst In Office
1. Ong Seng Pheow (Chairman / Independent Non-Executive Director)	22 out of 23 meetings
2. Dato’ Othman Jusoh (Member / Independent Non-Executive Director)	23 out of 23 meetings
3. Patrick Chin Yoke Chung (Member / Independent Non-Executive Director)	22 out of 23 meetings
4. Tuan Haji Md Ja’far Abdul Carrim (Member / Independent Non-Executive Director)	23 out of 23 meetings
5. Dato’ Saw Choo Boon (Member / Independent Non-Executive Director) - Appointed as member on 20 May 2010	13 out of 13 meetings
6. Datuk Tan Kim Leong (Member / Independent Non-Executive Director) - Retired as member on 19 May 2010	10 out of 10 meetings



On 20 May 2010, Dato' Saw Choo Boon, an Independent Non-Executive Director, was appointed as a new member of the Group AC. Datuk Tan Kim Leong, an Independent Non-Executive Director, retired as a member of the Group AC on 19 May 2010.

The main activities undertaken by the 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 RHB Investment Bank Berhad 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 RHB Investment Bank Berhad and its subsidiaries;
- Reviewed the audit plan of the external auditors, the 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 for 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 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;
- Tabled the minutes of each Group AC meeting to the Board for notation, and for further direction by the Board, where necessary;
- Reviewed the appointment of an external Quality Assurance Review ("QAR") service provider to perform an independent QAR on the Internal Audit function of the Group; and
- Reviewed the results of the external QAR on the Internal Audit function of the Group conducted by the appointed service provider.

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

(a) Banking and Finance

- Financial Industry Conference 2010
- Updates On Malaysian Financial Reporting Standards
- Composite Risk Rating Issues
- Managing Risk In Mortgage Financing
- Islamic Banking And Finance Fundamentals: Shariah Framework And Governance
- State of Financial Services
- Understanding Of The Financial Reporting Standard 139 - Financial Instruments: Recognition And Measurement; and Revised Bank Negara Malaysia GP3: Classification And Impairment Provisions For Loans / Financing
- Goods And Services Tax

(b) Board and Corporate Governance

- Chairman's Forum 2010 - "Leading Championship Strategies"
- Managing Risk At Board Level
- The Results Of The Board Effectiveness Evaluation For Year Of Assessment 2009

## Group Audit Committee Report

### 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 Group AC. Its primary role is to assist the 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 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 the management and the 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 the 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.
2. To review the financial condition and performance of the Group.
3. To assist the Boards ("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.

#### DUTIES AND RESPONSIBILITIES

1. The Group Audit Committee ("the Committee") 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.

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 Committee 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.
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.
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.

## Group Audit Committee Report

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.
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 Committee 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 Committee 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 Committee.

3. The Committee shall have direct communication channels with the external and internal auditors.
4. The Committee 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 Committee 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 Committee. The Committee may invite the external auditors, the managing director / chief executive officer, the chief operating officer, the chief financial officer, any other directors or members of the management and employees of the Group to be in attendance during meetings to assist in its deliberations.
4. At least twice a year, the Committee 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 Committee 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 Committee and shall be responsible for drawing up the agenda with the concurrence of the Chairman and circulating it, supported by explanatory documentation, to Committee 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 Committee, their timely circulation to Committee members and other members of the Boards, and following up on outstanding matters in relation to the meetings.
7. The Chairman of the Committee shall provide reports to the respective Boards on the deliberations of the Committee 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 Committee at the Board meetings.
8. The minutes of each Committee meeting shall be tabled to the respective Boards. Thereafter, a copy of the minutes of the Committee 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.
4. No Committee 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 Committee. In addition, members of the Committee 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 Committee.
6. Disclosure of customers' information to the members of the Committee 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 Committee 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 Committee shall be financially literate and at least one member shall be a member of an accounting association or body.

## MEMBERSHIP

1. The membership of the Committee, including the position of Chairman shall be approved by the respective Boards based on the recommendation made by the Group Nominating Committee.
2. The Committee shall comprise at least three (3) members and there should be a fair representative on the Committee, from each entity within the Group. All members of the Committee should be non-executive directors with majority of whom are independent.
3. The Chairman of the Committee shall be an independent non-executive director.
9. Details of the activities of Committee, 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 Committee 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 Committee resigns or for any other reason ceases to be a member with the result that the number of members is reduced to below three (3), the 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 also include advising and structuring of bilateral lending, project financing, loans syndication and infrastructure financing. Their 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, both conventional and Islamic, for Malaysian and international issuers.

### EQUITY CAPITAL MARKETS

Equity Capital Markets (ECM) is a leading participant in the primary and secondary markets for equity and equity-linked products. ECM provides support in the origination and structuring of equity transactions such as initial public offerings, rights issues and private placements. ECM also manages 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 restructurings, mergers and acquisitions, takeovers, stock exchange listings, public offering of equity related 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. 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 its dual license holders, clients may also hedge their investments in the equity market.

## INVESTMENT ADVISORY

Investment Advisory is part of the private equity division of the Bank. It provides financial advisory services to the funds managed by the private equity division. Our private equity fund invests in companies in the growth or expansionary stage in a wide range of industries and sectors. The investment period is typically up to three years and out exits are through initial public offerings and/or trade sales.

## 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 deals.

## 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

Research 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 for the industry, economy and market conditions. Research also provides 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

Investment Management has the expertise and skill in managing a full range of investment instruments customized 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. Investment Management also distributes 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 sinking funds.



# Responsibility Statement by 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 Malaysian Accounting Standards Board approved accounting standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

It is the responsibility of the Directors to ensure that the financial reporting of the Group and of the Bank present a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2010 and of the financial results and cash flows of the Group and of the Bank for the financial year ended 31 December 2010.

The financial statements are prepared on the going concern basis and the Directors have ensured that proper accounting records are kept, applied the appropriate accounting policies on a consistent basis and made accounting estimates that are reasonable and fair so as to enable the preparation of the financial statements of the Group and of the Bank 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, whether due to fraud or error.

The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out in page 172 of the 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 2010.

## 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 Group is involved in 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, 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	89,506	80,444
Taxation	(22,271)	(20,831)
Net profit for the financial year	<u>67,235</u>	<u>59,613</u>

## DIVIDENDS

The dividends paid by the Bank since 31 December 2009 were as follows:

	RM'000
In respect of the financial year ended 31 December 2009:	
Final dividend of 55.60% less 25% income tax, paid on 17 June 2010	109,940
Special final dividend of 38.40% less 25% income tax, paid on 17 June 2010	75,930
	<u>185,870</u>

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year of 18.05% less 25% income tax amounting to RM35,700,094 and a special final dividend of 17.35% less 25% income tax amounting to RM34,297,919 will be proposed for shareholder's approval. These financial statements do not reflect these final dividends which will be accounted for in the shareholder's equity as an appropriation of retained profits in the financial year ending 31 December 2011 when approved by the shareholder.

## RESERVES AND PROVISIONS

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

## ISSUE OF SHARES

There were no issue of shares in the Bank during the financial year.

## 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 that 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 as and 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 or inappropriate.

## 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 other than the change in accounting policies as disclosed in Note 42 to the financial statements.

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 43 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)

Tan Sri Azlan Zainol

Arul Kanda Kandasamy

Dato' Mohamed Khadar Merican

Akira Miyama

Lew Foon Keong

Patrick Chin Yoke Chung

Dato' Saw Choo Boon

(Appointed on 1 April 2010)

Abdul Aziz Peru Mohamed

(Appointed on 7 February 2011)

Chay Wai Leong (Managing Director)

Datuk Tan Kim Leong

(Retired on 10 May 2010)

Pursuant to Article 93 of the Bank's Articles of Association, Tan Sri Azlan Zainol, Dato' Mohamed Khadar Merican and Chay Wai Leong 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, Abdul Aziz Peru Mohamed retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

Pursuant to Section 129 of the Companies Act 1965, Dato Abdullah Mat Noh retires at the forthcoming Annual General Meeting and does not wish to offer himself for re-election.

## Directors' Report (continued)

### DIRECTORS' INTERESTS IN SECURITIES

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

Holding Company	Number of ordinary shares of RM1 each			As at 31.12.2010
	As at 1.1.2010	Bought	Sold	
<b>RHB Capital Berhad</b>				
Dato' Mohamed Khadar Merican – Direct	59,770	–	–	59,770
Arul Kanda Kandasamy – Direct	12,000	–	–	12,000

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

### DIRECTORS' BENEFITS

Since the end of the previous financial year, no director of the Bank has received or become entitled to receive any benefit (other than directors' remuneration and benefits-in-kind 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.

### 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 Malaysian Accounting Standards Board approved accounting standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

It is the responsibility of the directors to ensure that the financial reporting of the Group and of the Bank present a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2010 and of the financial results and cash flows of the Group and of the Bank for the financial year ended 31 December 2010.

## Directors' Report (continued)

### RESPONSIBILITY STATEMENT BY THE BOARD OF DIRECTORS (CONTINUED)

The financial statements are prepared on the going concern basis and the directors have ensured that proper accounting records are kept, applied the appropriate accounting policies on a consistent basis and made accounting estimates that are reasonable and fair so as to enable the preparation of the financial statements of the Group and of the Bank 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, whether due to fraud or error.

The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out in page 172 of the financial statements.

### CORPORATE GOVERNANCE STATEMENT

#### Introduction

The Board of Directors ('Board') of RHB Investment Bank Berhad ('RHB Investment Bank' or 'the Investment 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 Statement 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 ten (10) members, comprising an Independent Non-Executive Chairman, three (3) 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
Tan Sri Azlan Zainol	Non-Independent Non-Executive Director
Arul Kanda Kandasamy	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
Patrick Chin Yoke Chung	Independent Non-Executive Director
Dato' Saw Choo Boon	Independent Non-Executive Director
Abdul Aziz Peru Mohamed	Independent Non-Executive Director
Chay Wai Leong	Managing Director

Datuk Tan Kim Leong retired as an Independent Non-Executive Director on 10 May 2010.

Dato' Saw Choo Boon was appointed as an Independent Non-Executive Director on 1 April 2010.

Abdul Aziz Peru Mohamed was appointed as an Independent Non-Executive Director on 7 February 2011.

## Directors' Report (continued)

### CORPORATE GOVERNANCE STATEMENT (CONTINUED)

#### (A) BOARD OF DIRECTORS (CONTINUED)

##### Duties and responsibilities of the Board

The Board is responsible for governing the administration of the Investment Bank and for exercising all such powers pursuant to the Articles of Association of the Investment Bank. In general, the Board is also responsible for:

- providing strategic leadership to the Investment Bank and the Group;
- reviewing, approving and monitoring the implementation of the Investment Bank and the Group's strategic business plans and policies;
- ensuring the Investment Bank and the Group maintain an effective system of internal controls and is able to identify and manage principal risks resulting in efficiency in operations and a stable financial environment;
- acting as a guardian of the Investment Bank's and the Group's corporate values and ethical principles in parallel with the goal to enhance shareholder's value;
- monitoring as well as evaluating the performance of the Management to ensure that the performance criteria remains dynamic; and
- ensuring the formulation of a succession plan for the Investment Bank and the Group for long-term business continuity.

The day-to-day management of the Investment Bank is delegated to the Managing Director ('MD') who is responsible in managing the business and operations of the Investment Bank and in ensuring the successful implementation of policies and directions as formulated by the Board. The distinct and separate duties and responsibilities of the MD and the Chairman ensure a balance of power and authority in relation to the establishment of a fully effective Board.

The MD is also the Director of Corporate and Investment Banking, one of the Strategic Business Groups ('SBGs') within the RHB Banking Group, and a member of the Central Management Committee ('CMC').

In carrying out these tasks, the Group is supported by the CMC, which comprises key Management members of the Group including the MD of the Investment Bank. The CMC is governed by its terms of reference and has several objectives, which include the following:

- to provide strategic guidance to the SBGs and Strategic Functional Groups ('SFGs');
- to recommend key strategic business plans and policies to the Board of the holding company and other entities within the Group ; and
- to assist the Board of the holding company and other entities within the Group to review the performance and business efficiency of the Group.

## Directors' Report (continued)

### CORPORATE GOVERNANCE STATEMENT (CONTINUED)

#### (A) BOARD OF DIRECTORS (CONTINUED)

##### Board Meetings

The Board meets on a monthly basis. Special meetings are 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 meeting dates to allow the Members of the Board to digest the issues at hand, seek clarification from the Management, if required and formulate opinions on matters to be deliberated at the meetings. In line with 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 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. This practice also applies for the rest of the entities of the Group. The Board also reviews regular management reports and information on corporate and business issues to assess 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 urgency prevails and if appropriate, decisions are also taken by way of Directors' Circular Resolution in accordance with the Investment Bank's Articles of Association.

The Board is able to seek clarifications and advice as well as request for information on matters pertaining to the Investment Bank and the Group from the Senior Management and the Company Secretary. Should the need arise, the directors may also seek independent professional advice, at the Investment Bank's expense, when deemed necessary for the proper discharge of their duties.

The Group has in place a "Standard Procedures for Directors to Have Access to Independent Advice" which lays down the procedures for directors seeking internal and/or external professional independent advice.



## Directors' Report (continued)

### CORPORATE GOVERNANCE STATEMENT (CONTINUED)

#### (A) BOARD OF DIRECTORS (CONTINUED)

##### Board Meetings (continued)

The Board convened twelve (12) meetings for the financial year ended 31 December 2010. 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	11/12	92
Tan Sri Azlan Zainol	11/12	92
Arul Kanda Kandasamy	12/12	100
Dato' Mohamed Khadar Merican	10/12	83
Lew Foon Keong	12/12	100
Akira Miyama	12/12	100
Patrick Chin Yoke Chung	12/12	100
Dato' Saw Choo Boon <sup>(1)*</sup>	9/9	100
Chay Wai Leong (MD)	12/12	100
<b>Previous Director:</b>		
Datuk Tan Kim Leong <sup>(2)^</sup>	4/4	100

##### Notes:

<sup>(1)</sup> Appointed on 1 April 2010

<sup>(2)</sup> Retired on 10 May 2010

\* Based on the number of meetings attended since his appointment in 2010

^ Based on the number of meetings attended during his tenure of appointment in 2010

Pursuant to the Revised BNM/GP1, individual directors must attend at least 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.

## Directors' Report (continued)

### CORPORATE GOVERNANCE STATEMENT (CONTINUED)

#### (A) BOARD OF DIRECTORS (CONTINUED)

##### BOARD COMMITTEES

The Group Audit Committee ('Group AC') comprises five (5) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2010, a total of twenty three (23) meetings were held and the details of attendance of each member at the Group AC Meetings held during the financial year ended 31 December 2010 are as follows:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Ong Seng Pheow (Chairman)	22/23	96
Dato' Othman Jusoh	23/23	100
Patrick Chin Yoke Chung	22/23	96
Haji Md Ja'far Abdul Carrim	23/23	100
Dato' Saw Choo Boon <sup>(1)*</sup>	13/13	100

##### Previous Member:

Datuk Tan Kim Leong <sup>(2)^</sup>	10/10	100
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##### Notes:

<sup>(1)</sup> Appointed as a member on 20 May 2010

<sup>(2)</sup> Retired on 19 May 2010

\* Based on the number of meetings attended since his appointment as a member in 2010

^ Based on the number of meetings attended during his tenure of appointment in 2010

The Group AC meets regularly to provide independent oversight over the management of the financial reporting and internal control system and ensure checks and balances for the relevant entities within RHB Banking Group. The Management, Head of Central Finance, group 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 twice a year.

## Directors' Report (continued)

### CORPORATE GOVERNANCE STATEMENT (CONTINUED)

#### (A) BOARD OF DIRECTORS (CONTINUED)

##### Group Nominating Committee

The Group Nominating Committee ('Group NC') presently comprises four (4) Independent Non-Executive Directors of whom one (1) is the Chairman, and one (1) Non-Independent Non-Executive Director. During the financial year ended 31 December 2010, a total of six (6) meetings were held and the details of attendance of each member at the Group NC Meetings held during the financial year ended 31 December 2010 are as follows:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Datuk Haji Faisal Siraj (Chairman)	6/6	100
Johari Abdul Muid	5/6	83
Dato' Mohamed Khadar Merican	6/6	100
Dato' Saw Choo Boon <sup>(1)*</sup>	3/3	100
Dato' Teo Chiang Liang <sup>(2)*</sup>	2/2	100
<b>Previous Member:</b>		
Tan Sri Azlan Zainol <sup>(3)^</sup>	4/4	100
Datuk Tan Kim Leong <sup>(4)^</sup>	3/3	100

##### Notes:

<sup>(1)</sup> Appointed as a member on 20 May 2010

<sup>(2)</sup> Appointed as a member on 2 August 2010

<sup>(3)</sup> Relinquished membership on 1 August 2010

<sup>(4)</sup> Retired on 19 May 2010

\* Based on the number of meetings attended since his appointment as a member in 2010

^ Based on the number of meetings attended during his tenure of appointment in 2010

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 Shari'ah 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 efficiently and effectively.

As a tool in assisting the Group NC in its yearly assessment on the effectiveness of an individual director within the Group, the Investment 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.

## Directors' Report (continued)

### CORPORATE GOVERNANCE STATEMENT (CONTINUED)

#### (A) BOARD OF DIRECTORS (CONTINUED)

##### Group Remuneration and Human Resource Committee

The Group Remuneration and Human Resource Committee ("Group RHRC") presently comprises four (4) Independent Non-Executive Directors of whom one (1) is the Chairman, and one (1) Non-Independent Non-Executive Director. During the financial year ended 31 December 2010, a total of ten (10) meetings were held and the details of attendance of each member at the Group RHRC Meetings held during the financial year ended 31 December 2010 are as follows:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Datuk Haji Faisal Siraj (Chairman) <sup>(1)</sup>	10/10	100
Johari Abdul Muid	9/10	90
Dato' Mohamed Khadar Merican	10/10	100
Dato' Saw Choo Boon <sup>(2)*</sup>	6/6	100
Dato' Teo Chiang Liang <sup>(3)*</sup>	4/4	100
<b>Previous Member:</b>		
Tan Sri Azlan Zainol <sup>(4)^</sup>	6/6	100
Datuk Tan Kim Leong <sup>(5)^</sup>	4/4	100

##### Notes:

<sup>(1)</sup> Appointed as the Chairman on 20 May 2010

<sup>(2)</sup> Appointed as a member on 20 May 2010

<sup>(3)</sup> Appointed as a member on 2 August 2010

<sup>(4)</sup> Relinquished membership on 1 August 2010

<sup>(5)</sup> Retired on 19 May 2010

\* Based on the number of meetings attended since his appointment as a member in 2010

^ Based on the number of meetings attended during his tenure of appointment in 2010

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

## Directors' Report (continued)

### CORPORATE GOVERNANCE STATEMENT (CONTINUED)

#### (A) BOARD OF DIRECTORS (CONTINUED)

##### Group Risk Management Committee

The Group Risk Management Committee ('Group RMC') presently comprises four (4) Independent Non-Executive Directors of whom one (1) is the Chairman, and one (1) Non-Independent Non-Executive Director. During the financial year ended 31 December 2010, a total of fifteen (15) meetings were held and the details of attendance of each member at the Group RMC Meetings held during the financial year ended 31 December 2010 are as follows:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Haji Khairuddin Ahmad (Chairman)	15/15	100
Patrick Chin Yoke Chung	15/15	100
Johari Abdul Muid	12/15	80
Haji Md Ja'far Abdul Carrim	15/15	100
Choong Tuck Oon <sup>(1)*</sup>	10/10	100
<b>Previous Member:</b>		
Datuk Tan Kim Leong <sup>(2)^</sup>	4/5	80

##### Notes:

<sup>(1)</sup> Appointed as a member on 20 May 2010

<sup>(2)</sup> Retired on 19 May 2010

\* Based on the number of meetings attended since his appointment as a member in 2010

^ Based on the number of meetings attended during his tenure of appointment in 2010

The Group RMC provides in-depth governance of risks for each of the key operating subsidiaries as formerly 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)

##### Group Credit Committee

The Group Credit Committee ('GCC') comprises 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 2010, a total of thirty two (32) meetings were held and the details of attendance of each member at the GCC Meetings held during the financial year ended 31 December 2010 are as follows:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Dato Abdullah Mat Noh (Chairman)	30/32	94
Johari Abdul Muid	27/32	84
Dato' Mohamed Khadar Merican	26/32	81
Haji Khairuddin Ahmad	32/32	100

The GCC's main functions are affirming, imposing additional covenants or vetoing credits of RHB Banking Group which were duly approved by the Central Credit Committee.

##### Group Recovery Committee

The Group Recovery Committee ('GRC') comprises four (4) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2010, a total of twenty three (23) meetings were held and the details of attendance of each member at the GRC Meetings held during the financial year ended 31 December 2010 are as follows:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Haji Khairuddin Ahmad (Chairman)	23/23	100
Dato' Mohamed Khadar Merican	17/23	74
Dato Abdullah Mat Noh	20/23	87
Dato' Teo Chiang Liang <sup>(1)*</sup>	14/15	93

##### Previous Member:

Tan Sri Azlan Zainol <sup>(2)^</sup>	11/13	85
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##### Notes:

<sup>(1)</sup> Appointed as a member on 20 May 2010

<sup>(2)</sup> Relinquished membership on 1 August 2010

\* Based on the number of meetings attended since his appointment as a member in 2010

^ Based on the number of meetings attended during his tenure of appointment in 2010

The GRC's main functions are to oversee the management of non-performing loans/non-performing accounts ('NPL/NPA') and high risk accounts of RHB Banking Group as well as affirming, imposing additional covenants or vetoing credits under NPL/NPA from Credit Recovery for amounts above the defined thresholds of the Central Credit Committee.

## Directors' Report (continued)

### CORPORATE GOVERNANCE STATEMENT (CONTINUED)

#### (A) BOARD OF DIRECTORS (CONTINUED)

##### Group IT & Transformation Strategy Committee

The Group IT & Transformation Strategy Committee ('GI&TSC') comprises three (3) Independent Non-Executive Directors of whom one (1) is the Chairman, a Non-Independent Non-Executive Director and the Group Managing Director.

The principal responsibility of the GI&TSC is to provide guidance on the Group's planning and/or execution of programmes and initiatives within the realm of information technology and transformation management.

#### (B) RISK MANAGEMENT FRAMEWORK

The RHB Banking Group ('the Group') has put in place a Group Risk Management Framework which governs the management of various types 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 organisation;
- (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 Investment 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.

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.

In addition, the 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 Investment 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 40 to the financial statements.

## Directors' Report (continued)

### CORPORATE GOVERNANCE STATEMENT (CONTINUED)

#### (C) GROUP 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 ('RHB Bank'). 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 Investment 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 Investment 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 Investment Bank's strategic business group and operating subsidiaries and are reviewed and approved by the Board. The performance of business group and operating subsidiaries are assessed and monitored against the approved budget and any significant variances are explained to the Board.

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 Investment Bank and changes on regulatory requirements, are also tabled for the Board's notation.



## Directors' Report (continued)

### IMMEDIATE AND ULTIMATE HOLDING COMPANY/BODY

The directors regard RHB Capital Berhad, a company incorporated in Malaysia, as the holding company.

The Employees Provident Fund Board ('EPF'), a statutory body established in Malaysia, ceased to be the ultimate holding body with effect from 3 December 2010.

### BUSINESS REVIEW FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

In 2010, RHB Investment Bank Berhad ('RHB Investment Bank') retained its leading market position in the Malaysian capital markets, particularly in mergers & acquisitions ('M&A') and equity capital markets activities. RHB Investment Bank ended the year by emerging 1st in the Bloomberg league tables for M&A and Rights Issue with the highest market share.

RHB Investment Bank notably enhanced its market presence by undertaking some of the country's landmark M&A deals in 2010 including advising the RM23 billion proposed acquisition of PLUS Expressways Berhad (largest M&A in Malaysia and Asia-Pacific), the RM9.52 billion privatization of Astro All Asia Network Plc and the RM7.89 billion privatisation of Tanjong Plc. RHB Investment Bank was accorded the coveted "Malaysia's Best M&A House" award from The Asset and the privatization of Tanjong Plc won The Edge Malaysia's "Best M&A Deal of the Year".

In the equity capital markets, RHB Investment Bank was the Sole Financial Adviser in the largest REIT IPO in Malaysia 2010 – the RM1.5 billion listing of Sunway REIT. This deal was awarded Alpha SEA's "Best REIT Deal of the Year in South East Asia". We were also involved in the 5 biggest Rights Issues in Malaysia's corporate history for Axiata, Maybank, Malaysia Airlines, MRCB and MISC Berhad that collectively raised more than RM20 billion.

RHB Investment Bank also completed a notable Islamic debt capital market deal in 2010 raising RM1 billion for Cagamas Berhad under its Sukuk ALIm Programme. This deal is a novel structure in the sukuk market that was innovatively designed to meet the more conservative Shari'ah requirements and is fully tradable in the secondary market. This deal won IFR Asia's "Best Islamic Deal of the Year" and Islamic Finance News' "Malaysia Deal of the Year".

In securities broking, RHB Investment Bank was the first local broker to provide Direct Market Access ('DMA') for the equities market in Malaysia that allows investors to place orders directly on Bursa Malaysia. In November 2010, RHB Investment Bank commenced implementation of seamless Multi-Market Trading Platform that offers foreign market trading in 6 markets (Singapore, Hong Kong, Australia and USA) via its RHB Invest online trading platform.

The market continues to value the research views given by our subsidiary RHB Research Institute Sdn Bhd. Our analysts won 1st place in "Best Construction Call" (The Edge Malaysia), "Best Media Call" (The Financial Times & Starmine Analyst Awards) and "Best Analyst Award – Energy" (The Edge & Starmine Analyst Awards). RHB Research also ranked 1st in The Edge & Starmine Broker Ranking Awards for "FTSE Bursa Malaysia 30 Index – Recommendations".

## Directors' Report (continued)

### BUSINESS STRATEGY AND PROSPECTS 2011

The recovery in the domestic economy is expected to remain robust, with the potential for relatively strong growth to be sustained. The domestic economy has demonstrated resilience, showing a steady growth path to recovery. Amid the favourable growth prospects, the Banking sector is expected to face new business trends due to further normalisation in monetary policy and a shift to debt market.

The capital market activities will continue to be active in the coming year as the Government has launched investments under the Economic Transformation Programme (ETP) with the award of large-scale infrastructure projects. Bonds and equity issuances are expected to increase to finance Entry Point Projects (EPP) identified by the government and more mergers and acquisition in certain selected sector are expected.

The Group will continue to compete successfully in an increasingly competitive and liberalised environment and maintain a satisfactory performance in 2011.

### RATINGS BY RATING AGENCY

On November 2010, RAM Rating Services Berhad ('RAM') has reaffirmed the Bank's long term financial institution rating of AA2 and the short term financial institution rating of P1.

#### Long-term financial institution rating

AA A financial institution rated 'AA' has a strong capacity to meet its financial obligations. The financial institution is resilient against adverse changes in circumstances, economic conditions and/or operating environments.

For long-term financial institution 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.

#### Short-term financial institution rating

P1 A financial institution rated 'P1' has a strong capacity to meet its short-term financial obligations. This is the highest short-term financial institution rating assigned by RAM Ratings.

## Directors' Report (continued)

### 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

**CHAY WAI LEONG**  
MANAGING DIRECTOR

Kuala Lumpur  
28 February 2011

# Statements Of Financial Position

As At 31 December 2010

	Note	Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>ASSETS</b>					
Cash and short-term funds	2	1,907,199	1,449,186	1,841,694	1,409,767
Deposits and placements with banks and other financial institutions	3	250,275	360,120	250,275	360,120
Financial assets held-for-trading	4	350,330	677,852	350,330	675,493
Financial investments available-for-sale	5	3,272,231	2,449,706	3,257,686	2,448,485
Financial investments held-to-maturity	6	184,918	206,241	184,918	206,241
Loans and advances	7	49,891	60,158	49,891	60,158
Clients' and brokers' balances	8	421,127	249,667	421,127	249,667
Other assets	9	29,099	64,880	17,277	55,409
Derivative assets	10	19,094	25,870	19,094	25,870
Tax recoverable		8,542	1,102	8,516	168
Deferred tax assets	11	776	5,974	–	5,466
Statutory deposit with Bank Negara Malaysia	12	33,250	27,291	33,250	27,291
Investments in subsidiaries	13	–	–	84,970	58,270
Investment in a joint venture	14	25,044	25,976	27,399	27,399
Property, plant and equipment	15	14,075	12,763	12,334	10,857
Goodwill	16	172,844	172,844	159,280	159,280
<b>TOTAL ASSETS</b>		<b>6,738,695</b>	<b>5,789,630</b>	<b>6,718,041</b>	<b>5,779,941</b>
<b>LIABILITIES AND EQUITY</b>					
Deposits from customers	17	2,646,421	3,219,748	2,646,421	3,219,748
Deposits and placements of banks and other financial institutions	18	2,485,881	1,085,570	2,485,881	1,085,570
Clients' and brokers' balances	19	610,360	401,857	610,360	401,857
Other liabilities	20	73,722	58,289	60,052	50,322
Derivative liabilities	10	20,144	34,764	20,144	34,764
Taxation		2,033	1,916	–	–
Deferred tax liabilities	11	2,251	–	2,251	–
Subordinated obligations	21	246,127	245,000	246,127	245,000
<b>TOTAL LIABILITIES</b>		<b>6,086,939</b>	<b>5,047,144</b>	<b>6,071,236</b>	<b>5,037,261</b>
Share capital	22	263,646	263,646	263,646	263,646
Reserves	23	388,110	478,840	383,159	479,034
<b>TOTAL EQUITY</b>		<b>651,756</b>	<b>742,486</b>	<b>646,805</b>	<b>742,680</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>6,738,695</b>	<b>5,789,630</b>	<b>6,718,041</b>	<b>5,779,941</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	36	<b>2,289,842</b>	<b>3,188,262</b>	<b>2,289,842</b>	<b>3,188,262</b>

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

# Income Statements

For The Financial Year Ended 31 December 2010

	Note	Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Interest income	24	<b>209,039</b>	251,496	<b>208,289</b>	250,870
Interest expense	25	<b>(154,325)</b>	(148,175)	<b>(154,325)</b>	(148,175)
Net interest income		<b>54,714</b>	103,321	<b>53,964</b>	102,695
Other operating income	26	<b>234,793</b>	183,701	<b>202,943</b>	155,867
		<b>289,507</b>	287,022	<b>256,907</b>	258,562
Other operating expenses	27	<b>(158,758)</b>	(136,325)	<b>(134,910)</b>	(110,903)
Operating profit before allowances		<b>130,749</b>	150,697	<b>121,997</b>	147,659
Write-back of allowance for impairment on loans, advances and other losses	29	<b>332</b>	9,311	<b>332</b>	9,311
Impairment losses on financial investments	30	<b>(42,367)</b>	(7,415)	<b>(41,885)</b>	(6,247)
		<b>88,714</b>	152,593	<b>80,444</b>	150,723
Share of results of a joint venture	14	<b>792</b>	420	-	-
Profit before taxation		<b>89,506</b>	153,013	<b>80,444</b>	150,723
Taxation	31	<b>(22,271)</b>	(39,770)	<b>(20,831)</b>	(39,145)
Net profit for the financial year		<b>67,235</b>	113,243	<b>59,613</b>	111,578
Earnings per share (sen)					
- Basic	32	<b>25.5</b>	43.0	<b>22.6</b>	42.3

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

# Statements Of Comprehensive Income

For The Financial Year Ended 31 December 2010

	Note	Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Net profit for the financial year		<b>67,235</b>	113,243	<b>59,613</b>	111,578
Other comprehensive income/(loss):					
Currency translation differences		<b>(2,477)</b>	(935)	-	-
Financial investments available-for-sale ('AFS')					
– Unrealised net gain/(loss) on revaluation		<b>68,821</b>	(22,526)	<b>68,821</b>	(22,526)
– Net transfer to income statements on disposal or impairment		<b>(40,304)</b>	(14,027)	<b>(40,304)</b>	(14,027)
Income tax relating to components of other comprehensive income	33	<b>(7,129)</b>	9,138	<b>(7,129)</b>	9,138
Other comprehensive income/(loss) for the financial year, net of tax		<b>18,911</b>	(28,350)	<b>21,388</b>	(27,415)
Total comprehensive income for the financial year		<b>86,146</b>	84,893	<b>81,001</b>	84,163

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 2010

	Note	Share capital RM'000	Statutory reserve RM'000	AFS reserve RM'000	Translation reserve RM'000	Retained profits RM'000	Total RM'000
<b>Group</b>							
Balance as at 1 January 2010							
– As previously stated		263,646	278,549	(19,684)	(2,477)	222,452	742,486
– Effect of adoption of FRS 139	42	–	–	8,994	–	–	8,994
– As restated		263,646	278,549	(10,690)	(2,477)	222,452	751,480
Net profit for the financial year		–	–	–	–	67,235	67,235
Other comprehensive income/ (loss) for the financial year:							
Currency translation differences		–	–	–	(2,477)	–	(2,477)
Financial investments AFS							
– Unrealised net gain on revaluation		–	–	68,821	–	–	68,821
– Net transfer to income statements on disposal or impairment		–	–	(40,304)	–	–	(40,304)
Income tax relating to components of other comprehensive income	33	–	–	(7,129)	–	–	(7,129)
Total comprehensive income/ (loss) for the financial year		–	–	21,388	(2,477)	67,235	86,146
Ordinary dividends	34	–	–	–	–	(185,870)	(185,870)
<b>Balance as at 31 December 2010</b>		<b>263,646</b>	<b>278,549</b>	<b>10,698</b>	<b>(4,954)</b>	<b>103,817</b>	<b>651,756</b>
Balance as at 1 January 2009		263,646	278,549	7,731	(1,542)	169,716	718,100
Net profit for the financial year		–	–	–	–	113,243	113,243
Other comprehensive income/ (loss) for the financial year:							
Currency translation differences		–	–	–	(935)	–	(935)
Financial investments AFS							
– Unrealised net loss on revaluation		–	–	(22,526)	–	–	(22,526)
– Net transfer to income statements on disposal or impairment		–	–	(14,027)	–	–	(14,027)
Income tax relating to components of other comprehensive income	33	–	–	9,138	–	–	9,138
Total comprehensive (loss)/ income for the financial year		–	–	(27,415)	(935)	113,243	84,893
Ordinary dividends	34	–	–	–	–	(60,507)	(60,507)
Balance as at 31 December 2009		263,646	278,549	(19,684)	(2,477)	222,452	742,486

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 2010 (continued)

	Note	← Non-distributable →			Distributable	Total RM'000
		Share capital RM'000	Statutory reserve RM'000	AFS reserve RM'000	Retained profits RM'000	
<b>Bank</b>						
Balance as at 1 January 2010						
-As previously stated		263,646	278,549	(19,684)	220,169	742,680
-Effect of adoption of FRS 139	42	-	-	8,994	-	8,994
-As restated		<u>263,646</u>	<u>278,549</u>	<u>(10,690)</u>	<u>220,169</u>	<u>751,674</u>
Net profit for the financial year		-	-	-	59,613	59,613
Other comprehensive income/ (loss) for the financial year:						
Financial investments AFS						
- Unrealised net gain on revaluation		-	-	68,821	-	68,821
- Net transfer to income statements on disposal or impairment		-	-	(40,304)	-	(40,304)
Income tax relating to components of other comprehensive income	33	-	-	(7,129)	-	(7,129)
Total comprehensive income for the financial year		-	-	21,388	59,613	81,001
Ordinary dividends	34	-	-	-	(185,870)	(185,870)
<b>Balance as at 31 December 2010</b>		<u>263,646</u>	<u>278,549</u>	<u>10,698</u>	<u>93,912</u>	<u>646,805</u>
Balance as at 1 January 2009		263,646	278,549	7,731	169,098	719,024
Net profit for the financial year		-	-	-	111,578	111,578
Other comprehensive income/ (loss) for the financial year:						
Financial investments AFS						
- Unrealised net loss on revaluation		-	-	(22,526)	-	(22,526)
- Net transfer to income statements on disposal or impairment		-	-	(14,027)	-	(14,027)
Income tax relating to components of other comprehensive income	33	-	-	9,138	-	9,138
Total comprehensive (loss)/ income for the financial year		-	-	(27,415)	111,578	84,163
Ordinary dividends	34	-	-	-	(60,507)	(60,507)
Balance as at 31 December 2009		<u>263,646</u>	<u>278,549</u>	<u>(19,684)</u>	<u>220,169</u>	<u>742,680</u>

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



# Statements Of Cash Flows

For The Financial Year Ended 31 December 2010

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before taxation	<b>89,506</b>	153,013	<b>80,444</b>	150,723
Adjustments for:				
Allowance for impairment on loans and advances	<b>(365)</b>	(8,696)	<b>(365)</b>	(8,696)
Allowance written back/(made) for impairment on other losses	<b>46</b>	(234)	<b>46</b>	(234)
Property, plant and equipment				
– Depreciation	<b>5,569</b>	5,299	<b>4,984</b>	4,514
– Gain on transfer/disposal	<b>(76)</b>	(40)	<b>(3)</b>	(3)
Impairment losses on financial investments	<b>42,367</b>	7,415	<b>41,885</b>	6,247
Bad debts written off	<b>45</b>	–	<b>45</b>	–
Interest suspended	<b>–</b>	38	<b>–</b>	38
Interest income from				
– Financial investments held-to-maturity	<b>(6,086)</b>	(9,911)	<b>(6,086)</b>	(9,911)
– Financial investments available-for-sale	<b>(124,012)</b>	(129,886)	<b>(124,010)</b>	(129,871)
Gain from early redemption/sales of:				
– Financial investments held-to-maturity	<b>(2,600)</b>	(7,101)	<b>(2,600)</b>	(7,101)
– Financial investments available-for-sale	<b>(40,304)</b>	(14,027)	<b>(40,304)</b>	(14,027)
Gross dividend income	<b>(254)</b>	(214)	<b>(226)</b>	(173)
Share of results of a joint venture	<b>(792)</b>	(420)	<b>–</b>	–
Unrealised loss/(gain) on revaluation of:				
– Financial assets held-for-trading	<b>643</b>	4,383	<b>717</b>	6,413
– Derivatives	<b>(7,843)</b>	(2,858)	<b>(7,843)</b>	(2,858)
Operating loss before working capital changes	<b>(44,156)</b>	(3,239)	<b>(53,316)</b>	(4,939)

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

## Statements Of Cash Flows

For The Financial Year Ended 31 December 2010 (continued)

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)</b>				
(Increase)/decrease in operating assets:				
Deposits and placements with banks and other financial institutions	109,845	(360,000)	109,845	(360,000)
Financial assets held-for-trading	326,879	812,073	324,446	808,936
Loans and advances	10,587	416,744	10,587	416,744
Clients' and brokers' balances	(171,013)	(73,613)	(171,013)	(73,613)
Other assets	53,050	16,509	57,877	17,952
Derivative assets	6,776	24,668	6,776	24,668
Statutory deposit with Bank Negara Malaysia	(5,959)	30,945	(5,959)	30,945
Increase/(decrease) in operating liabilities:				
Deposits from customers	(573,327)	113,261	(573,327)	113,261
Deposits and placements of banks and other financial institutions	1,400,311	(1,233,388)	1,400,311	(1,233,388)
Clients' and brokers' balances	208,503	112,804	208,503	112,804
Other liabilities	16,560	(10,409)	10,857	(9,835)
Derivative liabilities	(14,620)	(27,527)	(14,620)	(27,527)
Cash generated from/(used in) operations	1,323,436	(181,172)	1,310,967	(183,992)
Taxation paid	(32,590)	(30,392)	(31,589)	(29,608)
Taxation recovered	318	17,712	-	17,709
Net cash generated from/(used in) operating activities	1,291,164	(193,852)	1,279,378	(195,891)

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

## Statements Of Cash Flows

For The Financial Year Ended 31 December 2010 (continued)

	Note	Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of financial investments held-to-maturity (net)		8,533	23,966	8,533	23,966
(Purchase)/sale of financial investments available-for-sale (net)		(768,690)	203,570	(754,883)	203,526
Interest received from financial investments held-to-maturity		6,143	9,937	6,143	9,937
Interest received from financial investments available-for-sale		111,560	117,451	111,558	117,436
Property, plant and equipment:					
– Purchase		(6,883)	(6,867)	(6,463)	(6,284)
– Proceeds from transfer/disposal		78	42	5	6
Dividend income received		254	208	226	167
Increase in investments in a subsidiary		–	–	(26,700)	–
Net cash (used in)/generated from investing activities		(649,005)	348,307	(661,581)	348,754
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Dividends paid to shareholder		(185,870)	(60,507)	(185,870)	(60,507)
Net cash used in financing activities		(185,870)	(60,507)	(185,870)	(60,507)
Net increase in cash and short-term funds		456,289	93,948	431,927	92,356
Cash and cash equivalents at beginning of the financial year		1,449,186	1,354,445	1,409,767	1,317,411
Effect of currency translation		1,724	793	–	–
Cash and cash equivalents at end of the financial year		1,907,199	1,449,186	1,841,694	1,409,767
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS:</b>					
Clients trust account		243,710	170,095	243,710	170,095
Cash and short-term funds with banks and other financial institutions		1,663,489	1,279,091	1,597,984	1,239,672
Cash and short-term funds	2	1,907,199	1,449,186	1,841,694	1,409,767

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 2010

## 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, unless otherwise stated.

### 1 Basis of preparation of the financial statements

The financial statements of the Group and the Bank have been prepared 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 financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with Financial Reporting Standards 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 and judgement 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 or complexity are disclosed in Section (B).

#### (a) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank and are effective

The new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Group and Bank's financial year beginning on or after 1 January 2010 are as follows:

- FRS 7 "Financial Instruments: Disclosures" and the related amendments
- FRS 101 (revised) "Presentation of Financial Statements"
- FRS 139 "Financial Instruments: Recognition and Measurement" and the related amendment
- Amendment to FRS 1 "First-time Adoption of Financial Reporting Standards" and FRS 127 "Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"
- Amendments to FRS 132 "Financial Instruments: Presentation" and FRS 101 (revised) "Presentation of Financial Statements" - Puttable financial instruments and obligations arising on liquidation
- IC Interpretation 9 "Reassessment of Embedded Derivatives" and the related amendments
- IC Interpretation 10 "Interim Financial Reporting and Impairment"
- IC Interpretation 14 "FRS 119 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction"
- Improvements to FRSs (2009)

A summary of the impact of the new accounting standards, amendments and improvements to published standards and interpretations on the financial statements of the Group and the Bank is set out in Note 42.

# Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (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 applicable to the Group and the Bank but not yet effective

The Group and the Bank will apply the following new standards, amendments to standards and interpretations from annual period beginning on 1 January 2011 or later periods:

- The revised FRS 3 "Business Combinations" (effective prospectively from 1 July 2010) continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.
- The revised FRS 124 "Related Party Disclosures" (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:
  - The name of the government and the nature of their relationship;
  - The nature and amount of each individually significant transactions; and
  - The extent of any collectively significant transactions, qualitatively or quantitatively.
- The revised FRS 127 "Consolidated and Separate Financial Statements" (applies prospectively to transactions with non-controlling interests from 1 July 2010) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. When this standard is effective, all earnings and losses of the subsidiary are attributed to the parent and the non-controlling interest, even if the attribution of losses to the non-controlling interest results in a debit balance in the shareholders' equity. Profit or loss attribution to non-controlling interests for prior years is not restated. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.
- Amendments to FRS 7 "Financial instruments: Disclosures" and FRS 1 "First-time Adoption of Financial Reporting Standards" (effective from 1 January 2011) requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

The Group and the Bank have applied the transitional provision which exempts entities from disclosing the possible impact arising from the initial application of this amendment on the financial statements of the Group and the Bank.

## Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (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 applicable to the Group and the Bank but not yet effective (continued)

- Amendment to FRS 132 “Financial Instruments: Presentation” on classification of rights issues (effective from 1 March 2010) addresses accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity instruments instead of as derivative liabilities, regardless of the currency in which the exercise price is denominated. Currently, these issues are accounted for as derivative liabilities.
- IC Interpretation 4 “Determining Whether an Arrangement Contains a Lease” (effective from 1 January 2011) requires the Group to identify any arrangement that does not take the legal form of a lease, but conveys a right to use an asset in return for a payment or series of payments. This interpretation provides guidance for determining whether such arrangements are, or contain, leases. The assessment is based on the substance of the arrangement and requires assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset. If the arrangement contains a lease, the requirements of FRS 117 “Leases” should be applied to the lease element of the arrangement.

##### Improvements to FRSs:

- FRS 3 (effective from 1 January 2011)
  - Clarifies that the choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree’s net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by FRS.
  - Clarifies that the amendments to FRS 7, FRS 132 and FRS 139 that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of FRS 3 (2010). Those contingent consideration arrangements are to be accounted for in accordance with the guidance in FRS 3 (2005).
- FRS 101 “Presentation of Financial Statements” (effective from 1 January 2011) clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.
- FRS 138 “Intangible Assets” (effective from 1 July 2010) clarifies that a group of complementary intangible assets acquired in a business combination may be recognised as a single asset if each asset has similar useful lives.
- IC Interpretation 9 (effective from 1 July 2010) clarifies that this interpretation does not apply to embedded derivatives in contracts acquired in a business combination, businesses under common control or the formation of a joint venture.

The adoption of the above standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and the Bank is not expected to 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 2010 (continued)

## A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2 Basis of consolidation

#### (a) Subsidiaries

Subsidiaries are those corporations or other entities in which the Bank 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.

Subsidiaries are consolidated using the acquisition method of accounting except for certain business combinations which were accounted for using the merger method as follows:

- subsidiaries that were consolidated prior to 1 April 2002 in accordance with Malaysian Accounting Standard 2 'Accounting for Acquisitions and Mergers', the generally accepted accounting principles prevailing at that time;
- business combinations consolidated on/after 1 April 2002 but with agreement dates before 1 January 2006 that meet the conditions of a merger as set out in FRS 122<sub>2004</sub> 'Business Combinations';
- internal group reorganisations, as defined in FRS 122<sub>2004</sub>, consolidated on/after 1 July 2001 but with agreement dates before 1 January 2006 where:
  - the ultimate shareholders remain the same, and the rights of each such shareholder, relative to the others, are unchanged; and
  - the minorities' share of net assets of the Group is not altered by the transfer; and
- business combinations involving entities or businesses under common control with agreement dates on/after 1 January 2006.

The Group has taken advantage of the exemption provided by FRS 122<sub>2004</sub> and FRS 3 to apply these Standards prospectively. Accordingly, business combinations entered into prior to the respective effective dates have not been restated to comply with these Standards.

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

Identifiable assets, 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 any minority interests. The excess of the cost of acquisition over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities at the acquisition date is reflected as goodwill. Refer to accounting policy Note 4 on goodwill. If the cost of acquisition is less than the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities at the acquisition date, the difference is recognised directly in the profit or loss.

## Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

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

#### 2 Basis of consolidation (continued)

##### (a) Subsidiaries (continued)

Under the merger method of accounting, the results of subsidiaries are presented as if the merger had been effected throughout the current and previous years. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On consolidation, the cost of the merger is cancelled with the values of the shares received. Any resulting credit difference is classified as equity and regarded as a non-distributable reserve. Any resulting debit difference is adjusted against any suitable reserve. Any share premium, capital redemption reserve and any other reserves which are attributable to share capital of the merged enterprises, to the extent that they have not been capitalised by a debit difference, are reclassified and presented as movement in other capital reserves.

All material inter-company and intra-group transactions and balances have been 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, which is the difference between the net disposal proceeds and the Group's share of its net assets together with the carrying amount of the goodwill on the date of disposal, is recognised in the profit or loss attributable to the parent.

##### (b) Joint ventures

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 ventures are accounted for in the consolidated financial statements using the equity method of accounting and are initially recognised at cost.

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

When the Group's share of losses in joint ventures equals or exceeds its interest in the joint ventures, 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 ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures; 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 ventures to ensure consistency of accounting policies with those of the Group.



# Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

## A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 3 Investments in subsidiaries and joint ventures

In the Bank's separate financial statements, investments in subsidiaries and joint ventures are stated at cost less accumulated impairment losses. At the end of each reporting period, the Group 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. Refer to accounting policy Note 19 on impairment of non-financial assets.

On disposal of investments in subsidiaries and joint ventures, the difference between disposal proceeds and the carrying amount of the investments are recognised in profit or loss.

### 4 Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's share of the net fair value of the identifiable net assets at the date of acquisition.

Goodwill is stated at cost less accumulated impairment loss and is tested at least annually for impairment. Impairment loss on goodwill is not reversed. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold.

Goodwill is allocated to cash-generating units ('CGU') for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination in which the goodwill arose, identified according to operating segment. Refer to accounting policy Note 19 on impairment of non-financial assets.

## Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

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

#### 5 Financial assets

##### (a) Classification

The Group and the Bank classify their financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and held-to-maturity. The classification depends on the purpose for which the financial assets were required. Management determines the classification at initial recognition.

##### (i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives are also categorised as held for trading unless they are designated as hedges (refer to accounting policy Note 7).

##### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

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 ('Bursa Securities').

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.

##### (iii) Financial investments held-to-maturity

Financial investments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of financial investments held-to-maturity, the whole category would be tainted and reclassified as available for sale.

##### (iv) Financial investments available-for-sale

Financial investments available-for-sale are non-derivatives that are either designated in this category or not classified in any of the other categories.

# Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

## A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 5 Financial assets (continued)

#### (b) Recognition and initial measurement

Regular purchases and sales of financial assets are recognised on the settlement date, the date that an asset is delivered to or by the Group and the Bank.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

#### (c) Subsequent measurement – gain and losses

Financial investments available-for-sale and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and financial investments held-to-maturity are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, interest and dividend income are recognised in profit or loss in the period in which the changes arise. Changes in the fair value of financial investments available-for-sale are recognised in other comprehensive income, except for impairment losses (refer to accounting policy Note 17) and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in profit or loss, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

Interest and dividend income on financial investments available-for-sale are recognised separately in profit or loss. Interest on financial investments available-for-sale calculated using the effective interest method is recognised in profit or loss. Dividends income on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

#### (d) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

When financial investments available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

#### Changes in accounting policy

The Group and the Bank have changed their accounting policy for financial assets upon adoption of FRS 139 on 1 January 2010. All unquoted equity securities which were previously carried at cost are now measured at fair value, with the changes in fair value recognised in available-for-sale reserves.

Upon adoption of FRS 139, interest receivable previously classified under other receivables is now reclassified into the respective category of financial assets.

The Group and the Bank have applied the new policy according to the transitional provisions by re-measuring all financial assets, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained profits or, if appropriate, another category of equity, of the current financial year. Comparatives of these financial assets have not been adjusted and therefore the corresponding balances are not comparable. Refer to Note 42 for the impact of these changes in accounting policy.

## Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

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

#### 6 Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are recognised as expense in profit or loss during the financial period in which they are incurred.

Property, plant and equipment are depreciated on a straight-line basis to write down their costs to their residual values over their estimated useful lives. The principal annual depreciation rates are as follows:

Office equipment and furniture	20%
Renovations	10% to 20%
Computer equipment and software	20% to 33 <sup>1</sup> / <sub>2</sub> %
Motor vehicles	20%

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains or losses on disposals are determined by comparing proceeds with carrying amount and are included in non-interest income in profit or loss.

At the end of the reporting period, 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 to its recoverable amount. Refer to accounting policy Note 19 on impairment of non-financial assets.

# Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

## A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 7 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which derivative contracts are 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 values are positive and as liabilities when fair values are 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 whose variables include only data from observable markets. When such evidence exists, the Group and the Bank recognise profits on day one.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group 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 on-going 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 profit or loss, 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 the profit or loss 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 or loss relating to the ineffective portion is recognised immediately in the profit or loss.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss (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 profit or loss.

#### (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 profit or loss.

## Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

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

#### 8 Financial liabilities

The Group's and the Bank's holding in financial liabilities is in financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that are designated at fair value) and financial liabilities at amortised cost. Financial liabilities are initially recognised at fair value plus transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial liabilities are derecognised when extinguished.

##### (a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedges (refer to accounting policy Note 7).

##### (b) Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers, clients' and brokers' balances and subordinated obligations.

#### Changes in accounting policy

Upon adoption of FRS 139, interest payables previously classified under other liabilities is now reclassified into the respective class of financial liabilities.

The Group and the Bank have applied the new policy according to the transitional provisions by re-measuring all financial liabilities, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained profits. Comparatives of these financial liabilities have not been adjusted and therefore the corresponding balances are not comparable. Refer to Note 42 for the impact of these changes in accounting policy.

#### 9 Provisions

Provisions 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 of obligation can be made.

Where the Group and the Bank expect a provision to be reimbursed (for example, under an insurance contract), the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

# Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

## A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 10 Operating lease

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

The up-front payments made for leasehold land represent prepaid lease rentals and are amortised on straight-line basis over the lease term.

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

### 11 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost, any difference between initial recognised amount and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

### 12 Financial guarantee contract

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

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

The liability is subsequently recognised at the higher of the amount determined in accordance with FRS 137 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less cumulative amortisation, where appropriate.

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

Where financial guarantees in relation to loans or payables of subsidiaries are provided by the Group and the Bank for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of investment in subsidiaries.

## Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

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

#### 13 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 and the Bank. The Group and the Bank do not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.

#### 14 Dividends payable

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

#### 15 Cash and cash equivalents

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

The statements of cash flows show the changes in cash and cash equivalents arising during the period from operating activities, investing activities and financing activities. The cash flows from operating activities are determined by using the indirect method. Consolidated net income is therefore adjusted by non-cash items, such as measurement gains or losses, changes in provisions, as well as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated.

The cash flows from investing and financing activities are determined by using the direct method. The Group's assignment of the cash flows to operating, investing and financing category depends on the Bank's business model (management approach).



## Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

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

#### 16 Revenue recognition

- (a) Interest income is recognised using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period to its carrying amount. The calculation includes significant fees and transaction costs that are integral to the effective interest rate, as well as premiums or discounts.

When a loan and receivable is impaired, the Group and the Bank reduce the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continue unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

- (b) Loan arrangement fees, commissions and placement fees are recognised as income when all conditions precedent are fulfilled.
- (c) Guarantee fees are recognised as income upon issuance of guarantees.
- (d) Commitment fees are recognised as income based on time apportionment.
- (e) Brokerage commission is recognised when contracts are executed. Interest income from margin financing, clients' overdue outstanding purchases and contra losses are recognised on accruals basis.
- (f) Corporate advisory fees are recognised as income on completion of each stage of the engagement and issuance of invoice.
- (g) 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 unit holder's application. Value from the cancellation of trust units is recognised upon approval of the trustee.
- (h) Dividends from all investments are recognised when the shareholders' right to receive payment is established.

## Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

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

#### 17 Impairment of financial assets

##### (a) Assets carried at amortised cost

The Group and the Bank assess at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred 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 financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group and the Bank use to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- Disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio; and
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If 'loans and receivables' or a 'held-to-maturity investment' have 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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

For loans and advances, the Group and the Bank first assess whether objective evidence of impairment exists individually for loans and advances that are individually significant, and individually or collectively for loans and advances that are not individually significant. If the Group and the Bank determine that no objective evidence of impairment exists for individually assessed loans and advances, whether significant or not, it includes the asset in a group of loans and advances with similar credit risk characteristics and collectively assess them for impairment.

The Group and the Bank address impairment of loans and advances via either individually assessed allowance or collectively assessed allowance.

## Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

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

#### 17 Impairment of financial assets (continued)

##### (a) Assets carried at amortised cost (continued)

###### Individually impairment allowance

The Group and the Bank determine the allowance appropriate for each individual significant loans and advances on an individual basis. The allowances are established based primarily on estimates of the realisable value of the collateral to secure the loans and advances and are measured as the difference between the carrying amount of the loans and advances and the present value of the expected future cash flows discounted at the original effective interest rate of the loans and advances. All other loans and advances that have been individually evaluated, but not considered to be individually impaired, are assessed collectively for impairment.

###### Collective impairment allowance

For the purposes of a collective evaluation of impairment under FRS 139, loans and advances are grouped on the basis of similar credit risk characteristics, taking into account the historical loss experience of such loans.

In accordance with the transitional provisions under the Amendments to FRS 139, the financial services sector is granted a transitional period for the purpose of complying with the collective assessment of impairment required under FRS 139. Consequently, BNM may prescribe the use of an alternative basis for collective assessment of impairment for banking institutions for a transitional period.

This transitional arrangement is prescribed in BNM's Guidelines on Classification and Impairment Provisions for Loans/Financing issued on 8 January 2010 and subsequently updated on 26 January 2010 and 17 December 2010, whereby banking institutions are required to maintain collective allowances of at least 1.5% of total outstanding loans/financing, net of individual impairment allowances under the transitional provisions in the guidelines.

The Group and the Bank have adopted the transitional provisions under the Amendments to FRS 139 and the collective assessment impairment allowance of the Group and the Bank have been determined based on the transitional arrangement issued by BNM.

## Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

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

#### 17 Impairment of financial assets (continued)

##### (b) Assets classified as available-for-sale

The Group and the Bank assess at the end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, the Group and the Bank use criteria and measurement of impairment loss applicable for 'assets carried at amortised cost' above. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

In the case of equity securities classified as available-for-sale, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss. The amount of cumulative loss that is reclassified to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

##### Changes in accounting policy

The Group and the Bank have changed their accounting policy for impairment of financial assets upon adoption of FRS 139 and BNM's guidelines on Classification and Impairment Provisions for Loans/Financing issued on 8 January 2010 and subsequently updated on 26 January 2010 and 17 December 2010.

Prior to the adoption of FRS 139, the Group's and the Bank's loan loss allowance was in conformity with the minimum requirements of BNM/GP3 Guidelines on the Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts ("BNM/GP3"). The basis of classification of non-performing loans and financing followed the period of default for non-performing loans of 3 months. In line with the classification of non-performing loans and financing, the Group and the Bank's basis for specific allowance was also from default period of 3 months.

The Group and the Bank have applied the new policy according to the transitional provisions by re-measuring all financial assets, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained earnings or, if appropriate, another category of equity, of the current financial year. Comparatives have not been adjusted and therefore the corresponding balances are not comparable. Refer to Note 42 for the impact of these changes in accounting policy.

## Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

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

#### 18 Employee benefits

##### (a) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period 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 and the Bank pays fixed contributions to the national pension scheme, Employees' Provident Fund. The Group's and the Bank's contribution to defined contribution plans are charged to the profit or loss in the period 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.

#### 19 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life, for example goodwill, 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 assets exceeds its recoverable amount.

The recoverable amount is the higher of a non-financial assets' 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 is separately identifiable cash flow/CGU. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

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

#### 20 Current and deferred income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is recognised in other comprehensive income or directly in equity, respectively.

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

## Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

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

#### 20 Current and deferred income taxes (continued)

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 deductible temporary differences or unused tax losses can be utilised.

Deferred tax is recognised on temporary differences arising on investments in subsidiaries and joint ventures except where the timing of the reversal of the temporary difference can be controlled by the Group 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 date of statements of financial position and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

#### 21 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 other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses are presented in profit or loss within non-interest income.

For translation differences on financial assets and liabilities held at fair value through profit or loss and available-for-sale financial assets, refer to Note 5(c).

## Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

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

#### 21 Currency conversion and translation (continued)

##### (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 statement of financial position presented are translated at the closing rate at the date of that statements of financial position;
- (ii) income and expenses for each statements of comprehensive income 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 other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is partially disposed of or sold, a proportionate share of such exchange differences is recognised in the profit or loss 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.

### 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 impairment of financial assets

In determining impairment of financial assets, management considers objective evidence of impairment and exercises judgement in estimating cash flow and collateral value.

The Group and the Bank make allowance for losses based on an assessment of recoverability. Whilst management's judgement is guided by the relevant BNM guidelines, judgement is made in the estimation of the amount and timing of future cash flows in assessing allowance for impairment of financial assets. 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, the capacity to generate sufficient cash flow to service debt obligations and the aggregate amount and ranking of all other creditor claims. The actual amount of the future cash flows and their timing may differ from the estimates used by management and consequently may cause actual losses differ from the impairment made.

# Notes To The Financial Statements

For The Financial Year Ended 31 December 2010

## 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, stock-broking 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, stock-broking business and the business of brokers and dealers in futures and option 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	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash and balances with banks and other financial institutions	104,076	35,478	78,771	23,915
Money at call and deposit placements maturing within one month	1,803,123	1,413,708	1,762,923	1,385,852
	<u>1,907,199</u>	<u>1,449,186</u>	<u>1,841,694</u>	<u>1,409,767</u>

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

	Group and Bank	
	2010 RM'000	2009 RM'000
Cash and balances with banks and other financial institutions	30,832	7,593
Money at call and deposit placements maturing within one month	212,878	162,502
	<u>243,710</u>	<u>170,095</u>



## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2010 RM'000	2009 RM'000
Licensed banks	200,235	200,120
Licensed investment banks	50,040	60,000
BNM	–	100,000
	<u>250,275</u>	<u>360,120</u>

Included in deposits and placements of the Group and the Bank is RM120,000 (2009: RM120,000) pledged to a licensed bank concerned as collateral for facility granted to its stock-broking division.

### 4 FINANCIAL ASSETS HELD-FOR-TRADING

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>At fair value</b>				
Money market instruments:				
Malaysian Government Investment Issue	35,555	–	35,555	–
Malaysian Government Securities	–	49,775	–	49,775
Bank Negara Malaysia monetary notes	192,952	–	192,952	–
Negotiable instruments of deposits	51,502	452,193	51,502	452,193
Quoted securities:				
<b>Outside Malaysia</b>				
Shares	–	2,359	–	–
Unquoted securities:				
<b>In Malaysia</b>				
Private debt securities	70,321	173,525	70,321	173,525
	<u>350,330</u>	<u>677,852</u>	<u>350,330</u>	<u>675,493</u>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>At fair value</b>				
Money market instruments:				
Khazanah bonds	11,984	11,179	11,984	11,179
Malaysian Government Investment Issue	774,379	120,542	774,379	120,542
Malaysian Government Securities	1,321,458	652,863	1,321,458	652,863
Quoted securities:				
<b>In Malaysia</b>				
Shares	23	30	23	30
Loan stocks	1,282	935	1,282	935
Unquoted securities:				
<b>In Malaysia</b>				
Shares	18,816	2,200	18,816	2,200
Private debt securities	1,109,082	1,640,074	1,109,082	1,640,074
Loan stocks	20,662	20,662	20,662	20,662
Redeemable convertible preference shares	13,980	-	-	-
<b>Outside Malaysia</b>				
Loan stocks	565	1,221	-	-
	<b>3,272,231</b>	<b>2,449,706</b>	<b>3,257,686</b>	<b>2,448,485</b>

The carrying value of financial investments available-for-sale as at 31 December 2010, which was transferred from financial assets held-for-trading and financial investments held-to-maturity, for the Group and the Bank are RM426,250,000 (2009: RM1,038,472,000) and RM16,616,000 (2009: Nil) respectively.

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 6 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	Group and Bank	
	2010	2009
	RM'000	RM'000
<b>At amortised cost</b>		
Money market instruments:		
Malaysian Government Securities	45,298	44,647
Unquoted securities:		
<b>In Malaysia</b>		
Bonds	23	23
Prasarana bonds	99,872	99,180
Private debt securities	133,485	140,761
	<u>278,678</u>	<u>284,611</u>
Accumulated impairment losses	(93,760)	(78,370)
	<u>184,918</u>	<u>206,241</u>

Included in private debt securities is RM1,000,000 (2009: 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.

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 7 LOANS AND ADVANCES

	Group and Bank	
	2010	2009
	RM'000	RM'000
(i) By type		
<b>At amortised cost</b>		
Share margin financing	48,967	59,004
Staff loans	2,566	3,161
	<hr/>	<hr/>
Gross loans and advances	51,533	62,165
Allowance for bad and doubtful debts		
– individual impairment allowance	(882)	-
– collective impairment allowance	(760)	-
– specific allowance	-	(1,091)
– general allowance	-	(916)
	<hr/>	<hr/>
Net loans and advances	49,891	60,158
	<hr/>	<hr/>
(ii) By type of customer		
Domestic business enterprises		
– others	2,783	7,720
– individuals	47,476	53,372
– foreign entities	1,274	1,073
	<hr/>	<hr/>
	51,533	62,165
	<hr/>	<hr/>
(iii) By interest rate sensitivity		
Fixed rate		
– Other fixed rate loans	51,533	62,165
	<hr/>	<hr/>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 7 LOANS AND ADVANCES (CONTINUED)

	Group and Bank	
	2010 RM'000	2009 RM'000
(iv) By purpose		
Purchase of securities	48,967	59,004
Purchase of transport vehicles	285	509
Purchase of landed property: – residential	2,281	2,652
	<b>51,533</b>	<b>62,165</b>
(v) By remaining contractual maturities		
Maturing within one year	49,085	59,010
One year to three years	186	468
Three years to five years	105	153
Over five years	2,157	2,534
	<b>51,533</b>	<b>62,165</b>
(vi) Impaired loans and advances		
(a) Movements in impaired loans and advances		
Balance as at the beginning of the financial year	1,183	66,425
Amount vested over to RHB Bank Berhad	–	(67,279)
Classified as impaired during the financial year	10	3,150
Amount recovered	(275)	(1,113)
Balance as at the end of the financial year	<b>918</b>	<b>1,183</b>
(b) By purpose		
– Purchase of securities	<b>918</b>	<b>1,183</b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 7 LOANS AND ADVANCES (CONTINUED)

	Note	Group and Bank	
		2010 RM'000	2009 RM'000
(vi) Impaired loans and advances (continued)			
(c) Movements in allowance for impaired loans and advances			
<b>Individual impairment allowance</b>			
Balance as at the beginning of the financial year			
– As previously stated		–	–
– Effects of adoption of FRS 139	42	1,091	–
– As restated		1,091	–
Allowance made during the financial year		12	–
Amount recovered		(221)	–
Balance as at the end of the financial year		882	–
<b>Collective impairment allowance</b>			
Balance as at the beginning of the financial year			
– As previously stated		–	–
– Effects of adoption of FRS 139	42	916	–
– As restated		916	–
Net allowance written back		(156)	–
Balance as at the end of the financial year		760	–
<b>Specific allowance</b>			
Balance as at the beginning of the financial year			
– As previously stated		1,091	44,909
– Effects of adoption of FRS 139	42	(1,091)	–
– As restated		–	44,909
Amount vested over to RHB Bank Berhad		–	(14,204)
Allowance written back		–	(56)
Amount recovered		–	(1,260)
Amount transferred to accumulated impairment loss in value of financial investments		–	(28,298)
Balance as at the end of the financial year		–	1,091

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 7 LOANS AND ADVANCES (CONTINUED)

	Note	Group and Bank	
		2010 RM'000	2009 RM'000
(vi) Impaired loans and advances (continued)			
(c) Movements in allowance for impaired loans and advances (continued)			
<b>General allowance</b>			
Balance as at the beginning of the financial year			8,296
– As previously stated		<b>916</b>	–
– Effects of adoption of FRS 139	42	<b>(916)</b>	–
– As restated		–	8,296
Net allowance written back		–	(7,380)
Balance as at the end of the financial year		–	916
% of total gross loans and advances less specific allowance		–	1.50%

### 8 CLIENTS' AND BROKERS' BALANCES

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

	Group and Bank	
	2010 RM'000	2009 RM'000
Performing accounts	<b>419,575</b>	248,323
Impaired accounts		
– Bad	<b>9,193</b>	9,285
– Doubtful	<b>194</b>	341
	<b>428,962</b>	257,949
Less: Impairment allowances for bad and doubtful debts		
– individual impairment allowance/specific allowance	<b>(7,478)</b>	(8,061)
– collective impairment allowance/general allowance	<b>(357)</b>	(221)
	<b>421,127</b>	249,667

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

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

	Note	Group and Bank	
		2010 RM'000	2009 RM'000
Movements in the impairment allowance for bad and doubtful debts are as follows:			
<b>Individual impairment allowance</b>			
Balance as at the beginning of the financial year		-	-
- As previously stated		-	-
- Effects of adoption of FRS 139	42	8,061	-
- As restated		8,061	-
Allowance written back during the financial year		(583)	-
Balance as at the end of the financial year		7,478	-
<b>Collective impairment allowance</b>			
Balance as at the beginning of the financial year		-	-
- As previously stated		-	-
- Effects of adoption of FRS 139	42	221	-
- As restated		221	-
Allowance made during the financial year		136	-
Balance as at the end of the financial year		357	-
<b>Specific allowance</b>			
Balance as at the beginning of the financial year		8,061	8,888
- As previously stated		(8,061)	-
- Effects of adoption of FRS 139	42	-	-
- As restated		-	8,888
Allowance made during the financial year		-	923
Amount recovered		-	(1,750)
Balance as at the end of the financial year		-	8,061



## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

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

	Note	Group and Bank	
		2010 RM'000	2009 RM'000
Movements in the impairment allowance for bad and doubtful debts are as follows (continued):			
<b>General allowance</b>			
Balance as at the beginning of the financial year			
– As previously stated		221	146
– Effects of adoption of FRS 139	42	(221)	–
– As restated		–	146
Allowance made during the financial year		–	75
Balance as at the end of the financial year		–	221

### 9 OTHER ASSETS

		Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Amount due from holding company	(i)	–	500	–	500
Amounts due from subsidiaries	(i)	–	–	794	1,353
Amounts due from related companies	(i)	2,198	1,601	786	39
Other debtors, deposits and prepayments	(ii)	26,901	31,084	15,697	21,822
Accrued interest receivable		–	31,695	–	31,695
		<b>29,099</b>	<b>64,880</b>	<b>17,277</b>	<b>55,409</b>

(i) Amounts due from holding company, subsidiaries and related companies are unsecured, interest free and receivable within the normal credit period.

(ii) Other debtors, deposits and prepayments of the Group and the Bank are stated net of allowance for impairment of RM1,566,000 (2009: RM1,073,000).

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 10 DERIVATIVES ASSETS/(LIABILITIES)

Derivative financial instruments are 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 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 date of statements of financial position. The contractual or underlying principal amounts of these derivative financial instruments and their corresponding gross positive (derivative financial asset) and gross negative (derivative financial liability) fair values at the date of statements of financial position are analysed below.

	Group and Bank		
	RM'000	RM'000	RM'000
Derivative assets	19,094	25,870	
Derivative liabilities	<u>(20,144)</u>	<u>(34,764)</u>	
	<u>(1,050)</u>	<u>(8,894)</u>	
	<b>Contract or Underlying principal amount RM'000</b>	<b>Year-end positive fair value RM'000</b>	<b>Year-end negative fair value RM'000</b>
<b>2010</b>			
Interest rate related contracts:			
– futures	<b>140,000</b>	–	<b>793</b>
– swaps	<b>1,870,000</b>	<b>19,094</b>	<b>19,351</b>
	<b><u>2,010,000</u></b>	<b><u>19,094</u></b>	<b><u>20,144</u></b>
<b>2009</b>			
Interest rate related contracts:			
– futures	990,000	–	6,498
– swaps	1,960,000	25,870	28,266
	<b><u>2,950,000</u></b>	<b><u>25,870</u></b>	<b><u>34,764</u></b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (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 statements of financial position:

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Deferred tax assets	776	5,974	-	5,466
Deferred tax liabilities	(2,251)	-	(2,251)	-
	<u>(1,475)</u>	<u>5,974</u>	<u>(2,251)</u>	<u>5,466</u>
Deferred tax assets				
- Settled within 12 months	909	6,997	-	6,336
- Settled more than 12 months	(133)	(1,023)	-	(870)
	<u>776</u>	<u>5,974</u>	<u>-</u>	<u>5,466</u>
Deferred tax liabilities				
- Settled within 12 months	(787)	-	(787)	-
- Settled more than 12 months	(1,464)	-	(1,464)	-
	<u>(2,251)</u>	<u>-</u>	<u>(2,251)</u>	<u>-</u>

The movements in deferred tax assets and liabilities during the financial year comprise the following:

	Note	Property, plant and equipment RM'000	Collective impairment allowance RM'000	Other liabilities RM'000	AFS reserve RM'000	Total RM'000
<b>Group</b>						
<b>2010</b>						
Balance as at the beginning of the financial year						
- As previously stated		(1,635)	284	764	6,561	5,974
- Effect of adoption of FRS 139	42	-	-	-	(2,998)	(2,998)
		<u>(1,635)</u>	<u>284</u>	<u>764</u>	<u>3,563</u>	<u>2,976</u>
- As restated		(1,635)	284	764	3,563	2,976
Transfer (to)/from income statement	31	(710)	(5)	3,393	-	2,678
Transferred to AFS reserve		-	-	-	(7,129)	(7,129)
Balance as at the end of the financial year		<u>(2,345)</u>	<u>279</u>	<u>4,157</u>	<u>(3,566)</u>	<u>(1,475)</u>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 11 DEFERRED TAX ASSETS/ (LIABILITIES) (CONTINUED)

The movements in deferred tax assets and liabilities during the financial year comprise the following (continued):

	Note	Property, plant and equipment RM'000	Collective impairment allowance RM'000	Other liabilities RM'000	AFS reserve RM'000	Total RM'000
<b>Group</b>						
<b>2009</b>						
Balance as at the beginning of the financial year		(1,413)	2,111	374	(2,577)	(1,505)
Transfer (to)/from income statement	31	(222)	(1,827)	390	-	(1,659)
Transferred from AFS reserve		-	-	-	9,138	9,138
Balance as at the end of the financial year		<u>(1,635)</u>	<u>284</u>	<u>764</u>	<u>6,561</u>	<u>5,974</u>
<b>Bank</b>						
<b>2010</b>						
Balance as at the beginning of the financial year		(1,443)	284	64	6,561	5,466
- As previously stated		-	-	-	(2,998)	(2,998)
- Effect of adoption of FRS 139	42	-	-	-	-	-
- As restated		(1,443)	284	64	3,563	2,468
Transfer from/(to) income statement	31	(736)	(5)	3,151	-	2,410
Transferred to AFS reserve		-	-	-	(7,129)	(7,129)
Balance as at the end of the financial year		<u>(2,179)</u>	<u>279</u>	<u>3,215</u>	<u>(3,566)</u>	<u>(2,251)</u>
<b>2009</b>						
Balance as at the beginning of the financial year		(1,183)	2,111	282	(2,577)	(1,367)
Transfer to income statement	31	(260)	(1,827)	(218)	-	(2,305)
Transferred from AFS reserve		-	-	-	9,138	9,138
Balance as at the end of the financial year		<u>(1,443)</u>	<u>284</u>	<u>64</u>	<u>6,561</u>	<u>5,466</u>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 12 STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009, the amount of which is determined as a set percentage of total eligible liabilities.

### 13 INVESTMENTS IN SUBSIDIARIES

	Bank	
	2010 RM'000	2009 RM'000
Unquoted shares at cost	169,343	142,643
Less: Allowance for impairment loss	(84,373)	(84,373)
	<b>84,970</b>	<b>58,270</b>

The subsidiaries of the Bank are as follows:

Name of Company	Country of incorporation	Paid-up share capital	Effective equity interest		Principal activities
			2010 %	2009 %	
RHB Investment Management Sdn Bhd	Malaysia	RM10,000,000	100	100	Asset management services and management of unit trust funds
RHB Islamic Asset Management Sdn Bhd <sup>1</sup>	Malaysia	RM4,000,000	100	–	Islamic asset management services
RHB Research Institute Sdn Bhd	Malaysia	RM500,000	100	100	Research services
RHB Private Equity Holdings Sdn Bhd <sup>2</sup>	Malaysia	RM25,000,002	100	100	Investment holding
RHB Private Equity Management Ltd	Labuan, Malaysia	USD1	100	100	Investment advisor, investment consultant and other ancillary services only for private funds
RHB Private Equity Fund Ltd <sup>3</sup>	Cayman Island	USD10,001	100	100	Investment company
RHB Nominees Sdn Bhd	Malaysia	RM25,000	100	100	Nominee and custodian services

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 13 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Country of incorporation	Paid-up share capital	Effective equity interest		Principal activities
			2010 %	2009 %	
RHB Nominees (Asing) Sdn Bhd	Malaysia	RM25,000	100	100	Nominee and custodian services for foreign beneficial shareholders
RHB Nominees (Tempatan) Sdn Bhd	Malaysia	RM25,000	100	100	Nominee and custodian services for Malaysian beneficial shareholders
RHB Merchant Nominees (Tempatan) Sdn Bhd	Malaysia	RM10,000	100	100	Nominee services for Malaysian beneficial shareholders
RHB Merchant Nominees (Asing) Sdn Bhd	Malaysia	RM10,000	100	100	Nominee services for foreign beneficial shareholders
RHB Marketing Services Sdn Bhd	Malaysia	RM100,000	100	100	Dormant
RHB Unit Trust Management Berhad	Malaysia	RM5,000,000	100	100	Dormant
RHB Progressive Sdn Bhd	Malaysia	RM13,500,000	100	100	Dormant
RHB Excel Sdn Bhd	Malaysia	RM200,000,000	100	100	Dormant

**Notes:**

<sup>1</sup> The Company was incorporated on 11 October 2010.

<sup>2</sup> RHB Private Equity Holdings Sdn Bhd, a wholly owned subsidiary of the Bank, has on 24 May 2010 and 21 July 2010 issued RM10.0 million and RM16.7 million of Redeemable Preference Shares ('RPS') to the Bank in the form of 5.0 million and 8.35 million RPS, respectively at a subscription price of RM2.00 each. The Board of RHB Private Equity Holdings Sdn Bhd had on 23 April 2010, approved the Business Strategy and Plan 2010 in which the principal activities of the Company has been changed from private equity business and venture capital management to investment holding.

<sup>3</sup> The Company become a wholly owned subsidiary of RHB Private Equity Holdings Sdn Bhd on 30 September 2010.

All subsidiaries are audited by PricewaterhouseCoopers, Malaysia.

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 14 INVESTMENT IN A JOINT VENTURE

	2010 RM'000	2009 RM'000
<b>Group</b>		
Share of net assets of a joint venture	<u>25,044</u>	<u>25,976</u>
<b>Bank</b>		
Unquoted shares, at cost	<u>27,399</u>	<u>27,399</u>

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

	2010 RM'000	2009 RM'000
Income	1,593	1,116
Expenses	(765)	(696)
Tax expense	(36)	-
Net profit for the financial year	<u>792</u>	<u>420</u>
Non-current assets	14,423	14,483
Current assets	10,749	11,748
Current liabilities	(128)	(255)
Net assets	<u>25,044</u>	<u>25,976</u>

There are no capital commitments or contingent liabilities relating to the Group's interest in joint venture as at 31 December 2010.

The details of investment in a joint venture are as follows:

Name of Company	Country of incorporation	Paid-up share capital	Effective equity interest		Principal activities
			2010 %	2009 %	
Vietnam Securities Corporation	Vietnam	135,000,000	49	49	Stock-broking and corporate finance advisory

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

## 15 PROPERTY, PLANT AND EQUIPMENT

Group	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
<b>2010</b>					
<b>Cost</b>					
Balance as at the beginning of the financial year	31,892	24,749	54,777	3,217	114,635
Additions	112	1,127	5,253	391	6,883
Disposal	(2)	-	-	(304)	(306)
Written off	(147)	(277)	(238)	-	(662)
Balance as at the end of the financial year	<u>31,855</u>	<u>25,599</u>	<u>59,792</u>	<u>3,304</u>	<u>120,550</u>
<b>Accumulated depreciation</b>					
Balance as at the beginning of the financial year	30,117	21,331	44,511	2,988	98,947
Charge for the financial year	613	247	4,532	177	5,569
Disposal	-	-	-	(304)	(304)
Written off	(147)	(277)	(238)	-	(662)
Balance as at the end of the financial year	<u>30,583</u>	<u>21,301</u>	<u>48,805</u>	<u>2,861</u>	<u>103,550</u>
<b>Accumulated Impairment loss</b>					
Balance as at the beginning and the end of the financial year	-	-	2,925	-	2,925
Net book value as at the end of the financial year	<u>1,272</u>	<u>4,298</u>	<u>8,062</u>	<u>443</u>	<u>14,075</u>



## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
<b>2009</b>					
<b>Cost</b>					
Balance as at the beginning of the financial year	30,625	23,293	50,875	3,502	108,295
Additions	1,330	1,467	4,070	-	6,867
Disposal	(23)	-	(160)	(285)	(468)
Written off	(40)	(11)	(8)	-	(59)
Balance as at the end of the financial year	31,892	24,749	54,777	3,217	114,635
<b>Accumulated depreciation</b>					
Balance as at the beginning of the financial year	29,406	20,751	41,155	2,861	94,173
Charge for the financial year	772	591	3,524	412	5,299
Disposal	(21)	-	(160)	(285)	(466)
Written off	(40)	(11)	(8)	-	(59)
Balance as at the end of the financial year	30,117	21,331	44,511	2,988	98,947
<b>Accumulated Impairment loss</b>					
Balance as at the beginning and the end of the financial year	-	-	2,925	-	2,925
Net book value as at the end of the financial year	1,775	3,418	7,341	229	12,763

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

## 15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Bank	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
<b>2010</b>					
<b>Cost</b>					
Balance as at the beginning of the financial year	29,174	20,374	48,460	2,429	100,437
Additions	106	847	5,119	391	6,463
Disposal	(2)	-	-	(8)	(10)
Written off	(76)	(277)	(162)	-	(515)
Balance as at the end of the financial year	<u>29,202</u>	<u>20,944</u>	<u>53,417</u>	<u>2,812</u>	<u>106,375</u>
<b>Accumulated depreciation</b>					
Balance as at the beginning of the financial year	27,581	17,403	39,446	2,225	86,655
Charge for the financial year	551	185	4,096	152	4,984
Disposal	-	-	-	(8)	(8)
Written off	(76)	(277)	(162)	-	(515)
Balance as at the end of the financial year	<u>28,056</u>	<u>17,311</u>	<u>43,380</u>	<u>2,369</u>	<u>91,116</u>
<b>Accumulated Impairment loss</b>					
Balance as at the beginning and the end of the financial year	-	-	2,925	-	2,925
Net book value as at the end of the financial year	<u>1,146</u>	<u>3,633</u>	<u>7,112</u>	<u>443</u>	<u>12,334</u>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Bank	Office equipment and furniture RM'000	Renovations RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
<b>2009</b>					
<b>Cost</b>					
Balance as at the beginning of the financial year	27,979	19,160	44,609	2,429	94,177
Additions	1,219	1,214	3,851	-	6,284
Disposal	(21)	-	-	-	(21)
Transfer to related companies	(3)	-	-	-	(3)
Balance as at the end of the financial year	29,174	20,374	48,460	2,429	100,437
<b>Accumulated depreciation</b>					
Balance as at the beginning of the financial year	26,917	16,926	36,408	1,911	82,162
Charge for the financial year	685	477	3,038	314	4,514
Disposal	(20)	-	-	-	(20)
Transfer to related companies	(1)	-	-	-	(1)
Balance as at the end of the financial year	27,581	17,403	39,446	2,225	86,655
<b>Accumulated impairment loss</b>					
Balance as at the beginning and the end of the financial year	-	-	2,925	-	2,925
Net book value as at the end of the financial year	1,593	2,971	6,089	204	10,857

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Accumulated depreciation and impairment loss</b>				
Balance as at the beginning of the financial year	101,872	97,098	89,580	85,087
Balance as at the end of the financial year	106,475	101,872	94,041	89,580

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 16 GOODWILL

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Balance as at the beginning and the end of the financial year	<u>172,844</u>	<u>172,844</u>	<u>159,280</u>	<u>159,280</u>

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

CGUs	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Corporate investment banking	67,229	67,229	53,665	53,665
Treasury	105,615	105,615	105,615	105,615
	<u>172,844</u>	<u>172,844</u>	<u>159,280</u>	<u>159,280</u>

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 four-year period (2009: four-year period). Cash flows beyond the four-year period are assumed to grow at 3.0% p.a. (2009: 3.0% p.a.) to perpetuity.

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 recoverable amount of all CGUs within the business segment is 7.04% (2009: 9.71%). The discount rate used is pre-tax and is computed based on industry information to reflect the risks of the CGUs.

Impairment was not 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 2010 (continued)

### 17 DEPOSITS FROM CUSTOMERS

	Group and Bank	
	2010	2009
	RM'000	RM'000
(i) By type of deposits:		
Call money	–	96,245
Fixed deposits	1,474,471	2,186,825
Short term deposits	1,171,950	936,678
	<u>2,646,421</u>	<u>3,219,748</u>
(ii) The maturity structure of total deposits are as follows:		
Due within six months	2,646,421	3,113,278
Six months to one year	–	106,470
	<u>2,646,421</u>	<u>3,219,748</u>
(iii) The deposits are sourced from the following customers:		
Federal Government and statutory bodies	219,750	145,900
Business enterprises	2,426,671	3,073,848
	<u>2,646,421</u>	<u>3,219,748</u>

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

	Group and Bank	
	2010	2009
	RM'000	RM'000
Licensed banks	80,012	22,767
Other financial institutions	2,405,869	1,062,803
	<u>2,485,881</u>	<u>1,085,570</u>

### 19 CLIENTS' AND BROKERS' BALANCES

Included in clients' and brokers' balances are clients' trust balances, held in trust for clients of RM262,007,000 (2009: RM211,357,000).

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 20 OTHER LIABILITIES

	Note	Group		Bank	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Accrued interest payable		–	12,352	–	12,352
Amount due to holding company	(i)	498	1,233	485	527
Amount due to subsidiaries	(i)	–	–	855	4
Amount due to related companies	(i)	13,306	1,871	11,924	1,704
Amount payable for creation of units due to funds		2,069	350	–	–
Amount payable for redemption units		3,056	463	–	–
Remisiers' trust deposits		8,490	7,965	8,490	7,965
Accrued personnel costs		17,103	11,666	12,168	8,550
Other accruals and payables		29,200	22,389	26,130	19,220
		<b>73,722</b>	<b>58,289</b>	<b>60,052</b>	<b>50,322</b>

- (i) Amounts due to holding company, subsidiaries and related companies are unsecured, interest free and repayable within the normal credit period.

### 21 SUBORDINATED OBLIGATIONS

	Note	Group and Bank	
		2010 RM'000	2009 RM'000
5.3% RM200 million Tier II Subordinated Notes 2007/2017	(a)	200,639	200,000
5.5% RM45 million Tier II Subordinated Notes 2008/2018	(b)	45,488	45,000
		<b>246,127</b>	<b>245,000</b>

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

In 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.

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 21 SUBORDINATED OBLIGATIONS (CONTINUED)

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

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

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

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

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

On 21 April 2008, the Bank 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 AA3 to the Bank's up to RM245 million Sub Notes.

Long-Term Ratings (Issue)

AA High safety for timely payment of interest and principal.

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 2010 (continued)

### 22 SHARE CAPITAL

	Bank	
	2010 RM'000	2009 RM'000
Ordinary shares of RM1 each:		
Authorised		
Balance as at the beginning/end of the financial year	1,000,000	1,000,000
Issued and fully paid:		
Balance as at the beginning/end of the financial year	263,646	263,646

### 23 RESERVES

		Group		Bank	
	Note	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Retained profits	(i)	103,817	222,452	93,912	220,169
Statutory reserve	(ii)	278,549	278,549	278,549	278,549
AFS reserve	(iii)	10,698	(19,684)	10,698	(19,684)
Translation reserve	(iv)	(4,954)	(2,477)	-	-
		<u>388,110</u>	<u>478,840</u>	<u>383,159</u>	<u>479,034</u>

- (i) 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 2010.

- (ii) 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.
- (iii) Available-for-sale revaluation reserve arises from changes in the fair value of financial investments classified as available-for-sale. The unrealised gains or losses are transferred to the income statement upon disposal, derecognition or impairment of such securities.
- (iv) The translation reserve comprises all foreign exchange differences from the translation of the financial statements of foreign subsidiaries and joint venture.



## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 24 INTEREST INCOME

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Loans and advances	5,057	30,229	5,057	30,229
Money at call and deposit placements with banks and other financial institutions	52,861	25,669	52,118	25,058
Financial assets held-for-trading	11,701	35,646	11,701	35,646
Financial investments available-for-sale	124,012	129,886	124,010	129,871
Financial investments held-to-maturity	6,086	9,911	6,086	9,911
Others	9,322	20,155	9,317	20,155
	<b>209,039</b>	<b>251,496</b>	<b>208,289</b>	<b>250,870</b>

### 25 INTEREST EXPENSE

	Group and Bank	
	2010 RM'000	2009 RM'000
Deposits and placements of banks and other financial institutions	53,824	38,278
Deposits from customers	82,279	78,301
Subordinated obligations	13,075	13,075
Others	5,147	18,521
	<b>154,325</b>	<b>148,175</b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

## 26 OTHER OPERATING INCOME

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Fee income:</b>				
Arrangement fees	5,433	12,386	5,433	12,386
Brokerage	83,353	66,925	83,353	66,925
Corporate advisory fees	17,454	15,674	17,454	15,674
Fees on loans and advances	2,891	3,355	2,891	3,355
Fund management fees	26,081	18,596	-	-
Guarantee fees	-	2,112	-	2,112
Underwriting fees	14,449	23,748	14,449	23,748
Unit trust fee income	1,190	1,946	-	-
Other fee income	27,870	17,118	25,484	12,038
	<b>178,721</b>	<b>161,860</b>	<b>149,064</b>	<b>136,238</b>
<b>Net gain/(loss) arising from financial assets held-for trading</b>				
- net gain on revaluation	7,268	3,184	6,228	1,091
- gross dividend income	28	78	-	37
	<b>7,296</b>	<b>3,262</b>	<b>6,228</b>	<b>1,128</b>
<b>Net gain/(loss) on revaluation of derivatives</b>	<b>810</b>	<b>(4,289)</b>	<b>810</b>	<b>(4,289)</b>
<b>Net gain arising from financial investments available-for-sale</b>				
- net gain on disposal	40,304	14,027	40,304	14,027
- gross dividend income	181	1	181	1
	<b>40,485</b>	<b>14,028</b>	<b>40,485</b>	<b>14,028</b>
<b>Net gain arising from financial investments held-to-maturity</b>				
- net gain on redemption	2,600	7,101	2,600	7,101
- gross dividend income	45	135	45	135
	<b>2,645</b>	<b>7,236</b>	<b>2,645</b>	<b>7,236</b>
<b>Other income:</b>				
Foreign exchange gain				
- Realised	3,115	782	3,022	782
- Unrealised	255	281	-	253
Gain on transfer/disposal of property, plant and equipment	76	40	3	3
Others	1,390	501	686	488
	<b>4,836</b>	<b>1,604</b>	<b>3,711</b>	<b>1,526</b>
Total other operating income	<b>234,793</b>	<b>183,701</b>	<b>202,943</b>	<b>155,867</b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 27 OTHER OPERATING EXPENSES

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Personnel costs</b>				
Salaries, allowances and bonus	79,891	63,128	61,237	47,818
Defined contribution plans	11,904	9,805	9,054	7,432
Other staff costs	8,188	7,792	7,290	6,916
	<b>99,983</b>	<b>80,725</b>	<b>77,581</b>	<b>62,166</b>
<b>Establishment costs</b>				
Property, plant and equipment – depreciation	5,569	5,299	4,984	4,514
Rental of premises	8,050	9,447	6,551	7,779
Information technology expenses	6,262	4,601	5,927	4,063
Others	7,677	6,038	7,128	5,511
	<b>27,558</b>	<b>25,385</b>	<b>24,590</b>	<b>21,867</b>
<b>Marketing expenses</b>				
Sales commission	443	1,475	–	–
Advertising and publicity	6,217	2,294	5,897	2,173
Others	5,737	7,124	4,712	6,824
	<b>12,397</b>	<b>10,893</b>	<b>10,609</b>	<b>8,997</b>
<b>Administration and general expenses</b>				
Auditors' remuneration – statutory audit fees	261	239	175	140
– non-audit fee	101	64	42	10
Communication expenses	6,588	6,177	5,800	5,579
Legal and professional fees	1,308	1,222	697	993
Others	10,562	11,620	15,416	11,151
	<b>18,820</b>	<b>19,322</b>	<b>22,130</b>	<b>17,873</b>
Total other operating expenses	<b>158,758</b>	<b>136,325</b>	<b>134,910</b>	<b>110,903</b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 28 DIRECTORS' REMUNERATION

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

Dato Abdullah Mat Noh (Chairman)  
 Tan Sri Azlan Zainol  
 Arul Kanda Kandasamy  
 Dato' Mohamed Khadar Merican  
 Akira Miyama  
 Lew Foon Keong  
 Patrick Chin Yoke Chung  
 Chay Wai Leong (Managing Director)  
 Dato' Saw Choo Boon  
 Datuk Tan Kim Leong

(Appointed on 1 April 2010)  
 (Retired on 10 May 2010)

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

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>Managing Director</b>				
- Salary and other remuneration	1,531	1,531	1,531	1,531
- Bonus	1,980	1,650	1,980	1,650
- Benefits-in-kind (based on an estimated money value)	32	33	32	33
	<b>3,543</b>	3,214	<b>3,543</b>	3,214
<b>Non-Executive Directors</b>				
- Fees	646	591	506	494
- Allowances	504	455	396	427
- Others	45	65	26	37
	<b>4,738</b>	4,325	<b>4,471</b>	4,172

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 28 DIRECTORS' REMUNERATION (CONTINUED)

The details remuneration of the Directors and Managing Director ('MD') of the Group and the Bank are as follows:

Group and Bank	Salary and other remuneration RM'000	Bonus RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Total RM'000
<b>2010</b>				
<b>Managing Director</b>				
Chay Wai Leong	1,531	1,980	32	3,543
Group	Fees RM'000	Allowances RM'000	Others RM'000	Total RM'000
<b>2010</b>				
<b>Non-executive Directors</b>				
Dato Abdullah Mat Noh (Chairman)	80	51	26	157
Tan Sri Azlan Zainol	60	35	-	95
Arul Kanda Kandasamy	60	18	-	78
Dato' Mohamed Khadar Merican	140	144	19	303
Akira Miyama	60	18	-	78
Lew Foon Keong	60	18	-	78
Patrick Chin Yoke Chung	120	132	-	252
Dato' Saw Choo Boon	45	50	-	95
Datuk Tan Kim Leong	21	38	-	59
	646	504	45	1,195
Bank	Fees RM'000	Allowances RM'000	Others RM'000	Total RM'000
<b>2010</b>				
<b>Non-executive Directors</b>				
Dato Abdullah Mat Noh (Chairman)	80	51	26	157
Tan Sri Azlan Zainol	60	35	-	95
Arul Kanda Kandasamy	60	18	-	78
Dato' Mohamed Khadar Merican	60	112	-	172
Akira Miyama	60	18	-	78
Lew Foon Keong	60	18	-	78
Patrick Chin Yoke Chung	60	56	-	116
Dato' Saw Choo Boon	45	50	-	95
Datuk Tan Kim Leong	21	38	-	59
	506	396	26	928

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

## 28 DIRECTORS' REMUNERATION (CONTINUED)

The details remuneration of the Directors and Managing Director ('MD') of the Group and the Bank are as follows (continued):

Group and Bank	Salary and other remuneration RM'000	Bonus RM'000	Benefits-in-kind (based on an estimated monetary value) RM'000	Total RM'000
<b>2009</b>				
<b>Managing Director</b>				
Chay Wai Leong	1,531	1,650	33	3,214
<b>Group</b>				
	Fees RM'000	Allowances RM'000	Others RM'000	Total RM'000
<b>2009</b>				
<b>Non-executive Directors</b>				
Dato Abdullah Mat Noh (Chairman)	80	54	37	171
Tan Sri Azlan Zainol	60	41	-	101
Arul Kanda Kandasamy	27	9	-	36
Dato' Mohamed Khadar Merican	133	114	28	275
Akira Miyama	60	28	-	88
Lew Foon Keong	60	14	-	74
Patrick Chin Yoke Chung	84	93	-	177
Datuk Tan Kim Leong	60	97	-	157
Datin Khamarzan Ahmed Meah	27	5	-	32
	591	455	65	1,111
<b>Bank</b>				
	Fees RM'000	Allowances RM'000	Others RM'000	Total RM'000
<b>2009</b>				
<b>Non-executive Directors</b>				
Dato Abdullah Mat Noh (Chairman)	80	54	37	171
Tan Sri Azlan Zainol	60	41	-	101
Arul Kanda Kandasamy	27	9	-	36
Dato' Mohamed Khadar Merican	60	99	-	159
Akira Miyama	60	28	-	88
Lew Foon Keong	60	14	-	74
Patrick Chin Yoke Chung	60	80	-	140
Datuk Tan Kim Leong	60	97	-	157
Datin Khamarzan Ahmed Meah	27	5	-	32
	494	427	37	958

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 29 ALLOWANCE FOR IMPAIRMENT ON LOANS, ADVANCES AND OTHER LOSSES

	Group and Bank	
	2010 RM'000	2009 RM'000
Allowance written back for impaired loans and advances:		
Individual impairment allowance	(209)	-
Collective impairment allowance	(156)	-
Specific allowance	-	(1,316)
General allowance	-	(7,380)
Allowance for losses on clients' and brokers' balances:		
Individual impairment allowance	(583)	-
Collective impairment allowance	136	-
Specific allowance	-	(827)
General allowance	-	75
Bad debts recovered	(58)	(381)
Bad debts written off	45	-
Allowance for impairment - other debtors	493	518
	<u>(332)</u>	<u>(9,311)</u>

### 30 IMPAIRMENT LOSSES ON FINANCIAL INVESTMENTS

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Charge/(reversal) for the financial year				
- Financial investments available-for-sale	26,977	7,868	26,495	6,700
- Financial investments held-to-maturity	15,390	(453)	15,390	(453)
	<u>42,367</u>	<u>7,415</u>	<u>41,885</u>	<u>6,247</u>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 31 TAXATION

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Income tax based on profit for the financial year				
– Malaysian income tax	25,606	37,244	23,917	36,995
Deferred taxation (Note 11)	(2,678)	1,659	(2,410)	2,305
(Over)/under provision in respect of prior years	(657)	867	(676)	(155)
Tax expense	<u>22,271</u>	<u>39,770</u>	<u>20,831</u>	<u>39,145</u>

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

	Group		Bank	
	2010 %	2009 %	2010 %	2009 %
Group and Bank average applicable tax rate	25.0	25.0	25.0	25.0
Tax effects in respect of:				
Non allowable expenses	1.3	0.9	1.4	0.9
Income not subject to tax	(0.4)	–	(0.1)	–
Other temporary differences not recognised in prior years	(0.3)	(0.5)	0.4	0.2
(Over)/under provision in respect of prior years	(0.7)	0.6	(0.8)	(0.1)
Effective tax rate	<u>24.9</u>	<u>26.0</u>	<u>25.9</u>	<u>26.0</u>

### 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 RM67,235,000 (2009: RM113,243,000) and RM59,613,000 (2009: RM111,578,000) by the weighted average number of ordinary shares in issue during the financial year of 263,646,000 (2009: 263,646,000).



## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 33 INCOME TAX RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME/(LOSS)

Group and Bank	Before	2010	Net-	Before	2009	Net-
	tax	Tax	of-tax	tax	Tax	of-tax
	amount	(expense)	amount	amount	income	amount
	RM'000	benefit	RM'000	RM'000	benefit	RM'000
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Fair value gains on financial investments AFS	28,517	(7,129)	21,388	(36,553)	9,138	(27,415)

### 34 ORDINARY DIVIDENDS

Dividends declared or proposed are as follows:

	Group and Bank			
	2010		2009	
	Gross	Amount of	Gross	Amount of
	dividend	dividends,	dividend	dividends,
	per share	net of tax	per share	net of tax
	sen	RM'000	sen	RM'000
Ordinary shares:				
Proposed final dividend	18.05	35,700	55.60	109,940
Proposed special final dividend	17.35	34,298	38.40	75,930
	<u>35.40</u>	<u>69,998</u>	<u>94.00</u>	<u>185,870</u>

At the forthcoming Annual General Meeting, a final dividend in respect of the current financial year of 18.05% less 25% income tax amounting to RM35,700,094 and a special final dividend of 17.35% less 25% income tax amounting to RM34,297,919 will be proposed for shareholder's approval. These financial statements do not reflect these final dividends which will be accounted for in the shareholder's equity as an appropriation of retained profits in the financial year ending 31 December 2011 when approved by the shareholder.

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 34 ORDINARY DIVIDENDS (CONTINUED)

Dividends recognised as distribution to ordinary equity holders of the Bank are as follows:

	Group and Bank			
	2010		2009	
	Gross dividend per share sen	Amount of dividends, net of tax RM'000	Gross dividend per share sen	Amount of dividends, net of tax RM'000
Ordinary shares:				
Special final dividend for financial year ended 31 December 2009	38.40	75,930	-	-
Final dividend for financial year ended 31 December 2009/2008	55.60	109,940	30.60	60,507
	<b>94.00</b>	<b>185,870</b>	30.60	60,507

### 35 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	Former holding body
RHB Capital Berhad	Holding company
Subsidiaries and associates of EPF as disclosed in its financial statements	Subsidiaries and associates of former holding body
Subsidiaries of RHB Capital Berhad as disclosed in its financial statements	Subsidiaries of the holding company
Subsidiaries of the Bank as disclosed in Note 13	Subsidiaries

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 35 SIGNIFICANT RELATED PARTY DISCLOSURES

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

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

##### Related parties

Key management personnel

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

##### Relationship

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 members
- 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, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members.

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

In addition to the related party disclosures mentioned in Notes 9 and 20, set out below are other significant related party transactions and balances.

Other related companies comprise the other companies in RHB Capital Berhad Group. EPF ceased to be the ultimate holding body of the Bank with effect from 3 December 2010.

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

## 35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

Group 2010	Former ultimate holding body RM'000	Holding company RM'000	Key management personnel RM'000	Other related companies RM'000
<b>Income</b>				
Interest on deposits	-	-	-	8,894
Fee income	-	880	-	1,587
Brokerage fees	13,270	-	4	-
Fund management fees	3,669	-	-	1,736
Other income	-	685	-	-
Revaluation of interest rate swap	-	-	-	2,460
	<u>16,939</u>	<u>1,565</u>	<u>4</u>	<u>14,677</u>
<b>Expenditure</b>				
Insurance premium	-	-	-	252
Interest expense on deposits and placements	-	-	-	481
Interest expense on subordinated obligations	-	-	-	152
Rental of premises	-	-	-	7,554
Personnel expenses	-	-	-	513
Establishment expenses	-	-	-	303
Marketing expenses	-	-	-	198
Administration and general expenses	-	-	-	104
	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,557</u>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	Former ultimate holding body RM'000	Holding company RM'000	Key management personnel RM'000	Other related companies RM'000
<b>Group 2010</b>				
<b>Amount due from</b>				
Cash and short-term funds	-	-	-	134,800
Deposits and placements with banks and other financial institution	-	-	-	100,000
Derivative financial assets	-	-	-	4,089
Other assets	-	-	-	2,198
	<u>-</u>	<u>-</u>	<u>-</u>	<u>241,087</u>
<b>Amount due to</b>				
Clients' and brokers' balances	-	-	2	-
Derivative financial liabilities	-	-	-	2,500
Other liabilities	-	498	-	13,306
	<u>-</u>	<u>498</u>	<u>2</u>	<u>15,806</u>
	Ultimate holding body RM'000	Holding company RM'000	Key management personnel RM'000	Other related companies RM'000
<b>Group 2009</b>				
<b>Income</b>				
Interest on deposits	-	-	-	3,666
Fee income	-	2,560	-	2,386
Brokerage fees	9,429	-	-	-
Fund management fees	3,665	-	3	1,519
	<u>13,094</u>	<u>2,560</u>	<u>3</u>	<u>7,571</u>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

## 35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	Ultimate holding body RM'000	Holding company RM'000	Key management personnel RM'000	Other related companies RM'000
<b>Group 2009</b>				
<b>Expenditure</b>				
Insurance premium	-	-	-	1,059
Interest expense on deposits and placements	-	-	-	348
Interest expense on subordinated obligations	-	-	-	265
Rental of premises	-	-	-	8,739
Personnel expenses	-	-	-	566
Establishment expenses	-	-	-	152
Marketing expenses	-	-	-	834
Administration and general expenses	-	-	-	91
Revaluation of interest rate swap	-	-	-	4,925
	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,979</u>
<b>Amount due from</b>				
Cash and short-term funds	-	-	-	83,832
Clients' and brokers' balances	23,339	-	-	-
Derivative financial assets	-	-	-	4,932
Other assets	785	500	-	1,601
	<u>24,124</u>	<u>500</u>	<u>-</u>	<u>90,365</u>
<b>Amount due to</b>				
Deposits and placements of financial institutions	-	-	-	22,770
Clients' and brokers' balances	-	-	-	3
Derivative financial liabilities	-	-	-	3,499
Subordinated obligations	-	-	-	5,000
Other liabilities	-	1,233	-	1,871
	<u>-</u>	<u>1,233</u>	<u>-</u>	<u>33,143</u>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	Former ultimate holding body RM'000	Holding company RM'000	Subsidiaries RM'000	Key management personnel RM'000	Other related companies RM'000
<b>Bank 2010</b>					
<b>Income</b>					
Interest on deposits	-	-	-	-	8,151
Fee income	-	880	195	-	60
Brokerage fee	13,270	-	-	4	-
Revaluation of interest rate swap	-	-	-	-	2,460
	<u>13,270</u>	<u>880</u>	<u>195</u>	<u>4</u>	<u>10,671</u>
<b>Expenditure</b>					
Insurance premium	-	-	-	-	252
Interest expense on deposits and placements	-	-	-	-	481
Rental of premises	-	-	-	-	6,226
Interest expense on subordinated obligations	-	-	-	-	152
Personnel expenses	-	-	-	-	446
Establishment expenses	-	-	-	-	281
Administration and general expenses	-	-	9,602	-	103
	<u>-</u>	<u>-</u>	<u>9,602</u>	<u>-</u>	<u>7,941</u>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

## 35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	Former ultimate holding body RM'000	Holding company RM'000	Subsidiaries RM'000	Key management personnel RM'000	Other related companies RM'000
<b>Bank 2010</b>					
<b>Amount due from</b>					
Cash and short-term funds	-	-	-	-	70,008
Deposits and placements with banks and other financial institution	-	-	-	-	100,000
Derivative financial assets	-	-	-	-	4,089
Other assets	-	-	794	-	786
	<u>-</u>	<u>-</u>	<u>794</u>	<u>-</u>	<u>174,883</u>
<b>Amount due to</b>					
Clients' and brokers' balances	-	-	-	3	-
Derivative financial liabilities	-	-	-	-	2,500
Other liabilities	-	485	855	-	11,924
	<u>-</u>	<u>485</u>	<u>855</u>	<u>3</u>	<u>14,424</u>



## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	Ultimate holding body RM'000	Holding company RM'000	Subsidiaries RM'000	Key management personnel RM'000	Other related companies RM'000
<b>Bank 2009</b>					
<b>Income</b>					
Interest on deposits	-	-	-	-	3,173
Fee income	-	2,560	-	-	60
Brokerage fees	9,429	-	-	-	-
	<u>9,429</u>	<u>2,560</u>	<u>-</u>	<u>-</u>	<u>3,233</u>
<b>Expenditure</b>					
Insurance premium	-	-	-	-	963
Interest expense on deposits and placements	-	-	-	-	348
Rental of premises	-	-	-	-	7,576
Interest expense on subordinated obligations	-	-	-	-	265
Personnel expenses	-	-	-	-	474
Establishment expenses	-	-	-	-	152
Administration and general expenses	-	-	5,345	-	90
Revaluation on interest rate swap	-	-	-	-	4,925
	<u>-</u>	<u>-</u>	<u>5,345</u>	<u>-</u>	<u>14,793</u>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

## 35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	Ultimate holding body RM'000	Holding company RM'000	Subsidiaries RM'000	Key management personnel RM'000	Other related companies RM'000
<b>Bank 2009</b>					
<b>Amount due from</b>					
Cash and short-term funds	-	-	-	-	46,812
Clients' and brokers' balances	23,339	-	-	-	-
Derivative financial assets	-	-	-	-	4,932
Other assets	-	500	1,353	-	39
	<u>23,339</u>	<u>500</u>	<u>1,353</u>	<u>-</u>	<u>51,783</u>
<b>Amount due to</b>					
Clients' and brokers' balances	-	-	-	-	3
Subordinated obligations	-	-	-	-	5,000
Derivative financial liabilities	-	-	-	-	3,499
Other liabilities	-	527	4	-	1,704
	<u>-</u>	<u>527</u>	<u>4</u>	<u>-</u>	<u>10,206</u>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

#### (c) Key management personnel

The remuneration of key management personnel are as follows:

	Group		Bank	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Short-term employee benefits				
– Fees	646	591	506	494
– Salary and other remuneration	6,770	6,344	3,907	3,608
– Benefits-in-kind	120	151	58	70
	<u>7,536</u>	<u>7,086</u>	<u>4,471</u>	<u>4,172</u>

The above remuneration includes directors' remuneration as disclosed in Note 28.

#### (d) Credit exposures arising from transactions with connected parties

Credit exposures with connected parties as per Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties are as follows:

	Group and Bank	
	2010	2009
Outstanding exposure with connected parties (RM'000)	<u>25,458</u>	<u>–</u>
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposure	<u>1.60%</u>	<u>–</u>
Percentage of outstanding credit exposures to connected parties which is non-performing or in default	<u>–</u>	<u>–</u>

The credit exposures above are derived based on Bank Negara Malaysia's revised Guidelines on Credit Transaction and Exposures with Connected Parties, which are effective on 1 January 2008.

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 36 COMMITMENTS AND CONTINGENCIES

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

	Group and Bank	
	2010 Principal amount RM'000	2009 Principle amount RM'000
Other asset sold with recourse	4,718	–
Obligations under an on-going underwriting agreements	177,762	147,660
Interest rate related contracts:		
– less than one year	290,000	1,020,000
– one to less than five years	1,605,000	1,735,000
– five years and above	115,000	195,000
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	157	41
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or effectively provides for automatic cancellation due to deterioration in a borrower's creditworthiness	97,205	90,561
	<b>2,289,842</b>	<b>3,188,262</b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 37 LEASE COMMITMENTS

The Group and the Bank have 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	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Future minimum lease payments:				
Not later than one year	8,919	8,356	7,747	6,725
Over one year to five years	1,852	580	1,723	433
More than five years	6	-	6	-
	<u>10,777</u>	<u>8,936</u>	<u>9,476</u>	<u>7,158</u>

### 38 CAPITAL COMMITMENTS

	Group and Bank	
	2010 RM'000	2009 RM'000
Capital expenditure for property, plant and equipment:		
- authorised and contracted for	-	961
- authorised and not contracted for	142	474
	<u>142</u>	<u>1,435</u>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 39 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).

The capital adequacy ratios of the Bank are as follows:

	2010 RM'000	2009 RM'000
<b>Tier I Capital</b>		
Paid-up share capital	263,646	263,646
Statutory reserve	278,549	278,549
Retained profits	93,912	220,169
	<u>636,107</u>	<u>762,364</u>
Deferred tax (assets)/liabilities	(1,315)	1,095
Goodwill	(159,280)	(159,280)
Total Tier I Capital	<u>475,512</u>	<u>604,179</u>
<b>Tier II Capital</b>		
Subordinated obligations	237,756	245,000
Collective impairment allowance	1,117	-
General allowance for bad and doubtful debts	-	1,137
Total Tier II Capital	<u>238,873</u>	<u>246,137</u>
Less: Investments in subsidiaries	(84,970)	(58,270)
Investment in a joint venture	(27,399)	(27,399)
Securitisation exposures subject to deductions	(1,086)	-
Other deductions	(336)	(422)
Total capital base	<u>600,594</u>	<u>764,225</u>
<b>Capital Ratios</b>		
Before deducting proposed dividends		
Core capital ratio	32.47%	35.58%
Risk-weighted capital adequacy ratio	41.02%	45.01%
After deducting proposed dividends		
Core capital ratio	27.69%	24.64%
Risk-weighted capital adequacy ratio	<u>33.85%</u>	<u>31.95%</u>
The risk weighted assets of the Bank are as follows:		
- Credit risk	887,428	1,118,845
- Market risk	161,901	148,681
- Operational risk	414,976	430,394
	<u>1,464,305</u>	<u>1,697,920</u>
Total risk weighted assets	<u>1,464,305</u>	<u>1,697,920</u>

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

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 39 CAPITAL ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements of the Bank as at 31 December 2010:

Exposure Class	Gross exposures RM'000	Net exposures RM'000	Risk weighted assets RM'000	Capital requirements RM'000
<b>(a) Credit Risk</b>				
On-balance sheet exposures				
Sovereigns/central banks	3,546,365	3,546,365	–	–
Banks, development financial institutions	1,066,065	1,066,065	213,213	17,057
Corporates	686,773	686,773	221,584	17,726
Regulatory retail	3,961	3,961	2,971	238
Residential mortgages	1,083	1,083	414	33
Other assets	668,120	668,120	280,866	22,469
Equity exposure	17,921	17,921	17,921	1,434
Securitisation exposure	54,484	54,484	72,884	5,831
Defaulted exposures	53,530	53,530	35,401	2,832
Total on-balance sheet exposures	6,098,302	6,098,302	845,254	67,620
Off balance sheet exposures other than credit derivatives				
	155,405	155,405	42,174	3,374
Total off-balance sheet exposures	155,405	155,405	42,174	3,374
Total on and off-balance sheet exposures	6,253,707	6,253,707	887,428	70,994
<b>(b) Market Risk</b>				
	Long Position	Short Position		
Interest rate risk	2,508,514	2,010,000	–	93,163
Foreign currency risk	20,558	–	–	20,563
Options risk	–	–	–	48,175
<b>(c) Operational risk</b>				
			414,976	33,198
<b>Total risk weighted assets and capital requirements</b>			<b>1,464,305</b>	<b>117,144</b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 39 CAPITAL ADEQUACY (CONTINUED)

Total risk weighted assets and capital requirements of the Bank as at 31 December 2009:

Exposure Class	Gross exposures RM'000	Net exposures RM'000	Risk weighted assets RM'000	Capital requirements RM'000
<b>(a) Credit Risk</b>				
On-balance sheet exposures				
Sovereigns/central banks	1,939,097	1,939,097	-	-
Banks, development financial institutions	1,147,694	1,147,694	229,539	18,363
Corporates	1,244,319	1,244,319	573,244	45,860
Regulatory retail	5,857	5,857	4,393	352
Residential mortgages	1,210	1,210	466	37
Other assets	212,686	212,686	27,902	2,232
Securitisation exposure	163,625	163,625	32,725	2,618
Defaulted exposures	140,830	140,830	211,153	16,892
Total on-balance sheet exposures	4,855,318	4,855,318	1,079,422	86,354
Off balance sheet exposures other than credit derivatives				
	160,957	160,957	39,423	3,154
Total off-balance sheet exposures	160,957	160,957	39,423	3,154
Total on and off-balance sheet exposures	5,016,275	5,016,275	1,118,845	89,508
<b>(b) Market Risk</b>				
	<b>Long Position</b>	<b>Short Position</b>		
Interest rate risk	3,741,493	2,950,000	-	8,295
Foreign currency risk	234	-	-	19
Options risk	-	-	-	3,580
<b>(c) Operational risk</b>				
			430,394	34,432
<b>Total risk weighted assets and capital requirements</b>			<b>1,697,920</b>	<b>135,834</b>



## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

## 39 CAPITAL ADEQUACY (CONTINUED)

Disclosure on Credit Risk: Disclosure on Risk Weights of the Bank as at 31 December 2010:

Risk Weighted	Sovereigns and Central Banks		PSEs		Banks, MDBs and FDI		Insurance Cos, Securities Firms and Fund Managers		Regulatory Retail Mortgages		Residential Mortgages		Higher Risk Assets		Other Assets		Specialised Investment/Securitisation		Equity Mitigation		Total Exposures after Netting and Risk Weighted Assets	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	3,551,083	-	-	30,929	-	-	-	-	-	-	-	-	-	-	244,201	-	-	-	-	3,826,213	-	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	1,127,607	543,126	-	-	-	-	-	-	-	-	-	-	179,001	-	34,548	-	-	1,884,282	-	376,857
35%	-	-	-	-	-	-	-	-	927	-	-	-	-	-	-	-	-	-	-	927	-	-
50%	-	-	-	153,932	6	235	-	-	-	-	-	-	-	-	-	-	-	-	-	154,173	-	325
75%	-	-	-	-	3,961	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,961	-	77,087
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,971
100%	-	-	-	101,191	-	-	-	-	-	-	-	-	-	-	245,103	-	-	-	-	364,215	-	364,215
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250.0% Deduction from capital base	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>3,551,083</b>	<b>-</b>	<b>1,127,607</b>	<b>829,178</b>	<b>3,967</b>	<b>1,162</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>668,305</b>	<b>-</b>	<b>54,484</b>	<b>17,921</b>	<b>6,253,707</b>	<b>18,850</b>	<b>65,973</b>	<b>887,428</b>	<b>1,086</b>	<b>1,086</b>	<b>-</b>	<b>-</b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

## 39 CAPITAL ADEQUACY (CONTINUED)

## Disclosure on Credit Risk: Disclosure on Risk Weights of the Bank as at 31 December 2009:

Risk Weighted	Sovereigns and Central Banks RM'000	PSEs RM'000	Banks, MDBs and FDI RM'000	Insurance Cos, Securities Firms and 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 Investment RM'000	Securitisation RM'000	Equity RM'000	Equity Mitigation RM'000	Total Exposures after Netting and Credit Risk RM'000	Total Risk Weighted Assets RM'000
0%	1,939,097	-	-	-	11,000	-	-	-	170,295	-	-	-	2,120,392	-	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	1,231,995	-	787,272	-	-	-	20,918	-	163,625	-	2,203,810	440,762	-
35%	-	-	-	-	-	-	947	-	-	-	-	-	947	331	-
50%	-	-	-	-	189,713	56	284	-	-	-	-	-	190,053	95,027	-
75%	-	-	-	-	-	5,857	-	-	-	-	-	-	5,857	4,393	-
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	304,707	-	-	-	24,278	-	-	-	328,985	328,985	-
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	966	-	-	-	-	166,231	249,347	-
270%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
350%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
625%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
937.5%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1250.0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	1,939,097	-	1,231,995	-	1,457,957	5,913	1,231	966	215,491	-	163,625	-	5,016,275	1,118,845	-

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 39 CAPITAL ADEQUACY (CONTINUED)

Off balance sheet and counterparty risks of the Bank as at 31 December 2010:

Bank 2010	Principal amount RM'000	Credit equivalent amount <sup>^</sup> RM'000	Risk weighted amount RM'000
Obligations under an on-going underwriting agreements	177,762	88,881	29,800
Assets sold with recourse	4,718	4,718	-
Interest rate related contracts:			
– less than one year	290,000	1,663	333
– one to less than five years	1,605,000	51,434	10,287
– five years and above	115,000	8,630	1,726
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	157	79	28
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or effectively provides for automatic cancellation due to deterioration in a borrower's creditworthiness*	97,205	-	-
<b>Total</b>	<b>2,289,842</b>	<b>155,405</b>	<b>42,174</b>

<sup>^</sup> The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

\* As a temporary measure to support lending activities of the banking industry:

- a) all banking institutions (Basel I and Basel II) are allowed to apply a 0% credit conversion factor ('CCF'), instead of 50% on the undrawn portion of credit facilities with an original maturity of more than one year, conditional upon the institution undertaking a credit review of the facility at least annually and having the right to withdraw the facility following an unsatisfactory assessment; and
- b) Basel II banking institutions can also apply a 0% CCF (instead of 20%) on the undrawn portions of credit facilities with an original maturity of less than a year.

These measures are applicable until 31 December 2010.

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 39 CAPITAL ADEQUACY (CONTINUED)

Off balance sheet and counterparty risks of the Bank as at 31 December 2009:

<b>Bank 2010</b>	<b>Principal amount RM'000</b>	<b>Credit equivalent amount<sup>^</sup> RM'000</b>	<b>Risk weighted amount RM'000</b>
Obligations under an on-going underwriting agreements	147,660	73,830	21,995
Interest rate related contracts:			
– less than one year	1,020,000	1,785	357
– one to less than five years	1,735,000	69,635	13,927
– five years and above	195,000	15,686	3,137
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	41	21	7
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or effectively provides for automatic cancellation due to deterioration in a borrower's creditworthiness*	90,561	–	–
<b>Total</b>	<b>3,188,262</b>	<b>160,957</b>	<b>39,423</b>

<sup>^</sup> The credit equivalent amount is arrived at using the credit conversion factors as per Bank Negara Malaysia guidelines.

\* As a temporary measure to support lending activities of the banking industry:

- a) all banking institutions (Basel I and Basel II) are allowed to apply a 0% credit conversion factor ('CCF'), instead of 50% on the undrawn portion of credit facilities with an original maturity of more than one year, conditional upon the institution undertaking a credit review of the facility at least annually and having the right to withdraw the facility following an unsatisfactory assessment; and
- b) Basel II banking institutions can also apply a 0% CCF (instead of 20%) on the undrawn portions of credit facilities with an original maturity of less than a year.

These measures are applicable until 31 December 2010.

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 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 within the RHB Banking 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; and
- (iii) To deliberate and make recommendations to the BODs of each relevant entity within the Group in respect of risk management matters of the respective entities.

The 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 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

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

##### Major Areas of Risk

As a banking institution's key activities 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.

##### Investment Banking

##### 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. 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.

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

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

##### Investment Banking (continued)

##### Market risk (continued)

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

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.

##### 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 Group 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 by the Board's approved credit policy which supports the development of a strong credit culture with the objectives of maintaining a well diversified 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 Central Credit Committee and the Group Credit Committee sanction credits beyond established prudential threshold. The adherence to the discretionary powers sanctioned by the Board is monitored by the Central Compliance function.

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

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

##### Investment Banking (continued)

##### Credit risk (continued)

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 the 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 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.

In stock-broking 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

The 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 constantly reviewed to ensure constant compliance with BNM's Liquidity Framework.



## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

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

##### Investment Banking (continued)

##### Liquidity risk (continued)

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 and minimize unexpected losses.

##### Capital Management Policy

##### Capital

Capital risk is defined as the risk that the Bank has insufficient capital to provide a sufficient resources to absorb a predetermined levels of losses or that the capital structure is inefficient.

##### Risk Appetite

Capital risk appetite is set by the Board and reported through various metrics that enable the Bank to manage capital constraint and shareholder expectations. The ALCO regularly reviews actual performance against risk appetite.

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

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

##### Investment Banking (continued)

##### Capital Management Policy (continued)

##### Exposure

A capital exposure arises where the Bank has insufficient regulatory capital resources to support its strategic objectives and plans, and to meet external shareholders' requirements and expectations. The Bank's capital management policy is focused on optimising value for its shareholders.

##### Capital Management and Basel II

The infrastructure implementation that has been completed has yielded significant benefits to the Bank and put the businesses on an advanced footing to:

- enhance our economic capital management;
- refine risk based pricing methods for our products and services; and
- improve asset quality across the businesses of the Bank. RHB Investment Bank continues to develop sustainable capabilities for continuous improvements in the use and adoption of the advanced approaches of the Basel II capital accord. RHB Investment Bank has adopted the Standardised Approach ('SA') for Credit Risk and Market Risk and Basic Indicator Approach for Operational Risk which are accordance with Bank Negara Malaysia's revised Risk Weighted Capital Adequacy Framework.

##### Stock-broking

##### 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 "PN17" 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). Hence, the market risk is contained within 4 market days following the transaction date.

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

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

##### Stock-broking (continued)

##### Credit risk

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

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

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

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

##### Basel II Implementation

In 2004, BNM announced a two-phased approach for implementing the standards recommended by the Bank of International Settlements set out in "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (Basel II) in Malaysia. In the first phase, banking institutions are required to adopt the Standardised Approach for credit risk by the end of 2008. In the second phase, qualified banking institutions are allowed to migrate directly to the Internal Ratings-Based approach (IRB) beginning from 2010.

The RHB Banking Group places great importance to Basel II and views it as a group-wide initiative in meeting international best practices for credit, market and operational risk management practices. A dedicated Basel II Steering Committee ('B2SC') was set up since October 2004 to oversee the implementation of Basel II initiatives throughout the Group and to ensure that it is on track in meeting regulatory requirements as outlined in the Risk-Weighted Capital Adequacy Framework ('RWCAF') for banking institutions issued by BNM.

For purpose of complying with regulatory requirements, the approaches adopted by the Bank are as follows:

	Credit Risk	Market Risk	Operational Risk
Approach	Standardised Approach	Standardised Approach	Basic Indicator Approach

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

## 40 FINANCIAL INSTRUMENTS (CONTINUED)

## (b) Financial instruments by category:

Group 2010	Loans and receivables RM'000	Assets at fair value through profit and loss RM'000	Available- for-sale RM'000	Held-to- maturity RM'000	Total RM'000
<b>Assets as per statement of financial position</b>					
Cash and short-term funds	1,907,199	-	-	-	1,907,199
Deposits and placements with banks and other financial institutions	250,275	-	-	-	250,275
Financial assets held-for-trading	-	350,330	-	-	350,330
Financial investments available-for-sale	-	-	3,272,231	-	3,272,231
Financial investments held-to-maturity	-	-	-	184,918	184,918
Loans and advances	49,891	-	-	-	49,891
Clients' and brokers' balances	421,127	-	-	-	421,127
Other financial assets	26,866	-	-	-	26,866
Derivatives assets	-	19,094	-	-	19,094
<b>Total</b>	<b>2,655,358</b>	<b>369,424</b>	<b>3,272,231</b>	<b>184,918</b>	<b>6,481,931</b>
<b>Liabilities as per statement of financial position</b>					
Deposits from customers	-	-	-	2,646,421	2,646,421
Deposits and placements of banks and other financial institutions	-	-	-	2,485,881	2,485,881
Clients' and brokers' balances	-	-	-	610,360	610,360
Other financial liabilities	-	-	-	73,722	73,722
Derivative liabilities	-	-	20,144	-	20,144
Subordinated obligations	-	-	-	246,127	246,127
<b>Total</b>	<b>-</b>	<b>-</b>	<b>20,144</b>	<b>6,062,511</b>	<b>6,082,655</b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

## 40 FINANCIAL INSTRUMENTS (CONTINUED)

## (b) Financial instruments by category (continued):

Bank 2010	Loans and receivables RM'000	Assets at fair value through the profit and loss RM'000	Available- for-sale RM'000	Held-to- maturity RM'000	Total RM'000
<b>Assets as per statement of financial position</b>					
Cash and short-term funds	1,841,694	-	-	-	1,841,694
Deposits and placements with banks and other financial institutions	250,275	-	-	-	250,275
Financial assets held-for-trading	-	350,330	-	-	350,330
Financial investments available-for-sale	-	-	3,257,686	-	3,257,686
Financial investments held-to-maturity	-	-	-	184,918	184,918
Loans and advances	49,891	-	-	-	49,891
Clients' and brokers' balances	421,127	-	-	-	421,127
Other financial assets	15,076	-	-	-	15,076
Derivatives assets	-	19,094	-	-	19,094
<b>Total</b>	<b>2,578,063</b>	<b>369,424</b>	<b>3,257,686</b>	<b>184,918</b>	<b>6,390,091</b>
<b>Liabilities as per statement of financial position</b>					
<b>Liabilities at fair value through the profit and loss</b>					
<b>Other Financial liabilities</b>					
Bank 2010					<b>Total RM'000</b>
Deposits from customers			-	2,646,421	2,646,421
Deposits and placements of banks and other financial institutions			-	2,485,881	2,485,881
Clients' and brokers' balances			-	610,360	610,360
Other financial liabilities			-	60,052	60,052
Derivative liabilities			20,144	-	20,144
Subordinated obligations			-	246,127	246,127
<b>Total</b>			<b>20,144</b>	<b>6,048,841</b>	<b>6,068,985</b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

#### (c) Market risk

Market risk sensitivity assessment is based on the changes in key variables, such as interest rates and foreign currency rates, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the assets and liabilities position of the Group as at 31 December 2010.

The scenarios used are simplified whereby it is assumed that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables. In reality, the Bank proactively seeks to ensure that the interest rate risk profile is managed to minimise losses and optimise net revenues.

#### (i) Interest rate sensitivity analysis

The following table shows the sensitivity of the Group and the Bank's profit after tax and its equity to an immediate up and down +/-50 basis point parallel shift in the interest rate.

2010	Group and Bank	
	Impact on profit after tax RM'000	Impact on equity RM'000
+50 basis points ('bps')	(11,227)	(54,120)
-50 bps	11,242	55,936

The results above represent financial assets and liabilities that have been prepared on the following basis:

Impact on the profit after tax is the sum of valuation changes on fixed income instruments held in the trading portfolio and earnings movement for all short term interest rate sensitive assets and liabilities (with maturity or re-pricing tenure of up to one year) that is not held in the trading portfolio. Earnings movement for the short term interest rate sensitive assets and liabilities uses a set of risk weights with its respective time band to simulate the 50 bps interest rate change impact. For assets and liabilities with non fix maturity e.g. current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of these interest bearing assets and liabilities.

Impact on equity represents the changes in fair values of fixed income instruments held in the available-for-sale portfolio arising from the shift in the interest rate.

#### (ii) Foreign currency sensitivity analysis

The foreign currency sensitivity represents the effect of the appreciation or depreciation of the foreign currency rates on the consolidated currency position, while other variables remain constant.

2010	Group and Bank
	Impact on profit after tax RM'000
+5%	771
-5%	(771)

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

#### (c) Market risk (continued)

##### Interest rate risk

The tables below summarise the Group's and the Bank's exposure to interest rate risks. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates:

Group	Non-trading book						Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
	Up to 1 month RM'000	> 1-3 months RM'000	> 3-6 months RM'000	> 6-12 months RM'000	> 1-3 years RM'000	Over 3 years RM'000			
<b>2010</b>									
Cash and short-term funds	1,801,578	-	-	-	-	-	105,621	-	1,907,199
Deposits and placements with banks and other financial institutions	-	250,000	-	120	-	-	155	-	250,275
Financial assets held-for-trading	-	-	-	-	-	-	-	350,330	350,330
Financial investments AFS	-	5,011	55,286	38,025	612,766	2,493,518	67,625	-	3,272,231
Financial investments held-to-maturity	-	-	-	102,981	28,303	145,503	(91,869)	-	184,918
Loans and advances	48,973	-	17	96	186	2,261	(1,642)	-	49,891
Clients' and brokers' balances	70,241	-	-	-	-	-	350,886	-	421,127
Other assets	-	-	-	31	67	324	28,677	-	29,099
Derivative assets	-	-	-	-	-	-	-	19,094	19,094
Tax recoverable	-	-	-	-	-	-	8,542	-	8,542
Deferred tax assets	-	-	-	-	-	-	776	-	776
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	33,250	-	33,250
Investment in a joint venture	-	-	-	-	-	-	25,044	-	25,044
Property, plant and equipment	-	-	-	-	-	-	14,075	-	14,075
Goodwill	-	-	-	-	-	-	172,844	-	172,844
<b>TOTAL ASSETS</b>	<b>1,920,792</b>	<b>255,011</b>	<b>55,303</b>	<b>141,253</b>	<b>641,322</b>	<b>2,641,606</b>	<b>713,984</b>	<b>369,424</b>	<b>6,738,695</b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

## 40 FINANCIAL INSTRUMENTS (CONTINUED)

## (c) Market risk (continued)

## Interest rate risk

The tables below summarise the Group's and the Bank's exposure to interest rate risks. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

Group	Non-trading book						Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
	Up to 1 month RM'000	> 1-3 months RM'000	> 3-6 months RM'000	> 6-12 months RM'000	> 1-3 years RM'000	Over 3 years RM'000			
<b>2010</b>									
Deposits from customers	1,794,051	821,107	27,650	-	-	-	3,613	-	2,646,421
Deposits and placements of banks and other financial institutions	1,496,746	828,406	141,993	11,908	-	-	6,828	-	2,485,881
Clients' and brokers' balances	-	-	-	-	-	-	610,360	-	610,360
Other liabilities	-	-	-	-	-	-	73,722	-	73,722
Derivative liabilities	-	-	-	-	-	-	-	20,144	20,144
Subordinated obligations	-	-	-	-	245,000	-	1,127	-	246,127
Taxation	-	-	-	-	-	-	2,033	-	2,033
Deferred tax liabilities	-	-	-	-	-	-	2,251	-	2,251
<b>TOTAL LIABILITIES</b>	<b>3,290,797</b>	<b>1,649,513</b>	<b>169,643</b>	<b>11,908</b>	<b>245,000</b>	<b>-</b>	<b>699,934</b>	<b>20,144</b>	<b>6,086,939</b>
Total equity	-	-	-	-	-	-	651,756	-	651,756
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>3,290,797</b>	<b>1,649,513</b>	<b>169,643</b>	<b>11,908</b>	<b>245,000</b>	<b>-</b>	<b>1,351,690</b>	<b>20,144</b>	<b>6,738,695</b>
On-balance sheet interest sensitivity gap	(1,370,005)	(1,394,502)	(114,340)	129,345	396,322	2,641,606			
Off-balance sheet interest sensitivity gap	(105,000)	45,110	(20,110)	100,030	4,970	(25,000)			
<b>TOTAL INTEREST SENSITIVITY GAP</b>	<b>(1,475,005)</b>	<b>(1,349,392)</b>	<b>(134,450)</b>	<b>229,375</b>	<b>401,292</b>	<b>2,616,606</b>			



## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

#### (c) Market risk (continued)

##### Interest rate risk

The tables below summarise the Group's and the Bank's exposure to interest rate risks. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

Bank	Non-trading book						Non-interest sensitive RM'000	Trading book RM'000	Total RM'000
	Up to 1 month RM'000	> 1-3 months RM'000	> 3-6 months RM'000	> 6-12 months RM'000	> 1-3 years RM'000	Over 3 years RM'000			
<b>2010</b>									
Cash and short-term funds	1,761,378	-	-	-	-	-	80,316	-	1,841,694
Deposits and placements with banks and other financial institutions	-	250,000	-	120	-	-	155	-	250,275
Financial assets held-for-trading	-	-	-	-	-	-	-	350,330	350,330
Financial investments AFS	-	5,011	55,286	38,025	612,766	2,493,518	53,080	-	3,257,686
Financial investments held-to-maturity	-	-	-	102,981	28,303	145,503	(91,869)	-	184,918
Loans and advances	48,973	-	17	96	186	2,261	(1,642)	-	49,891
Clients' and brokers' balances	70,241	-	-	-	-	-	350,886	-	421,127
Other assets	-	-	-	-	-	-	17,277	-	17,277
Derivative assets	-	-	-	-	-	-	-	19,094	19,094
Tax recoverable	-	-	-	-	-	-	8,516	-	8,516
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	-	33,250	-	33,250
Investments in subsidiaries	-	-	-	-	-	-	84,970	-	84,970
Investment in a joint venture	-	-	-	-	-	-	27,399	-	27,399
Property, plant and equipment	-	-	-	-	-	-	12,334	-	12,334
Goodwill	-	-	-	-	-	-	159,280	-	159,280
<b>TOTAL ASSETS</b>	<b>1,880,592</b>	<b>255,011</b>	<b>55,303</b>	<b>141,222</b>	<b>641,255</b>	<b>2,641,282</b>	<b>733,952</b>	<b>369,424</b>	<b>6,718,041</b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

## 40 FINANCIAL INSTRUMENTS (CONTINUED)

## (c) Market risk (continued)

## Interest rate risk

The tables below summarise the Group's and the Bank's exposure to interest rate risks. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual re-pricing or maturity dates (continued):

Bank	Non-trading book						Non-Interest sensitive RM'000	Trading book RM'000	Total RM'000
	Up to 1 month RM'000	> 1-3 months RM'000	> 3-6 months RM'000	> 6-12 months RM'000	> 1-3 years RM'000	Over 3 years RM'000			
<b>2010</b>									
Deposits from customers	1,794,051	821,107	27,650	-	-	-	3,613	-	2,646,421
Deposits and placements of banks and other financial institutions	1,496,746	828,406	141,993	11,908	-	-	6,828	-	2,485,881
Clients' and brokers' balances	-	-	-	-	-	-	610,360	-	610,360
Other liabilities	-	-	-	-	-	-	60,052	-	60,052
Derivative liabilities	-	-	-	-	-	-	-	20,144	20,144
Subordinated obligations	-	-	-	-	245,000	-	1,127	-	246,127
Deferred tax liabilities	-	-	-	-	-	-	2,251	-	2,251
<b>TOTAL LIABILITIES</b>	<b>3,290,797</b>	<b>1,649,513</b>	<b>169,643</b>	<b>11,908</b>	<b>245,000</b>	<b>-</b>	<b>684,231</b>	<b>20,144</b>	<b>6,071,236</b>
Total equity	-	-	-	-	-	-	646,805	-	646,805
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>3,290,797</b>	<b>1,649,513</b>	<b>169,643</b>	<b>11,908</b>	<b>245,000</b>	<b>-</b>	<b>1,331,036</b>	<b>20,144</b>	<b>6,718,041</b>
On-balance sheet interest sensitivity gap	(1,410,205)	(1,394,502)	(114,340)	129,314	396,255	2,641,282			
Off-balance sheet interest sensitivity gap	(105,000)	45,110	(20,110)	100,030	4,970	(25,000)			
<b>TOTAL INTEREST SENSITIVITY GAP</b>	<b>(1,515,205)</b>	<b>(1,349,392)</b>	<b>(134,450)</b>	<b>229,344</b>	<b>401,225</b>	<b>2,616,282</b>			

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

#### (d) Liquidity risk

Liquidity risk is defined as the current and prospective risk arising from the inability of the Group and the Bank to meet its contractual or regulatory obligations when they come due without incurring substantial losses. Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds at maturity, extensions of credit and working capital needs. The Group and the Bank seek to project, monitor and manage its liquidity needs under normal as well as adverse circumstances.

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) as at 31 December 2010 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8:

Group	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
<b>2010</b>								
<b>ASSETS</b>								
Cash and short-term funds	1,196,357	710,842	-	-	-	-	-	1,907,199
Deposits and placements with banks and other financial institutions	-	-	250,155	-	120	-	-	250,275
Financial assets held-for-trading	-	78,014	95,535	36,695	100,374	39,712	-	350,330
Financial investments AFS	657	10,440	26,721	60,153	38,535	3,121,745	13,980	3,272,231
Financial investments held-to-maturity	-	-	526	341	19,974	164,077	-	184,918
Loans, advances and financing	33,156	14,215	-	16	95	2,409	-	49,891
Clients' and brokers' balances	294,789	126,338	-	-	-	-	-	421,127
Other assets	3,076	2,737	6,163	1,785	24	457	14,857	29,099
Derivative assets	-	-	-	-	1,178	17,916	-	19,094
Tax recoverable	-	-	-	-	-	-	8,542	8,542
Deferred tax assets	-	-	-	-	-	-	776	776
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	33,250	33,250
Investment in a joint venture	-	-	-	-	-	-	25,044	25,044
Property, plant and equipment	-	-	-	-	-	-	14,075	14,075
Goodwill	-	-	-	-	-	-	172,844	172,844
<b>TOTAL ASSETS</b>	<b>1,528,035</b>	<b>942,586</b>	<b>379,100</b>	<b>98,990</b>	<b>160,300</b>	<b>3,346,316</b>	<b>283,368</b>	<b>6,738,695</b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

#### (d) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) as at 31 December 2010 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

Group	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
<b>2010</b>								
<b>LIABILITIES</b>								
Deposits from customers	683,056	1,113,563	822,070	27,732	-	-	-	<b>2,646,421</b>
Deposits and placements of banks and other financial institutions	599,469	900,716	831,101	142,683	11,912	-	-	<b>2,485,881</b>
Clients' and brokers' balances	427,252	183,108	-	-	-	-	-	<b>610,360</b>
Other liabilities	5,127	18,091	17,846	7,020	-	10,230	15,408	<b>73,722</b>
Derivative liabilities	-	-	111	914	89	19,030	-	<b>20,144</b>
Taxation	-	-	-	-	-	-	2,033	<b>2,033</b>
Deferred tax liabilities	-	-	-	-	-	-	2,251	<b>2,251</b>
Subordinated obligations	-	-	-	1,127	-	245,000	-	<b>246,127</b>
<b>TOTAL LIABILITIES</b>	<b>1,714,904</b>	<b>2,215,478</b>	<b>1,671,128</b>	<b>179,476</b>	<b>12,001</b>	<b>274,260</b>	<b>19,692</b>	<b>6,086,939</b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

#### (d) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) as at 31 December 2010 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

Bank	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
<b>2010</b>								
<b>ASSETS</b>								
Cash and short-term funds	1,140,752	700,942	-	-	-	-	-	<b>1,841,694</b>
Deposits and placements with banks and other financial institutions	-	-	250,155	-	120	-	-	<b>250,275</b>
Financial assets held-for-trading	-	78,014	95,535	36,695	100,374	39,712	-	<b>350,330</b>
Financial investments AFS	657	10,440	26,721	60,153	38,535	3,121,180	-	<b>3,257,686</b>
Financial investments held-to-maturity	-	-	526	341	19,974	164,077	-	<b>184,918</b>
Loans, advances and financing	33,156	14,215	-	16	95	2,409	-	<b>49,891</b>
Clients' and brokers' balances	294,789	126,338	-	-	-	-	-	<b>421,127</b>
Other assets	-	-	6,155	-	-	-	11,122	<b>17,277</b>
Derivative assets	-	-	-	-	1,178	17,916	-	<b>19,094</b>
Tax recoverable	-	-	-	-	-	-	8,516	<b>8,516</b>
Statutory deposits with Bank Negara Malaysia	-	-	-	-	-	-	33,250	<b>33,250</b>
Investments in a joint venture	-	-	-	-	-	-	27,399	<b>27,399</b>
Investment in a subsidiaries	-	-	-	-	-	-	84,970	<b>84,970</b>
Property, plant and equipment	-	-	-	-	-	-	12,334	<b>12,334</b>
Goodwill	-	-	-	-	-	-	159,280	<b>159,280</b>
<b>TOTAL ASSETS</b>	<b>1,469,354</b>	<b>929,949</b>	<b>379,092</b>	<b>97,205</b>	<b>160,276</b>	<b>3,345,294</b>	<b>336,871</b>	<b>6,718,041</b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

#### (d) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) as at 31 December 2010 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8 (continued):

Bank	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
<b>2010</b>								
<b>LIABILITIES</b>								
Deposits from customers	683,056	1,113,563	822,070	27,732	-	-	-	<b>2,646,421</b>
Deposits and placements of banks and other financial institutions	599,469	900,716	831,101	142,683	11,912	-	-	<b>2,485,881</b>
Clients' and brokers' balances	427,252	183,108	-	-	-	-	-	<b>610,360</b>
Other liabilities	-	12,866	17,189	6,662	-	10,016	13,319	<b>60,052</b>
Derivative liabilities	-	-	111	914	89	19,030	-	<b>20,144</b>
Deferred tax liabilities	-	-	-	-	-	-	2,251	<b>2,251</b>
Subordinated obligations	-	-	-	1,127	-	245,000	-	<b>246,127</b>
<b>TOTAL LIABILITIES</b>	<b>1,709,777</b>	<b>2,210,253</b>	<b>1,670,471</b>	<b>179,118</b>	<b>12,001</b>	<b>274,046</b>	<b>15,570</b>	<b>6,071,236</b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

#### (d) Liquidity risk (continued)

The following table presents the cash outflows for the Group's and the Bank's financial liabilities by remaining contractual maturities on undiscounted basis. The balances in the table below will not agree to the balances reported in the statements of financial position as the table incorporates all contractual cash flows, on an undiscounted basis, relating to both principal and interest payments.

Group	Up to 1 month RM'000	1 to 6 months RM'000	6 to 12 months RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
<b>2010</b>							
Deposits from customers	1,798,737	854,375	-	-	-	-	<b>2,653,112</b>
Deposits and placements of banks and other financial institutions	1,501,593	980,203	12,205	-	-	-	<b>2,494,001</b>
Clients' and brokers' balances	610,360	-	-	-	-	-	<b>610,360</b>
Other liabilities	23,216	18,334	6,532	-	-	26,627	<b>74,709</b>
Derivative liabilities							
- Net settled derivatives	760	3,562	4,659	14,001	3,627	1,279	<b>27,888</b>
Subordinated obligations	-	6,538	6,538	259,313	-	-	<b>272,389</b>
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>3,934,666</b>	<b>1,863,012</b>	<b>29,934</b>	<b>273,314</b>	<b>3,627</b>	<b>27,906</b>	<b>6,132,459</b>
Bank	Up to 1 month RM'000	1 to 6 months RM'000	6 to 12 months RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
<b>2010</b>							
Deposits from customers	1,798,737	854,375	-	-	-	-	<b>2,653,112</b>
Deposits and placements of banks and other financial institutions	1,501,593	980,203	12,205	-	-	-	<b>2,494,001</b>
Clients' and brokers' balances	610,360	-	-	-	-	-	<b>610,360</b>
Other liabilities	12,866	17,319	6,532	-	-	22,426	<b>59,143</b>
Derivative liabilities							
- Net settled derivatives	760	3,562	4,659	14,001	3,627	1,279	<b>27,888</b>
Subordinated obligations	-	6,538	6,538	259,313	-	-	<b>272,389</b>
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>3,924,316</b>	<b>1,861,997</b>	<b>29,934</b>	<b>273,314</b>	<b>3,627</b>	<b>23,705</b>	<b>6,116,893</b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

#### (d) Liquidity risk (continued)

The following table presents the contractual expiry by maturity of the Group's and the Bank's commitments and contingencies:

Group and Bank	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
<b>2010</b>			
Obligations under an on-going underwriting agreements	157,000	–	<b>157,000</b>
Assets sold with recourse	4,718	–	<b>4,718</b>
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	–	157	<b>157</b>
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or effectively provides for automatic cancellation due to deterioration in a borrower's creditworthiness	97,205	–	<b>97,205</b>
<b>Commitments and contingencies</b>	<b>258,923</b>	<b>157</b>	<b>259,080</b>

Undrawn loan commitments are recognised at activation stage and include commitments which are unconditionally cancellable by the Group and the Bank. The Group and the Bank expect that not all of the contingent liabilities and undrawn loan commitments will be drawn before expiry.



## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

#### (e) Credit risk

##### (i) Maximum exposure to credit risk

The maximum exposure to credit risk at the statements of financial position is the amounts on the statements of financial position as well as off balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Group and the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers. The table below shows the maximum exposure to credit risk for the Group and the Bank:

2010	Group RM'000	Bank RM'000
Credit risk exposure relating to on-balance sheet assets:		
Short-term funds	1,907,190	1,841,685
Deposits and placements with banks and other financial institutions	250,275	250,275
Financial assets and investments portfolio (exclude shares):		
– Financial assets held-for-trading	350,330	350,330
– Financial investments available-for-sale	3,239,412	3,238,847
– Financial investments held-to-maturity	184,918	184,918
Loans and advances	49,891	49,891
Clients' and brokers' balances	421,127	421,127
Other assets	26,866	15,076
Derivative assets	19,094	19,094
	<hr/>	<hr/>
	6,449,103	6,371,243
Credit risk exposure of off-balance sheet items:		
Commitments and contingencies	259,080	259,080
	<hr/>	<hr/>
Total maximum credit risk exposure	<b>6,708,183</b>	<b>6,630,323</b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

## 40 FINANCIAL INSTRUMENTS (CONTINUED)

## (e) Credit risk (continued)

## (ii) Credit quality

- (a) Short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, other assets and derivative assets

Short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, other assets and derivative assets of the Group and the Bank are summarised as follows:

Group	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Derivative assets RM'000	Other assets RM'000
<b>2010</b>						
Neither past due nor impaired	2,157,465	350,330	3,180,977	148,699	19,094	26,676
Impaired	-	-	58,435	128,979	-	1,756
	<u>2,157,465</u>	<u>350,330</u>	<u>3,239,412</u>	<u>277,678</u>	<u>19,094</u>	<u>28,432</u>
Less: Allowance for impairment	-	-	-	(92,760)	-	(1,566)
	<u><b>2,157,465</b></u>	<u><b>350,330</b></u>	<u><b>3,239,412</b></u>	<u><b>184,918</b></u>	<u><b>19,094</b></u>	<u><b>26,866</b></u>
<b>Bank</b>						
<b>2010</b>						
Neither past due nor impaired	2,091,960	350,330	3,180,977	148,699	19,094	14,886
Impaired	-	-	57,870	128,979	-	1,756
	<u>2,091,960</u>	<u>350,330</u>	<u>3,238,847</u>	<u>277,678</u>	<u>19,094</u>	<u>16,642</u>
Less: Allowance for impairment	-	-	-	(92,760)	-	(1,566)
	<u><b>2,091,960</b></u>	<u><b>350,330</b></u>	<u><b>3,238,847</b></u>	<u><b>184,918</b></u>	<u><b>19,094</b></u>	<u><b>15,076</b></u>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

#### (e) Credit risk (continued)

##### (ii) Credit quality (continued)

- (a) Analysis of short-term funds and deposits and placements with banks and other financial institutions, financial assets and investments portfolios, other assets and derivative assets which are neither past due nor impaired, for the Group by rating agency designation as at 31 December 2010 are as follows:

Group	Short-term funds and deposits and placements with banks and other financial institutions	Financial assets held- for-trading	Financial investments available- for-sale	Financial investments held-to- maturity	Derivative assets	Other assets
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>2010</b>						
Aaa to Aa	-	4,721	891,313	99,872	6,166	-
A1 to A3	-	51,502	52,996	-	10,105	-
Baa1 to Ba3	-	-	-	-	2,823	-
P1 to P3	935,680	65,600	-	-	-	-
Unrated	1,221,785	228,507	2,236,668	48,827	-	26,676
Of which:						
- Bank Negara Malaysia	1,111,711	192,952	-	-	-	-
- Malaysian Government Securities	-	-	1,321,458	45,298	-	-
- Malaysian Government Investment Issues	-	35,555	774,379	-	-	-
- Private Debt Securities	-	-	139,549	3,506	-	-
- Others	110,074	-	1,282	23	-	26,676
	<b>2,157,465</b>	<b>350,330</b>	<b>3,180,977</b>	<b>148,699</b>	<b>19,094</b>	<b>26,676</b>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

#### (e) Credit risk (continued)

##### (ii) Credit quality (continued)

- (a) Analysis of short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, other assets and derivative assets which are neither past due nor impaired, for the Bank by rating agency designation as at 31 December 2010 are as follows (continued):

Bank	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Derivative assets RM'000	Other assets RM'000
<b>2010</b>						
Aaa to Aa	-	4,721	891,313	99,872	6,166	-
A1 to A3	-	51,502	52,996	-	10,105	-
Baa1 to Ba3	-	-	-	-	2,823	-
P1 to P3	870,175	65,600	-	-	-	-
Unrated	1,221,785	228,507	2,236,668	48,827	-	14,886
Of which:						
- Bank Negara Malaysia	1,111,711	192,952	-	-	-	-
- Malaysian Government Securities	-	-	1,321,458	45,298	-	-
- Malaysian Government Investment Issues	-	35,555	774,379	-	-	-
- Private Debt Securities	-	-	139,549	3,506	-	-
- Others	110,074	-	1,282	23	-	14,886
	<b>2,091,960</b>	<b>350,330</b>	<b>3,180,977</b>	<b>148,699</b>	<b>19,094</b>	<b>14,886</b>

The credit quality of financial assets other than loans and advances and clients' and brokers' balances are determined based on the ratings of counterparties as defined by Moody's or equivalent ratings of other international rating agencies as defined below:

- Aaa to Aa
- A1 to A3
- Baa1 to Ba3
- B1 to C
- P1 to P3

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

#### (e) Credit risk (continued)

##### (iii) Credit quality (continued)

##### (b) Loans and advances

Loans and advances comprise mainly share margin financing are summarised as follows:

<b>2010</b>	<b>Group and Bank RM'000</b>
Neither past due nor impaired	50,615
Impaired	918
	<hr/>
Gross loans and advances	51,533
Less: Individual impairment allowance	(882)
Collective impairment allowance	(760)
	<hr/>
Net loans and advances	<b>49,891</b>

The collateral of the impaired loans and advances amounting to RM248,000 comprise of quoted shares and margin deposits.

Analysis of loans and advances that are neither past due nor impaired are as follows:

<b>2010</b>	<b>Group and Bank RM'000</b>
Share margin financing	48,049
Staff loans	2,566
	<hr/>
	<b>50,615</b>

All loans and advances is unrated. All share margin financing is above the 130% margin required prescribed by Bursa Securities.

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

#### (e) Credit risk (continued)

##### (iii) Credit quality (continued)

##### (c) Clients' and brokers' balances

Clients' and brokers' balances are summarised as follows:

<b>2010</b>	<b>Group and Bank RM'000</b>
Neither past due nor impaired	419,575
Impaired	9,387
	<hr/>
Gross clients' and brokers' balances	428,962
Less: Individual impairment allowance	(7,478)
Collective impairment allowance	(357)
	<hr/>
Net clients' and brokers' balances	<b>421,127</b>

The collateral of the impaired accounts amounting to RM566,000 comprise of quoted shares and remisier's deposits.

Analysis of clients' and brokers' balances that are neither past due nor impaired are as follows:

<b>2010</b>	<b>Group and Bank RM'000</b>
Brokers' balances	176,660
Clients' balances:	
– outstanding purchases	202,633
– contra losses	1,182
Margin placed with Clearing House ('MDCH')	39,100
	<hr/>
	<b>419,575</b>

The amount of clients' and brokers' balances of the Group and the Bank that are past due but not impaired is not material.

Included in clients' and brokers' balances are outstanding purchases and contra losses which are settled within the Fixed Delivery Settlement System cycle.

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 40 FINANCIAL INSTRUMENTS (CONTINUED)

#### (e) Credit risk (continued)

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

Group	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale* RM'000	Financial investments 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
<b>2010</b>								
Agricultural	-	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	-	-
Manufacturing	-	38,727	152,120	39,726	-	-	230,573	157,100
Electricity, gas and water	-	24,906	109,186	-	-	-	134,092	-
Construction	-	4,721	37,822	-	-	-	42,543	-
Real estate	-	-	20,662	-	-	-	20,662	-
General commerce	-	1,967	18,954	-	-	-	20,921	-
Wholesale & retail trade and restaurants & hotels	-	-	5,192	-	-	-	5,192	460
Transport, storage and communication	-	-	117,467	99,872	-	-	217,339	-
Finance, insurance and business services	1,046,082	51,502	669,623	23	-	21,671	1,788,901	-
Government and government agencies	1,111,383	228,507	2,107,821	45,297	-	-	3,493,008	-
Purchase of landed property	-	-	-	-	-	-	-	-
Purchase of securities	-	-	-	-	48,085	421,484	469,569	-
Purchase of transport vehicles	-	-	-	-	-	-	-	-
Consumption credit	-	-	-	-	-	-	-	-
Others	-	-	565	-	2,566	24,289	27,420	101,520
<b>Total</b>	<b>2,157,465</b>	<b>350,330</b>	<b>3,239,412</b>	<b>184,918</b>	<b>50,651</b>	<b>467,444</b>	<b>6,450,220</b>	<b>259,080</b>

\* Excludes equity instruments amounting to RM32,819,000.

# Excludes general allowance amounting to RM760,000.

@ Clients' and brokers' balances exclude general allowance of RM357,000 and other financial assets comprise other receivables.

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

## 40 FINANCIAL INSTRUMENTS (CONTINUED)

## (e) Credit risk (continued)

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

Bank	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale* RM'000	Financial investments 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
<b>2010</b>								
Agricultural	-	-	-	-	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	-	-
Manufacturing	-	38,727	152,120	39,726	-	-	230,573	157,100
Electricity, gas and water	-	24,906	109,186	-	-	-	134,092	-
Construction	-	4,721	37,822	-	-	-	42,543	-
Real estate	-	-	20,662	-	-	-	20,662	-
General commerce	-	1,967	18,954	-	-	-	20,921	-
Wholesale & retail trade and restaurants & hotels	-	-	5,192	-	-	-	5,192	460
Transport, storage and communication	-	-	117,467	99,872	-	-	217,339	-
Finance, insurance and business services	980,577	51,502	669,623	23	-	19,927	1,721,652	-
Government and government agencies	1,111,383	228,507	2,107,821	45,297	-	-	3,493,008	-
Purchase of landed property	-	-	-	-	-	-	-	-
Purchase of securities	-	-	-	-	48,085	421,484	469,569	-
Purchase of transport vehicles	-	-	-	-	-	-	-	-
Consumption credit	-	-	-	-	-	-	-	-
Others	-	-	-	-	2,566	14,243	16,809	101,520
<b>Total</b>	<b>2,091,960</b>	<b>350,330</b>	<b>3,238,847</b>	<b>184,918</b>	<b>50,651</b>	<b>455,654</b>	<b>6,372,360</b>	<b>259,080</b>

\* Excludes equity instruments amounting to RM18,839,000.

# Excludes general allowance amounting to RM760,000.

@ Clients' and brokers' balances exclude general allowance of RM357,000 and other financial assets comprise other receivables.



## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 41 FAIR VALUES OF FINANCIAL INSTRUMENTS

The table below summarises the carrying amounts and the fair values of those financial assets not presented on the Group's and the Bank's statements of financial position at their fair values:

<b>Group and Bank 2010</b>	<b>Carrying amount RM'000</b>	<b>Fair value RM'000</b>
<b>Financial assets</b>		
Financial investments held-to-maturity	<u>184,918</u>	<u>187,749</u>
<b>Financial liabilities</b>		
Subordinated obligations	<u>246,127</u>	<u>252,331</u>
<b>Group and Bank 2009</b>	<b>Carrying amount RM'000</b>	<b>Fair value RM'000</b>
<b>Financial assets</b>		
Financial investments held-to-maturity	<u>206,241</u>	<u>209,632</u>
<b>Financial liabilities</b>		
Subordinated obligations	<u>245,000</u>	<u>249,898</u>

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

#### **Cash and short-term funds and deposits and placements with financial institutions**

For cash and short-term funds and deposits and placements with financial institutions with maturities of less than six months, the carrying value is a reasonable estimate of fair value. For deposits and placements with maturities six months and above, estimated fair value is based on discounted cash flows using prevailing money market interest rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

#### **Financial investments held-to-maturity**

The fair value for financial investments held-to-maturity is based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been assessed by reference to market indicative interest yields or net tangible asset backing of the investee. Where discounted cash flow technique is used, the estimated future cash flows are discounted using the prevailing market rates for a similar instrument at the date of statements of financial position.

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 41 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

#### Loans and advances

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

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

The fair values of impaired floating and fixed rate loans are represented by their carrying amounts, net of impairment allowance.

#### Other assets and liabilities

The carrying value less any estimated impairment allowance for financial assets and liabilities included in 'other assets and liabilities' are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

#### Deposits from customers

For deposits from customers with maturities of less than six months, the carrying amounts are reasonable estimates of their fair values. For deposits with maturities of six months and above, 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 six months approximate the carrying values. For the items with maturities six months and above, the fair values are estimated based on discounted cash flows using prevailing money market interest rates with similar remaining period to maturities.

#### Subordinated obligations

The estimated fair value of subordinated obligations is generally based on quoted and observable market prices at the date of statements of financial position.

#### 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 fair value may be represented by the present value of fees expected to be received, less associated costs.

#### 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 the date of statements of financial position.

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 42 CHANGES IN ACCOUNTING POLICIES

During the financial year, the Group and the Bank changed the following accounting policies upon adoption of new accounting standards, amendments and improvements to published standards and interpretations:

- Financial assets
- Financial liabilities
- Impairment of financial assets

Refer to the summary of significant policies for the details of the changes in accounting policy. The impact of such changes on the financial statements of the Group and the Bank are set out below.

(i) Impact on the Group's and the Bank's statements of financial position:

Group	Balance as at	Balance as at	
	31 December	FRS 139	1 January
	2009	2010	2010
	RM'000	RM'000	RM'000
Financial investments available-for-sale	2,449,706	11,992	2,461,698
Loans and Advances			
– Individual impairment allowance	–	1,091	1,091
– Collective impairment allowance	–	916	916
– Specific allowance	1,091	(1,091)	–
– General allowance	916	(916)	–
Clients' and brokers' balances			
– Individual impairment allowance	–	8,061	8,061
– Collective impairment allowance	–	221	221
– Specific allowance	8,061	(8,061)	–
– General allowance	221	(221)	–
Deferred tax assets	5,974	(2,998)	2,976
AFS reserve	(19,684)	8,994	(10,690)
<b>Bank</b>			
Financial investments available-for-sale	2,448,485	11,992	2,460,477
Loans and advances			
– Individual impairment allowance	–	1,091	1,091
– Collective impairment allowance	–	916	916
– Specific allowance	1,091	(1,091)	–
– General allowance	916	(916)	–
Clients' and brokers' balances			
– Individual impairment allowance	–	8,061	8,061
– Collective impairment allowance	–	221	221
– Specific allowance	8,061	(8,061)	–
– General allowance	221	(221)	–
Deferred tax assets	5,466	(2,998)	2,468
AFS reserve	(19,684)	8,994	(10,690)

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 42 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The impact of such changes on the financial statements of the Group and the Bank are set out below (continued):

(i) Impact on the Group's and the Bank's statements of financial position (continued):

	Increase/(decrease) to balance as at 31 December 2010 FRS 139 RM'000
<b>Group and Bank</b>	
<b>Assets</b>	
Cash and short-term funds	1,545
Deposits and placements with banks and other financial institutions	155
Financial assets held-for-trading	1,923
Financial investments available-for-sale	52,439
Financial investments held-to-maturity	867
Other assets	<u>(41,513)</u>
<b>Liabilities</b>	
Deposits from customers	3,614
Deposits and placements of banks and other financial institutions	6,828
Other liabilities	<u>(11,569)</u>
Deferred tax liabilities	3,854
Subordinated obligations	<u>1,127</u>
<b>Equity</b>	
AFS reserve	<u>11,562</u>

(ii) Impact on the Group's and the Bank's statements of comprehensive income:

	Increase/(decrease) for the financial year ended 31 December 2010 FRS 139 RM'000
<b>Group and Bank</b>	
Other comprehensive income:	
Fair value gain on financial investments available-for-sale, net of tax	<u>11,562</u>

## Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

### 43 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

#### (a) 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 2009, granted for an extension of time up to 10 October 2009 for the implementation of the Proposed Issuance of HT1 Securities.

On 20 October 2009, the Securities Commission had further granted an extension of time up to 10 October 2010 to implement the proposed issuance of HT1 Securities.

The Bank has not made any issuance of the HT1 Securities and has decided not to proceed with the issuance of the HT1 Securities given that its core financial ratios remain at levels adequate to support its current level of operations. As such, the proposed HT1 Securities has been cancelled with effect from 10 October 2010.

### 44 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 23 February 2011.

# 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 58 to 171 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 2010 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  
28 February 2011

# Statutory Declaration

Pursuant To Section 169(16) Of The Companies Act, 1965

I, Yap Choi Foong, 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 58 to 171 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.

**YAP CHOI FOONG**

Subscribed and solemnly declared by the abovenamed Yap Choi Foong at Kuala Lumpur on 28 February 2011, before me.

COMMISSIONER FOR OATHS

# Independent Auditors' Report

To The Member Of RHB Investment Bank Berhad  
(Incorporated in Malaysia)  
(Company No. 19663 P)

## REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of RHB Investment Bank Berhad, which comprise the statements of financial position as at 31 December 2010 of the Group and of the Bank, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 58 to 171.

### 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 2010 and of their financial performance and cash flows for the year then ended.

## Independent Auditors' Report

To The Member Of RHB Investment Bank Berhad (continued)  
(Incorporated in Malaysia)  
(Company No. 19663 P)

### 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

#### SRIDHARAN NAIR

(No. 2656/05/12 (J))  
Chartered Accountant

Kuala Lumpur  
28 February 2011



# Pillar 3 Disclosures Contents

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◆ 13.0	Internal Capital Adequacy Assessment Process ('ICAAP')

# Statement By Managing Director

In accordance with the requirements of Bank Negara Malaysia's Guideline on Risk Weighted Capital Adequacy Framework ('Basel II') – Disclosure Requirements ('Pillar 3'), and on behalf of the Board and Senior Management of RHB Investment Bank Berhad, I am pleased to provide an attestation that the Basel II Pillar 3 disclosures of the Bank for the year ended 31st December 2010 are accurate and complete.

**Chay Wai Leong**  
Managing Director

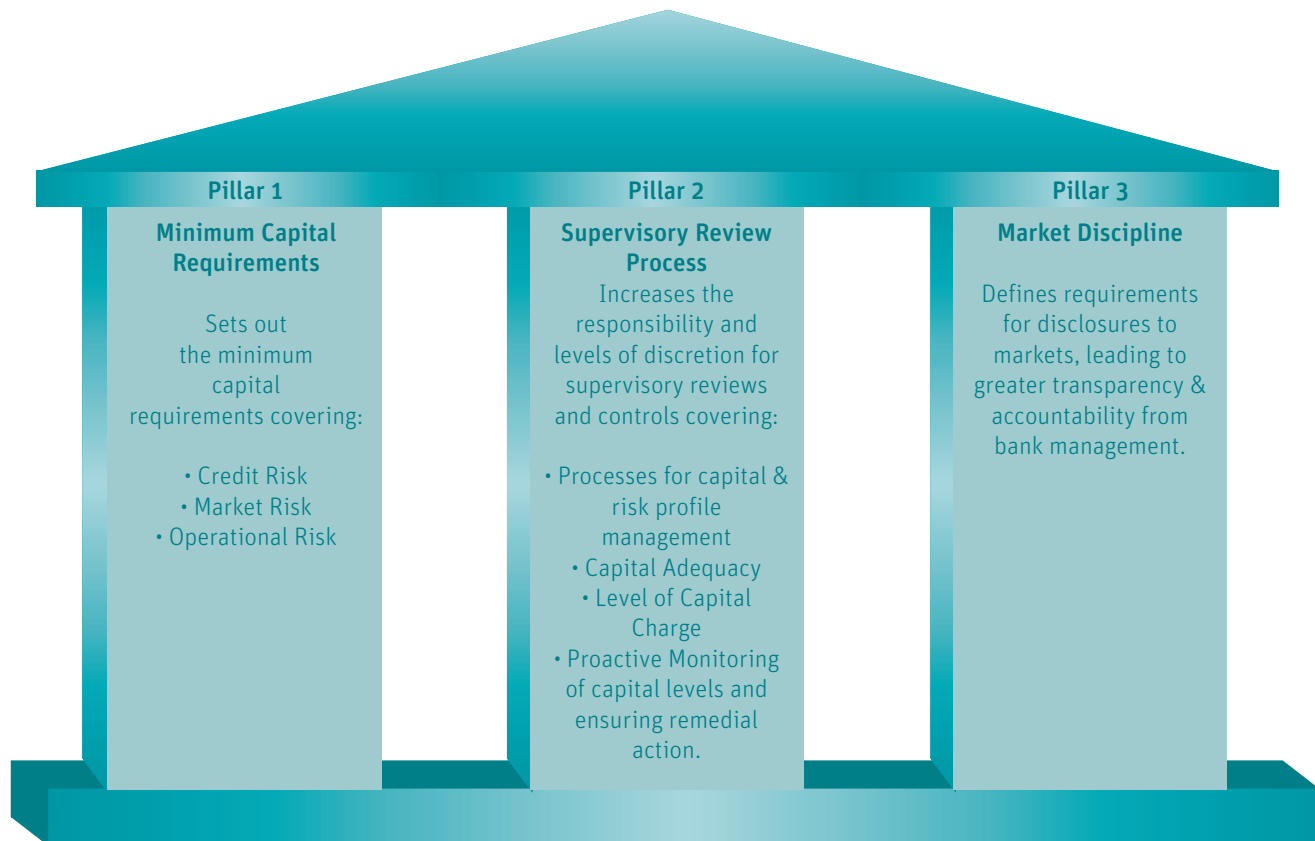
# 1.0 Introduction

This document discloses RHB Investment Bank's risk profile, risk management practices and capital adequacy position in accordance with the disclosure requirements as outlined in the Risk Weighted Capital Adequacy Framework ('Basel II') – Disclosure Requirements ('Pillar 3') issued by Bank Negara Malaysia ('BNM').

In December 2009, BNM had issued the final requirements and guidance on the adoption of the Internal Ratings-Based ('IRB') Approach for credit risk under the Risk-Weighted Capital Adequacy Framework ('RWCAF') for banking institutions and the Capital Adequacy Framework for Islamic Banks ('CAFIB').

Basel II introduces a more risk-based approach to regulatory capital with a distinct charge for operational risk in addition to the existing credit and market risk capital charges. Basel II is designed to be a catalyst for more advanced risk management techniques, enterprise-wide cultures of risk management and improved corporate governance and public disclosure.

The Basel II approach based on the 3 pillars can be diagrammatically depicted as below:



## 1.0 Introduction (continued)

- Pillar 1 provides guidelines for calculation of risk weighted assets for credit risk, market risk and operational risk, and the minimum amount of regulatory capital that banks must hold against the risks they assume.
- Pillar 2 outlines the key principles of the supervisory review process and related risk management guidance, thus allows banks and supervisors to take a view on whether the bank should hold additional capital to cover the three Pillar 1 risk types, to cover other risks. It sets out specific oversight responsibilities for the Board and senior management, thus re-enforcing principles of internal controls and other corporate governance practices. The bank's own internal models and assessments support this process.
- Pillar 3 covers external communication of risk and capital information by banks. The purpose of the Pillar 3 disclosures is to complement the minimum capital requirements under Pillar 1 and the supervisory review process under Pillar 2 by encouraging market efficiency through the development of a set of disclosure requirements that will allow market participants to assess key pieces of information on banks' capital structures, risk exposures, risk management processes, and hence, their overall capital adequacy.

Under this approach, banking institutions are allowed to use internal estimates of risk parameters (namely the probability of default, loss given default and exposure at default) to determine regulatory capital requirements. Banking institutions are required to obtain explicit approval from BNM to adopt the IRB Approach. The requirements set out under the IRB Approach are largely based on the Framework on International Convergence of Capital Measurement and Capital Standards (commonly referred to as 'Basel II'), issued by the Basel Committee on Banking Supervision ('BCBS'), but which had been appropriately adjusted to calibrate risk parameters more closely to the domestic operating environment and default experience.

The table below lists the various methodologies applicable to the capital requirements calculation in connection to the various types of risk under Pillar 1.

Menu of Approaches		
Credit Risk	Market Risk	Operational Risk
1. Standardised Approach ('SA')	1. Standardised Approach ('SA')	1. Basic Indicator Approach ('BIA')
2. Foundation Internal Ratings Based Approach ('F-IRB')	2. Internal Models Approach ('IMA')	2. The Standardised Approach ('TSA')
3. Advanced Internal Ratings Based Approach ('A-IRB')		3. Advanced Measurement Approach ('AMA')

For purpose of credit risk and market risk measurement, RHB Investment Bank Berhad has adopted the Standardised Approach ('SA') while for operational risk, RHB Investment Bank Berhad applies the Basic Indicator Approach ('BIA').

## 1.0 Introduction (continued)

### 1.1 PURPOSE

The purpose of this disclosure is to provide the information in accordance with the requirements under Bank Negara Malaysia Guidelines on Risk Weighted Capital Adequacy Framework ('Basel II') – Disclosure Requirements ('Pillar 3'). This document covers qualitative and quantitative disclosures and is the Bank's first published report provided in accordance with the Guidelines.

In compliance with the guideline, the Pillar 3 report for RHB Investment Bank Berhad will be regularly prepared for 2 periods: 30th June and 31st December, commencing 31st December 2010. The Bank will make the Pillar 3 report available under the Investor Relations section of the RHB Banking Group's website at [www.rhb.com.my](http://www.rhb.com.my) and as a supplement to its annual and the half-yearly financial reports, after the notes to the financial statements.

This Pillar 3 Guidelines also requires banks to adopt a formal policy to meet the minimum public disclosure requirements and to put procedures in place that enable them to assess its adequacy, also in terms of its verification and frequency.

To this end, RHB Banking Group comprising RHB Bank Berhad, RHB Investment Bank Berhad and RHB Islamic Bank Berhad, (herein referred to as 'RHB Banking Group') has implemented a Basel II Pillar 3 Disclosure Policy to address the requirements laid down for Pillar 3 disclosure. This document sets out the duties and responsibilities of the various operating units within RHB Banking Group involved in different stages of the process governing the disclosure.

Given the importance, this disclosure report has been verified and approved internally by RHB Investment Bank Group in line with the Group Pillar 3 Disclosure Policy. There are no requirements for external auditing of this disclosure.

### 1.2 BASIS OF DISCLOSURE

The Pillar 3 disclosures made by the Bank are designed to comply with the BNM RWCAF Disclosure Guidelines, and should be read in conjunction with the Bank's Statutory Financial Statements 2010.

This document discloses RHB Investment Bank's assets both in terms of exposures and capital requirements; however, information in this document is not directly comparable with the information in the 2010 Statutory Financial Statements published by the Bank.

This is most apparent for credit risk disclosures, where the risk arising from credit exposures are estimated by using parameters specified under Basel II. This estimate takes into account of contractual commitments related to undrawn amounts. This differs from similar information in the 2010 Statutory Financial Statements, which does not reflect the expected future drawdown under committed credit lines. An asset in the Bank's balance sheet, as published in the Statutory Financial Statements, is reported as drawn balance only. This is one of the reasons why exposure values in the Pillar 3 report can differ from asset values in the published accounts.

In addition, since this is the first year of disclosure by the Bank, there are no corresponding disclosures in the preceding reporting period(s).

## 2.0 Scope Of Application

In this report, RHB Investment Bank information is presented on a consolidated basis, i.e. RHB Investment Bank Berhad, its subsidiaries and its overseas joint venture company.

For regulatory reporting purposes, RHB Investment Bank establishes two levels of reporting, the first level being RHB Investment Bank Global, comprising RHB Investment Bank Berhad, while the second level as RHB Investment Bank Consolidated where RHB Investment Bank Global consolidates with all its other subsidiaries.

This disclosure is at the second level – the consolidation of RHB Investment Bank and all its other subsidiaries.

In this document, RHB Investment Bank and its subsidiaries are referred to as 'RHB Investment Bank Group' or 'the Bank'.

In accordance with the accounting standards for financial reporting, all subsidiaries of the Bank are fully consolidated from the date the Bank obtains control until the date such control ceases. Refer to Note 13 to the financial statement for a list of consolidated entities.

The Bank's capital requirements are generally based on the principles of consolidation adopted in the preparation of its financial statements, except where the types of investments to be deducted from eligible capital are required under BNM Guidelines 'Risk-Weighted Capital Adequacy Framework (General Requirements and Capital Components)' Part B Paragraph 4.

The transfer of funds or regulatory capital within RHB Investment Bank Group is subject to shareholders' and regulatory approval.

## 3.0 Capital Adequacy

Capital adequacy is the degree to which capital resources on the Bank's balance sheet are sufficient to cover the businesses' capital requirements now and in the foreseeable future. It also indicates the ability of the Bank to provide credit across the business cycles and in meeting any contingency without compromising the interest of the depositors and investors.

Sufficient capital in relation to the risk profile of the Bank's assets helps promote financial stability and the confidence of the shareholders. The Bank aims to maximize the shareholder's value through an optimal capital structure that protects the stakeholders' interests under most extreme stress situations, provides sufficient room for growth while meeting the regulatory requirements and at the same time gives reasonable return to shareholders.

RHB Investment Bank Group is also committed to maintaining a sound capital base to support the risks associated with diversified businesses, while still providing investors with superior returns.

BNM Guidelines "Risk-Weighted Capital Adequacy Framework (General Requirements and Capital Components)" Part B Paragraph 5 on Capital Adequacy Requirements sets out the current requirements relating to the minimum capital adequacy ratios for a bank incorporated in Malaysia.

The capital ratios of the RHB Investment Bank Group are computed based on BNM's Guidelines on 'Risk Weighted Capital Adequacy Framework: Standardised Approach for Credit Risk, Standardised Approach for Market Risk, and Basic Indicator Approach for Operational Risk (Basel II)'

### 3.1 Capital Adequacy Ratios

The core capital ratios and capital adequacy ratios of the Bank on consolidated (RHB Investment Bank Group) and global (RHB Investment Bank) basis as at 31st December 2010 are as follows:

**Table 1: Capital Adequacy Ratios as at 31st December 2010**

	RHB Investment Bank Group (Group)	RHB Investment Bank (Bank)
<b>Before proposed final dividends payment</b>		
Core capital ratio	30.20%	32.47%
Risk weighted capital ratio	43.68%	41.02%
<b>After proposed final dividends payment</b>		
Core capital ratio	25.71%	27.69%
Risk weighted capital ratio	39.19%	33.85%

The above Core Capital and Risk-weighted Capital ratios are above the minimum level required by BNM.

### 3.0 Capital Adequacy (continued)

#### 3.2 Minimum Capital Requirements & Risk Weighted Assets

**Table 2: Risk Weighted Assets ('RWA') by Risk Types**

	Group (RM'000)	Bank (RM'000)
Credit RWA	928,519	887,428
Market RWA	161,901	161,901
Operational RWA	469,394	414,976
<b>Total</b>	<b>1,559,814</b>	<b>1,464,305</b>

Capital requirements for the three risk types are derived by multiplying the risk weighted assets by 8%. The following table shows a breakdown of the Bank's RWA by risk types for positions as at 31st December 2010:

**Table 3: Minimum Capital Requirements and RWA by Risk Types**

	Group (RM'000)		Bank (RM'000)	
	RWA	Capital requirement	RWA	Capital requirement
Credit RWA under Standardised Approach	928,519	74,282	887,428	70,994
Market RWA under Standardised Approach	161,901	12,952	161,901	12,952
Operational RWA under Basic Indicator Approach	469,394	37,551	414,976	33,198
<b>Total</b>	<b>1,559,814</b>	<b>124,785</b>	<b>1,464,305</b>	<b>117,144</b>

RHB Investment Bank Group does not have any capital requirements for Large Exposure Risk as there is no amount in excess of the lowest threshold arising from equity holdings as specified in the BNM's RWCAF.



## 4.0 Capital Structure

The constituents of total eligible capital are set out in BNM Guidelines 'Risk-Weighted Capital Adequacy Framework (General Requirements and Capital Components)' Part C and D. These include shareholders' funds, after regulatory-related adjustments, and eligible capital instruments issued by the Group.

Tier 1 capital consists primarily of ordinary share capital, share premium, retained profits and other reserves. Tier 2 capital consists of subordinated obligations and collective impairment allowance. Refer to Notes 21 and 22 to the Financial Statements for the terms of these capital instruments.

The following table sets forth details on the capital resources for RHB Investment Bank Group and RHB Investment Bank as at 31st December 2010.

**Table 4: Capital Structure**

	<b>Group (RM'000)</b>	<b>Bank (RM'000)</b>
<b>Tier 1 Capital</b>		
Paid-up ordinary share capital	263,646	263,646
Retained profit/loss brought forward from the previous financial year	103,817	93,912
Statutory reserve fund	278,549	278,549
<b>Total Tier 1 capital</b>	<b>646,012</b>	<b>636,107</b>
Less:		
Deferred tax (assets)	(2,091)	(1,315)
Goodwill	(172,844)	(159,280)
<b>ELIGIBLE TIER 1 CAPITAL</b>	<b>471,077</b>	<b>475,512</b>
<b>Tier 2 Capital</b>		
Collective impairment allowance	1,117	1,117
Maximum allowable subordinated debt capital	235,538	237,756
<b>Total Tier 2 Capital</b>	<b>236,655</b>	<b>238,873</b>
Less:		
Investment in subsidiaries companies and joint ventures	(25,044)	(112,369)
Securitisation exposures subject to deductions	(1,086)	(1,086)
Other Items	(344)	(336)
<b>Total deductions from Tier-2 Capital</b>	<b>(26,474)</b>	<b>(113,791)</b>
<b>ELIGIBLE TIER-2 CAPITAL</b>	<b>210,181</b>	<b>125,082</b>
<b>CAPITAL BASE</b>	<b>681,258</b>	<b>600,594</b>

## 5.0 Risk Management

Risk is inherent in RHB Investment Bank Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Bank is exposed to a range of other risk types such as market, liquidity, operational, legal, and strategic and cross border, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

Effective risk management is fundamental to being able to generate profits consistently while sustaining competitive advantage, and is thus a central part of the financial and operational management of the Bank.

To this extent, the RHB Banking Group's Risk Management Framework governs the management of risks in the banking group. The Framework operates on two interlocking layers:

- It provides a holistic overview of the risk and control environment of the Group, 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.
- 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 following sections describe some of these risk management content areas.

### OVERARCHING RISK MANAGEMENT PRINCIPLES

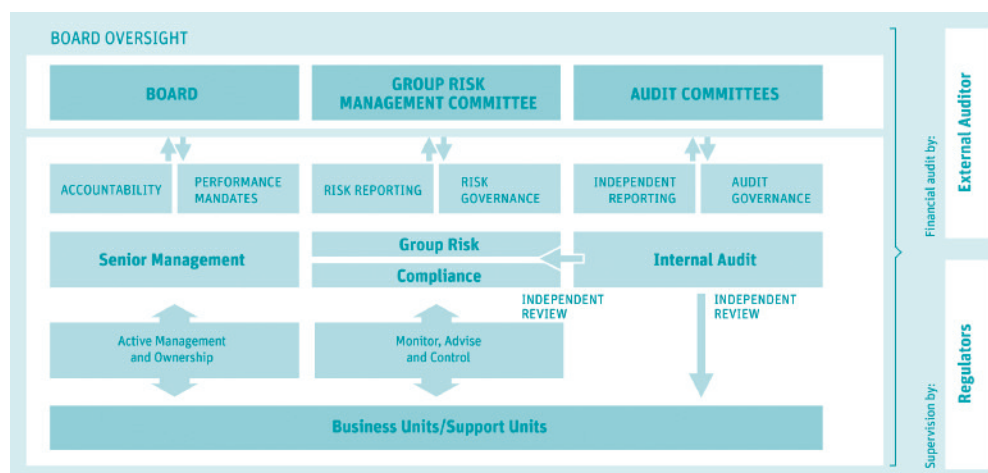
The framework enshrines five fundamental principles that drive the philosophy of risk management in the RHB Banking Group. They are:

- Risk governance from the Boards of Directors of companies in the Group;
- Clear understanding of risk management;
- Institutionalisation of a risk focused organization;
- Alignment of risk management to business strategies; and
- Optimisation of risk adjusted economic and financial returns

#### Principle 1: Risk Governance from the Boards of Directors of Companies in the Group

The ultimate responsibility of the Boards of Directors in the RHB Banking Group is in ensuring that an effective risk management strategy is in place and uniformly understood across the Group. The Group has a structured framework to support the Board oversight responsibilities which is depicted in the accompanying diagram:

Structured Framework to Support Board Oversight Role in Risk Management



## 5.0 Risk Management (continued)

### RISK GOVERNANCE AND ORGANISATION

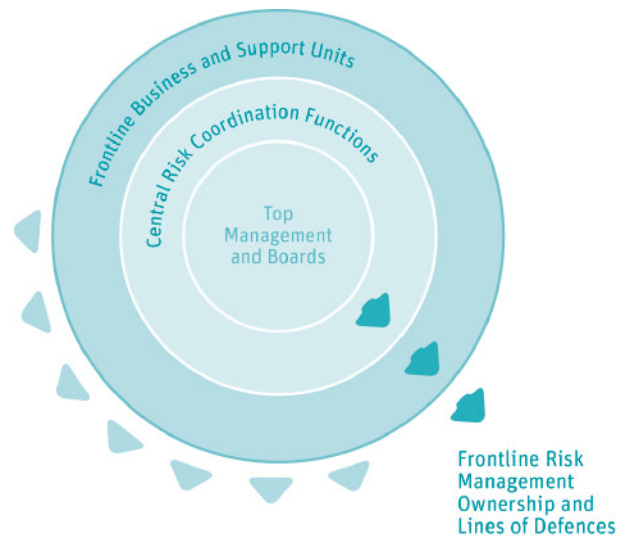
The Board of Directors ('Board' or 'BOD') through the Group Risk Management Committee ('GRMC') and Group Risk Management function ('GRM function') establishes the Group's risk appetite and risk principles. The GRMC is the principal Board Committee that provides oversight and governance of risks for the Group, oversees the senior management's activities in managing credit, market, liquidity, operational, legal and other risks to ensure that the risk management process of the Group is in place and functional. GRMC also reviews and endorses the Group's overall risk management philosophy; risk management frameworks, major risk policies, and risk models.

#### Principle 2: Clear Understanding of Risk Management Ownership

Risk awareness culture is instilled throughout the Group through proactive risk ownership. The business and functional units of the Group are primarily responsible for identifying, managing and reporting their risks. The business units manage certain defined risks through the use of facilities and services provided by the functional units.

Risk management processes are a collective responsibility and cooperation of business and functional units, risk management units, top management and the Board. This leads to risk management ownership with differing levels of focus established across the Group as shown below.

#### Risk Management Ownership and Lines of Defence



## 5.0 Risk Management (continued)

### Principle 3: Institutionalisation of a Risk Focused Organization

Institutionalisation of a risk focused organization is progressed upon in the RHB Banking Group through a number of measures, two of which are:

- Strengthening of the central risk coordination functions, and
- Continuous reinforcing of a risk and control environment within the Group.

They are described in further detail in the succeeding sections:

#### Central Risk Coordination Functions

The following summarises the key differences in perspectives (which are also strategically complementary) between the Risk Management, Compliance and Internal Audit functions.

The **Risk Management** function is responsible for upholding the integrity of our risk / return decisions, and in particular in ensuring that risks are properly assessed and managed.

The risk management function is independent of the origination and sales functions to ensure that the necessary balance in risk / return decisions is not compromised by short-term pressures to generate revenues. This risk function reports directly to GRMC and assists the GRMC and Board in formulating risk related policies, advises the GRMC / 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 risk function is also responsible for maintaining the Group Risk Management Framework, ensuring it remains appropriate to the Group's activities, and is effectively communicated and implemented across the Group.

The risk management function in the Group reports to the Head of Group Risk Management. Among the roles and responsibilities of the Head of Group Risk Management are:

- Facilitating the setting of the strategic direction and overall policy on management and control of risk of the Group;
- Ensuring industry best practice risk management disciplines are adopted across the Group, including the setting of risk management parameters and risk underwriting models;
- Developing a pro-active; balanced and risk attuned culture within the Group;
- Advising senior management, the GRMC and the Board on risk issues of, and impacts on, the Group; and
- Administering the delegation of discretionary powers to management personnel within the Group.

The **Compliance** function is centrally managed and provides assurance to management that the Group's activities are in compliance with external requirements and internal policies and procedures.

The **Audit** function independently reviews and reports on the adequacy and integrity of the Group's internal control systems and information management systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

## 5.0 Risk Management (continued)

### Risk and Control Environment

Business, functional and governance heads are accountable for risk management in their businesses and functions, and for countries where they have governance responsibilities. 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.

Primary responsibility for managing risks, therefore, rests with the 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.

### Principle 4: Alignment of Risk Management to Business Strategies

A statement of intent of the Group's Risk Management framework is to align the Group's business strategy to risk strategy, and vice versa. This is typically articulated through the Group's annual business and financial budgetary plan, which is progressively facilitated by the integration of risk measures in economic capital management. It is also implemented through the Group's construction of a sustaining risk-focused organization as described in preceding sections where business and support units are required to be primarily responsible and accountable for risk management.

### Principle 5: Optimisation of Risk-Adjusted Economic and Financial Returns

An objective of economic capital management is to reflect a true return in relation to risk level assumed by businesses throughout the Group. By linking risk to capital, the risk-adjusted returns measure contributes to the creation of shareholder value by facilitating the allocation of capital to the businesses whose value creation significantly exceed the risk profile of their activities. The medium to long term strategy and principle of risk management of the Group is to deepen the integration of economic capital management within the Group. The Group's management has implemented a risk-adjusted returns based framework for allocation of capital to business units and for performance measurement and management.

## 6.0 Credit Risk

### Credit Risk Definition

Credit risk arises as a result of customers' or counterparties' inability to fulfil their financial and contractual obligations as and when they arise. These obligations arise from the Bank's direct lending obligations, and its funding, investment and trading activities.

### 6.1 Credit Risk Management Oversight and Organisation

The Central Credit Committee ('CCC') is the senior management committee that reviews the Group's credit risk philosophy, framework, and policies; aligns credit risk management with business strategy and planning; recommends credit approval authority limits; reviews the credit profile of material portfolios; and recommends actions where necessary to ensure that credit risk remains within established risk tolerances. CCC also approves and renews loans/facilities and submits to the Group Credit Committee ('GCC') for affirmation or veto if the loan/facilities exceed a pre-defined threshold.

The GCC's main functions are affirming, imposing additional covenants or vetoing credits of the RHB Investment Bank Group which are duly approved by the CCC.

The RHB Banking Group has established a Group Recovery Committee ('GRC') to oversee the management of non-performing loans/ non-performing accounts ('NPL/NPA') and high risk accounts as well as affirming, imposing additional covenants or vetoing credits under NPL/NPA from Credit Recovery for amounts above the defined thresholds of the CCC.

Within Group Risk Management, the Credit Risk Management Department has the functional responsibility for credit risk management, including portfolio risk monitoring and risk reporting. Group Risk management units also conduct regular credit stress tests to assess the credit portfolio's vulnerability to adverse credit risk events.

Regular risk reporting is made to the Board and GRMC. These reports include various credit risk aspects such as portfolio quality, credit migration, expected losses, and concentration risk exposures by business portfolio. Such reporting allows senior management to identify adverse credit trends, take corrective actions promptly, and ensure appropriate risk-adjusted decision making.

### 6.2 Credit Risk Management Approach

RHB Investment Bank's credit risk management framework which is founded upon BNM's guidelines on 'Best Practices for the Management of Credit Risk' is documented under the Group Credit Policy. The Bank abides strictly by this Credit Policy which supports the development of a strong credit culture with the objective of maintaining a well diversified, evaluated and current portfolio, that is fully satisfied for credit risk, and which gives no concern for unexpected losses, and which ensures a reliable and satisfactory risk weighted return. Industry best practices are instilled in the continual updating of credit risk policies.

The Bank ensures that stringent 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. All credit exposure limits are approved within a defined credit approval authority framework.

The Bank's credit risk management process is documented in the Group Credit Procedures Manual ('GCPM') which sets out the operational procedures and guidelines governing the credit processes of Corporate and Investment Banking, Treasury and Share Margin Financing Business operations.

The GCPM has been designed to ensure that:-

- The process of credit initiation, administration, supervision and management of loans and advances are carried out consistently and uniformly by the business origination and other credit support functions within the Group.
- Procedures and guidelines governing the credit function are in compliance with the credit policies laid down by the respective Board of the RHB Investment Bank Group.

## 6.0 Credit Risk (continued)

### Lending to Corporate and Institutional Customers

Loans to corporate and institutional customers are in the course of its trading or investment banking activities from trading, derivative and debt securities activities. RHB Investment Bank Group does not undertake bilateral lending activities to corporate customers.

### Credit Risk from Investment or Trading Activities

In the course of its trading or investment banking activities, the Bank is also exposed to credit risks from trading, derivative and debt securities activities.

### Lending to Share Margin Financing

Loans to share margin clients are based on credit facility made available to these clients for trading or redemption of securities that are listed in Bursa Malaysia Berhad in accordance with the Bursa Securities Rules. RHB Investment Bank Group does not undertake bilateral lending activities to corporate customers.

### Credit Risk Measurement

For Share Margin Financing, 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.

### Off-Balance Sheet Exposures and Counterparty Credit Risk

Off-Balance sheet exposures of RHB Investment Bank Group are mainly from the following:-

- Underwriting commitments in respect of the Group's debt capital or equity capital market activities,
- Commitments to extend credit including the unutilised or undrawn portions of credit facilities,
- Principal or notional amount of derivative financial instruments.

The management of off-balance sheet exposures is in accordance to the credit risk management approach as set out under Section 6.2 of this report.

### Counterparty Credit Risk on Derivative Financial Instruments

Counterparty Credit Risk ('CCR') on derivative financial instruments is the risk that the Group's counterparty in a foreign exchange, interest rate, commodity, equity, options or credit derivative contract defaults prior to the maturity date of the contract and that the Group at the relevant time has a claim on the counterparty. Derivative financial instruments are primarily entered into for hedging purposes. The Group may also take trading derivative positions, within pre-set limits, with the expectation to make arbitrage gains from favourable movements in prices or rates.

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

All outstanding financial derivative positions are marked-to-market on a daily basis. Treasury Operations Department monitors counterparties' positions and promptly escalates to the relevant parties upon any shortfall in the threshold levels.

## 6.0 Credit Risk (continued)

### 6.3 Credit Exposures and Risk Weighted Assets ('RWA') By Portfolio and Approaches

All credit exposures for the RHB Investment Bank Group are booked in Malaysia. The subsequent tables reflect the credit exposures (EAD) of the Bank for position as at 31st December 2010, segregated by :-

- the various types of asset classes, showing details of the exposures, before and after CRM, the corresponding RWA and capital requirement,
- disclosure on Off - Balance Sheet and Counterparty Credit Risk
- industry sector, and
- residual maturity; breakdown into exposures with maturity of one year or less, one to five years, and over five years.

Under the Standardised Approach, the risk weights are prescribed by BNM based on the asset class to which the exposure is assigned.

**Table 5: Summary of Credit Exposures with CRM by Asset Class & Capital Requirement (On & Off-Balance Sheet Exposures)**

Exposure Class	Gross Exposure / EAD before CRM RM'000	Net Exposures /EAD after CRM RM'000	Risk Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
<b>Exposures under the Standardised Approach</b>				
<b>On-Balance Sheet Exposures</b>				
Sovereigns/Central Banks	3,546,365	3,546,365	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	1,131,569	1,131,569	226,314	18,105
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporates	686,773	686,773	221,584	17,726
Regulatory Retail	4,284	4,284	3,213	257
Residential Mortgage	1,182	1,182	449	36
Higher Risk Assets	-	-	-	-
Other Assets	681,289	681,289	294,034	23,524
Specialised Financing/Investment	-	-	-	-
Securitisation Exposures	54,484	54,484	72,884	5,831
Equity Exposure	32,466	32,466	32,466	2,597
Default Exposures	53,530	53,530	35,401	2,832
<b>Total On-Balance Sheet Exposures</b>	<b>6,191,942</b>	<b>6,191,942</b>	<b>886,345</b>	<b>70,908</b>
<b>Off-Balance Sheet Exposures</b>				
OTC Derivatives	-	-	-	-
Credit Derivatives	-	-	-	-
Off-balance sheet exposures other than OTC derivatives or credit derivatives	155,405	155,405	42,174	3,374
Defaulted Exposures	-	-	-	-
<b>Total Off-Balance Sheet Exposures</b>	<b>155,405</b>	<b>155,405</b>	<b>42,174</b>	<b>3,374</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>6,347,347</b>	<b>6,347,347</b>	<b>928,519</b>	<b>74,282</b>



## 6.0 Credit Risk (continued)

**Table 6: Exposures for Off-Balance Sheet and Counterparty Credit Risk (after Credit Risk Mitigation)**

<b>Nature of Item</b>	<b>Principal/ Notional Amount RM'000</b>	<b>Positive Fair Value of Derivative Contracts RM'000</b>	<b>Credit Equivalent Amount RM'000</b>	<b>RWA RM'000</b>
Assets sold with recourse	4,718		4,718	-
NIFs and obligations under an ongoing underwriting agreement	177,762		88,881	29,800
Interest/profit rate related contracts	2,010,000	-	61,727	12,346
One year or less	290,000	-	1,663	333
Over one year to five years	1,605,000	-	51,434	10,287
Over five years	115,000	-	8,630	1,726
Other commitments, such as formal standby facilities and credit lines, with and original maturity of over one year	157		79	28
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	-		-	-
Any commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	97,205		-	-
<b>Total</b>	<b>2,289,842</b>	<b>-</b>	<b>155,405</b>	<b>42,174</b>

## 6.0 Credit Risk (continued)

Table 7: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector

Exposures under Standardised Approach	Manufacturing RM'000	Electricity Gas & Water Supply RM'000	Construction RM'000	Transport, Storage & Communication RM'000	Finance, Insurance & Real Estate & Business RM'000	Government Agencies RM'000	General Commerce RM'000	Others RM'000	Total RM'000
Sovereigns/ Central Banks	-	-	-	119,980	1,171,439	2,233,527	-	26,137	3,551,083
Public Sector Entities	-	-	-	-	-	-	-	-	-
Banks, Development Financial Institutions & MDBs	-	-	-	-	1,170,805	-	-	22,306	1,193,111
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-	-	-	-	-	-
Corporates	188,819	108,532	17,274	83,536	283,344	-	56,968	90,705	829,178
Regulatory Retail	-	-	-	-	-	-	-	4,290	4,290
Residential Mortgage	-	-	-	-	79	-	-	1,182	1,261
Higher Risk Assets	-	-	-	-	-	-	-	-	-
Other Asstes	-	-	-	-	244,386	82,542	-	428,546	681,474
Specialised Financing/ Investment	-	-	-	-	-	-	-	-	-
<b>Total Standardised Approach</b>	<b>188,819</b>	<b>108,532</b>	<b>17,274</b>	<b>203,516</b>	<b>2,870,053</b>	<b>2,242,069</b>	<b>56,968</b>	<b>573,166</b>	<b>6,260,397</b>

## 6.0 Credit Risk (continued)

**Table 8: Credit Risk Exposures (Before Credit Risk Mitigation) by Maturity**

<b>Exposure Class</b>	<b>One Year or less RM'000</b>	<b>One to five years RM'000</b>	<b>Over five years RM'000</b>	<b>Total RM'000</b>
<b>Exposures under Standardised Approach</b>				
Sovereigns/ Central Banks	1,128,539	259,645	2,162,899	3,551,083
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions & MDBs	923,579	161,438	108,094	1,193,111
Insurance Cos, Securities Firms & Fund Managers	-	-	-	-
Corporates	243,738	455,893	129,547	829,178
Regulatory Retail	2,624	174	1,492	4,290
Residential Mortgage	57	216	988	1,261
Higher Risk Assets	-	-	-	-
Other Assets	640,604	27,195	13,675	681,474
Specialised Financing/ Investment	-	-	-	-
<b>Total Standardised Approach</b>	<b>2,939,141</b>	<b>904,561</b>	<b>2,416,695</b>	<b>6,260,397</b>

## 6.0 Credit Risk (continued)

Table 9: Portfolios under the Standardised Approach by Risk Weights (in RM'000)

Risk Weights	Exposures after Netting and Credit Risk Mitigation										Total Exposures after Netting & Credit Risk Mitigation		Total Risk weighted Assets RM'000
	Sovereigns & Central Banks RM'000	Banks, DFIs & MDBs RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Other Assets RM'000	Securitisation RM'000	Equity RM'000	RM'000	RM'000	RM'000		
0%	3,551,083	-	30,929	-	-	244,201	-	-	-	3,826,213	-	-	
20%	-	1,193,111	543,126	-	-	179,001	34,548	-	-	1,949,786	-	389,958	
35%	-	-	-	-	1,026	-	-	-	-	1,026	-	359	
50%	-	-	153,932	6	235	-	-	-	-	154,173	-	77,087	
75%	-	-	-	4,284	-	-	-	-	-	4,284	-	3,213	
100%	-	-	101,191	-	-	258,272	-	32,466	-	391,929	-	391,929	
350%	-	-	-	-	-	-	18,850	-	-	18,850	-	65,973	
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	
	-	-	-	-	-	-	1,086	-	-	1,086	-	-	
<b>Total</b>	<b>3,551,083</b>	<b>1,193,111</b>	<b>829,178</b>	<b>4,290</b>	<b>1,261</b>	<b>681,474</b>	<b>54,484</b>	<b>32,466</b>	<b>6,347,347</b>	<b>6,347,347</b>	<b>928,519</b>	<b>928,519</b>	

## 6.0 Credit Risk (continued)

### 6.4 Use of External Ratings

For sovereigns, corporates and banking institutions, external ratings from approved external credit assessment institutions ('ECAI'), where available, are used to determine the risk weighted assets and regulatory capital.

The process used to map ECAI issuer ratings or comparable ECAI issue ratings, are as per BNM standards. Approved ECAIs are as follows:-

- (i) Standard & Poors ('S&P'),
- (ii) Moody's Investor Services ('Moody's'),
- (iii) Fitch Ratings ('Fitch'),
- (iv) Malaysian Rating Corporation Berhad ('MARC'),
- (v) Rating Agency Malaysia ('RAM'), and
- (vi) Rating and Investment Information, Inc ('R&I').

External ratings for the counterparties are determined as soon as relationship is established and these ratings are tracked and kept updated. Only publicly available credit ratings are used for regulatory risk weighting purpose. Where the counterparty is not rated, the corresponding exposure is mapped as 'unrated' and the appropriate risk weighting for unrated exposures is assigned.

**Table 10: Disclosure on Rated Exposures according to Rating by ECAIs**

	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
<b>Ratings of Corporate by Approved ECAIs</b>	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
<b>On and Off-Balance Sheet Exposures</b>						
Corporates (RM'000)		530,611	51,701	-	-	168,366
<b>Short Term Ratings of Banking Institutions and Corporate by Approved ECAIs</b>	Moody's	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+, F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3	MARC-4	Unrated
Rating & Investment Inc	a-1+,a-1	a-2	a-3	b,c	Unrated	
<b>On and Off-Balance Sheet Exposures</b>						
Corporates (RM'000)		31,500	47,000	-	-	-

## 6.0 Credit Risk (continued)

<b>Ratings of Sovereigns and Central Banks by Approved ECAIs</b>	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated

### On and Off-Balance Sheet Exposures

Sovereigns and Central Banks (RM'000)	119,980					3,431,103
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<b>Ratings of Banking Institutions by Approved ECAIs</b>	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated

### On and Off-Balance Sheet Exposures

Banks, DFIs and MDBs (RM'000)	313,988	411,546	292,823			174,754
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## 6.5 Credit Risk Monitoring and Control

### Credit Risk Mitigation

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

Collateral is taken whenever possible to mitigate the credit risk assumed, subject to the Group's policies that govern the eligibility of collateral used for credit risk mitigation. Reliance on collateral when taken is carefully assessed in the light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor.

Collateral as a credit risk mitigant is considered even if they are not eligible for regulatory capital adequacy calculations. The internal rating assignment process also includes the assessment of collaterals amongst other factors.

The main types of collateral taken by RHB Investment Bank Group are:-

- Shares listed on Bursa Malaysia (including listed warrants)
- Land and / or Buildings
- Cash Deposit

Collateral is valued in accordance with the Group's policy on collateral valuation, which prescribes the frequency of valuation for different collateral/securities types, based on liquidity and volatility of the collateral value and the underlying product or risk exposure. The value of collaterals/securities pledged is monitored periodically; analysed and updated concurrently with the annual / periodic renewal of facilities, as well as updated into the relevant Bank's system.

## 6.0 Credit Risk (continued)

RHB Investment Bank Group also accepts non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debenture and assignment of contract payments, subject to internal guidelines on eligibility.

Currently, the Bank does not employ the use of derivative credit instruments or on-balance sheet netting to mitigate its credit exposure.

Equity securities or collaterals acquired arising from debt conversions are accounted for as a disposal of the loan and an acquisition of equity securities or investment properties. Any further impairment of the assets or business acquired is treated as an impairment of the relevant asset or business rather than as an impairment of the original instrument.

**Table 11: Disclosure on Credit Risk Mitigation under the Standardised Approach**

Exposure Class	Exposures before CRM RM'000	Exposures Covered by Guarantees / Credit Derivatives RM'000	Exposures Covered by Eligible Financial Collateral RM'000
<b>On-Balance Sheet Exposures</b>			
Sovereigns / Central Banks	3,546,365	-	-
Banks, Development Financial Institutions & MDBs	1,131,569	-	-
Corporates	686,773	185,412	755
Regulatory Retail	4,284	-	-
Residential Mortgage	1,182	-	-
Other Assets	681,289	-	-
Securitisation Exposures	54,484	-	-
Equity Exposures	32,466	-	-
Defaulted Exposures	53,530	-	-
<b>Total On-Balance Sheet Exposures</b>	<b>6,191,942</b>	<b>185,412</b>	<b>755</b>
<b>Off-Balance Sheet Exposures</b>			
Off Balance sheet exposures other than OTC derivatives or credit derivatives	155,405	-	-
<b>Total for Off-Balance Sheet Exposures</b>	<b>155,405</b>	<b>-</b>	<b>-</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>6,347,347</b>	<b>185,412</b>	<b>755</b>

### Credit Concentration Risks

The RHB Banking Group manages the diversification of its portfolio to avoid undue credit risk concentrations. Credit risk concentrations exist in lending to single customer groups, borrowers engaged in similar activities, or diverse groups of borrowers that could be affected by similar economic or other factors. To manage these concentrations, exposure limits are established for single borrowing groups and industry segments. In this respect, analysis of large customer group exposures are regularly conducted, and the lending and financing units undertake intensive account updates, monitoring and management of these exposures.

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

## 6.0 Credit Risk (continued)

### Credit Monitoring and Annual Reviews

RHB Banking Group regularly monitors credit exposures, portfolio performance, and external trends which may impact risk management outcomes. Internal risk management reports are generated for senior management and risk committees, containing information on key environmental, political and economic trends across portfolios and countries, portfolio delinquency with major credit delinquency, and loan impairment performance.

In addition to the on-going qualitative assessment by the account relationship managers, reviews are conducted at least once a year with updated information on the customer's financial position, market position, industry and economic condition and account conduct.

The Group has established internal loan policies to promote early problem recognition and attention, where enhanced monitoring will take place when accounts show signs of credit deterioration. Delinquency trends are monitored, analysed and reported to the CCC, GRC and GRMC.

Group Internal Audit conducts independent post approval reviews on sampling basis to ensure that the quality of credit appraisals and approval standards are in accordance with the credit standards and lending policies established by the Bank's management, and laws and regulations.

### Impairment Allowances for Loans

The BNM Guideline on Classification and Impairment Provisions for Loans provides for two types of impairment assessment methodologies, i.e. individual assessment and collective assessment. The former applies to significant borrowers/customers with certain pre-defined threshold limits whereas the latter applies to facilities of homogeneous portfolios.

The impairment assessment for borrowers/customers under individual assessment is based on pre-defined impairment triggers, of which aging more than 90 days or 3 months is only one of the mandatory status triggers. In the case of portfolios under collective assessment, the impairment assessment is primarily time bound based on default period of more than 90 days or more than 3 months. A loan / financing is considered past due or defaulted when scheduled payment of principal or interest / profit is due and not paid. When this financing is past due or defaulted for a period of more than 90 days or more than 3 months, this financing is classified as non-performing or impaired.

The impairment provisioning for portfolio under individual assessment are established based primarily on estimates on the realisable value of the collateral to secure the loans and advances and are measured as the difference between the loan or advance's carrying amount and the net present value of the expected future cash flows discounted based on the original effective interest/profit rates. All other loans and advances that have been individually evaluated, but not considered to be individually impaired are assessed collectively for impairment.

In the case of loans portfolio under collective assessment, loans and advances are grouped on the basis of similar credit risk characteristics, taking into account the historical loss experience of such loans. The Bank has adopted the transitional provisions as provided under the BNM's Guideline on Classification and Impairment Provisions for Loans. Under the transitional provisions, collective assessment provisions are as follows:-

- Collective assessment provision for non performing loans (excluding those borrowers/customers defined under individual assessment) shall be based on the previous BNM GP3 guidelines, i.e. it shall be based on time based provisioning.
- Collective assessment provision for the rest of the loans/financing (both performing loans/financing and all non performing loans) shall be based on 1.5% of the total outstanding loans/financing amounts, net of provisions made (both individual assessment provisions and specific provision under the previous BNM GP3 guidelines).



## 6.0 Credit Risk (continued)

### Write-Off Policy

Loans are written-off against impairment allowances when recovery action has been instituted, prospect of recovery is considered remote or when all feasible avenues of recovery have been exhausted. The management and administration of such exposures are outlined in the Group's Policy on Non Performing / Impaired Loans. The Bank's write-off policy is in compliance with the requirements specified in BNM's Guideline on Classification and Impairment Provisions for Loans.

For investments in PDS, positions are written-off against impairment allowances when recovery action has been instituted, prospect of recovery is considered remote or when all feasible avenues of recovery have been exhausted.

**Table 12: Impaired, Past Due & Provision for Impairment Loans by Industry Sector**

Industry Sector	Impaired Loans, advances and financing RM'000	Individual Impairment Provision RM'000	Collective Impairment Provision RM'000	Charges for Individual Impairment RM'000
Share Margin Financing	918	882	760	12
<b>Total</b>	<b>918</b>	<b>882</b>	<b>760</b>	<b>12</b>

The RHB Investment Bank Group does not have any past due loans, and have not made any charges or write-offs during the year. All impaired, past due and provisions for impaired loans are for credit exposures booked in Malaysia.

**Table 13: Reconciliation of Changes to Loan Impairment Provisions (in RM'000)**

Type of Impairment Provision	Individual Impairment Provision RM'000	Collective Impairment Provision RM'000
Opening Balance	1,091	916
Net Allowance Made	12	(156)
Amount Recovered	(221)	-
<b>Closing Balance</b>	<b>882</b>	<b>760</b>

## 6.0 Credit Risk (continued)

### 6.6 SECURITISATION EXPOSURES

The Bank has exposure to securitised assets in its banking book as a result of previous securitisation exercises (prior to the year ended 31st December 2010). In general, RHB Investment Bank Group's strategy is to use securitisations for customer facilitation.

The Bank's role in securitisation activities include:

- Securitisation of third-party assets

The Bank acted as Principal Advisor/Lead Arranger ('PA/LA') and Facility Agent of the securitisation exercise, for which it assisted in the execution of the transactions for a third-party. The Bank's main responsibilities included the incorporation of the Special Purpose Vehicle ('SPV') for the transaction, co-ordinating the conduct of all necessary due diligence, submissions to Securities Commission Malaysia and BNM (where applicable) and overseeing the documentation and issuance process.

The Bank can also have a secondary role as investor (whereby the Bank has taken onto its Portfolio positions in the securitised instrument issued by the SPV), and as such the Bank is subject to the normal market and credit risk that it would face in holding on to a Private Debt Security ('PDS') instrument, and therefore would be covered by the overall Market Risk Policy detailed in Section 7.0 and the overall Credit Risk Policy detailed in Section 6.0.

The accounting policies governing initial recognition, valuation and recognition of gains and losses are also as those governing financial assets in the form of PDS as detailed in Note A 5 (Summary of Significant Accounting Policies/Financial Assets) and A 15 (Summary of Significant Accounting Policies /Impairment of Financial Assets) of the Statutory Financial Statements of the Bank.

RAM Rating Services Sdn Bhd was the External Credit Assessment Institution ('ECAI') used in determining the initial rating of the securitised asset.

- Securitisation of own assets

The Bank can act as Originator, whereby it transfers/sells assets originated from its own balance sheet to a SPV which funds the purchase with an issue of asset-backed securities. The specific objective in this case would be to create a Collateralised Loan Obligation ('CLO') whereby the underlying assets (loans) were created specifically to be then assigned to the SPV to be issued as a debt instrument to the market, and not as per traditional originated securitisation, where the intention is to transfer credit risk of the existing underlying assets away from the Bank. The CLO structure allows a pool of borrowers to access the debt capital market, which individually they would not have been able to.

The accounting policies governing the accounting treatment of the securitisation exercise are as detailed in Note A 5 (Summary of Significant Accounting Policies/ Financial Assets) of the Statutory Financial Statements of the Bank, specifically Section (d) which pertains to de-recognition of assets.

The Bank can have a secondary role as investor (whereby the Bank has taken onto its Portfolio positions in the securitised instrument issued by the SPV) and as such the Bank is subject to the normal market risk that it would face in holding on to a Private Debt Security ('PDS') instrument, and therefore would be covered by the overall Market Risk Policy detailed in Section 7.0 and the overall Credit Risk Policy detailed in Section 6.0.

The accounting policies governing initial recognition, valuation and recognition of gains and losses are also as those governing financial assets in the form of PDS as detailed in Note A 5 (Summary of Significant Accounting Policies/Financial Assets) and A 15 (Summary of Significant Accounting Policies /Impairment of Financial Assets) of the Statutory Financial Statements of the Bank.

Malaysian Rating Corporation Berhad was the ECAI used in determining the initial rating of the securitised asset.

## 6.0 Credit Risk (continued)

The definitions of the roles above are included in The Asset-Back Securities Policy issued by the Bank, which governs the asset-backed securities activities, and covers all material risks of the Bank inherent in securitisation activities. This Policy incorporates SC and BNM key requirements, as included in 'Guideline on The Offering of Asset-Backed Securities' (SC) and 'Prudential Standards on Asset Backed Securitisation Transactions by Licensed Institutions' (BNM).

In both instances detailed above, SPVs were created which are isolated from the originator (either the Bank or the third party), to which then all rights and obligations of the underlying assets are then transferred to. The guidelines on the criteria of the SPV, as well as the requirements to affect a 'true sale' are detailed in The Asset-Backed Securities Policy.

For regulatory purposes, SPVs are not consolidated where significant risk has been transferred to third parties.

RHB Investment Bank Group has no remaining exposure to the SPVs created or the previous securitisation exercises in general, apart from the risks it faces as an investor, as detailed above.

There have been no significant changes to any of the quantitative information since the last reporting period.

**Table 14: Disclosure on Securitisation Exposures in the Banking Book**

Underlying Assets	Total Exposures Securitized RM'000	Impaired RM'000
<b>TRADITIONAL SECURITISATION (banking book exposure)</b>		
<b>Originated by the Bank</b>		
Collateralised Loan Obligation	35,286	42,000
<b>Securitisation of Third Party exposures where the Bank acts only as a Sponsor</b>		
Asset-Backed Securities	19,198	-
<b>TOTAL (TRADITIONAL SECURITISATION)</b>	<b>54,484</b>	<b>42,000</b>

The totals above relate to the carrying balance sheet value of the investment in the securitised instruments, including attached accrued interest for the period, as noted above (i.e. as investor). Please note that the CLO has been impaired to reflect the downgrading of the instrument rating by RAM Rating.

The Bank has not engaged in securitisation activities during the year to 31st December 2010. No gains or losses were recorded in relation to these securitisation exposures during the period.

## 6.0 Credit Risk (continued)

### Capital Treatment for Securitisation Exposures

RHB Investment Bank Group applies the Standardised Approach to calculate the credit risk capital requirements in accordance with BNM guidelines. The Bank's credit risk weighted securitisation exposures are shown below:

**Table 15: Securitisation under the Standardised Approach for Banking Book Exposures**

Type of Securitisation Exposures	Net Exposures after CRM RM'000	Deductions from Capital		Risk Weights of the Securitisation Exposures		Risk Weighted Assets RM'000
		Rated RM'000	Unrated RM'000	20% RM'000	350% RM'000	
<b>TRADITIONAL SECURITISATION</b>						
<b>Non-originating Banking Institution</b>						
Most senior	19,198	-	-	19,198	-	3,839
<b>Originating Banking Institution</b>						
Most senior	34,200	-	-	15,350	18,850	69,045
Mezzanine	1,086	1,086	-	-	-	-
<b>TOTAL</b>	<b>54,484</b>	<b>1,086</b>	<b>-</b>	<b>34,548</b>	<b>18,850</b>	<b>72,884</b>

The Bank was not involved and does not have any exposure to synthetic securitisation during the year. The Bank also does not have any securitisation exposure in its Trading Book.

## 7.0 Market Risk

Market risk is the risk of loss arising from adverse movements in market variables, such as interest rates, credit spreads, prices of bonds & equities and currency exchange rates.

Market risk is segregated into trading market risk and non-trading market risk. Trading market risk arises from changes in interest rates, foreign exchange rates, equity prices and credit spreads on the value of assets held for trading while non-trading market risk arises from changes in interest rates, foreign exchange rates and equity prices, of which the main non-trading market risk is interest rate risk arising from re-pricing mismatches of its assets & liabilities from its banking activities.

The Bank transacts in money market, foreign exchange markets and capital markets which give rise to market risk exposures. Financial instruments transacted include debt and other securities and certain financial derivative instruments. Derivative instruments are contracts whose characteristics and value are derived from underlying financial instruments, interest rates, exchange rates, or indices. They include futures, forwards, swaps, and options transactions in the foreign exchange and interest rate markets. Derivative contracts entered into by the Bank are primarily over the counter derivatives.

The Group has established a Trading Book Policy as guidance for market risk management. These are reviewed regularly at least once a year, and /or upon change in strategy or significant event that has a material impact on policy compliance.

The Group Asset and Liability Committee ('ALCO') performs a critical role in the management of market risk that supports the Group Risk Management Committee in the overall market risk management. Group ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of market risk; this includes the development of the Group's market risk strategy, market risk management structure and the policies as well as measurement techniques to be put in place.

The Market Risk Management Department is the working level that forms a centralised function to support senior management to operationalise the processes and methods, to ensure adequate risk control and oversight are in place.

### Market Risk Assessment

The Bank applies risk monitoring and assessment tools to measure trading book positions and market risk factors. Statistical and non-statistical risk assessment tools applied include Value-at-Risk ('VaR'), sensitivity analysis and stress testing.

The Bank adopts a systematic approach in managing these risks by types of instruments and nature of exposure. Market risk is primarily monitored and controlled via a structure of limits and triggers i.e. cut loss, VaR, trading and notional limit set in accordance with the size of positions and risk tolerance appetites.

In addition, the Bank conducts periodic stress testing of its respective portfolios to ascertain market risk under abnormal market conditions.

### Market Risk Monitoring and Reporting

For effective control of market risk, defined management action triggers and risk limits are established and actively monitored. Only authorised trading activities may be undertaken by the various business units within the allocated limits. All trading positions are monitored on a daily basis by independent support units. Should exposures or transactions set off pre-established triggers, management will deliberate and determine on course of actions required on a timely basis.

## 7.0 Market Risk (continued)

### Hedging Activities

Hedging activities designated for hedge accounting are governed by the Bank's Hedging Policies that prescribe the overall hedge activities that can be executed by the Bank and the subsequent control procedures such as effectiveness measurement and reporting to Group ALCO.

A hedge is defined as a position that materially or entirely offsets the component risk elements of another position or portfolio.

Hedging instruments used to mitigate these risks include but are not limited to derivatives such as options, futures, forwards and swaps that are approved by the Board. Execution of the hedging is carried out by the relevant division through the Group's treasury functions with the approval of Group ALCO.

### Capital Treatment for Market Risk

RHB Investment Bank Group applies the Standardised Approach to calculate market risk capital requirements in accordance with BNM guidelines. The market risk weighted assets (RWA) and the corresponding market risk capital charge for RHB Investment Bank Group as at 31st December 2010 are shown in the table below:-

**Table 16: Market Risk Weighted Assets and Capital Requirement**

	Long Position RM'000	Short Position RM'000	Risk Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
<b>Market Risk (Standardised Approach)</b>				
Interest Rate Risk	2,508,514	2,010,000	93,163	7,453
Foreign Currency Risk	20,558	–	20,563	1,645
Options Risk	–	–	48,175	3,854
<b>Total RWA and Capital Requirements</b>	<b>–</b>	<b>–</b>	<b>161,901</b>	<b>12,952</b>

As at 31st December 2010, the RHB Investment Bank Group did not have any exposures under Commodity or Inventory Risk.

## 8.0 Equity Exposures In The Banking Book

Equity risk is the risk of decline in the net realisable value of investment assets arising from adverse movements in market prices or factors specific to the investment itself. RHB Investment Bank Group holds positions as a result of debt equity conversions, exposures arising from equity underwriting commitments and for socio-economic purposes, which are deemed as non-trading instruments.

The Bank has established a policy document that governs the management of such exposures to ensure that these exposures are effectively managed and accounted for in the Bank's books.

For regulatory capital purpose, the Bank adopts the Standardised Approach to calculate the risk weighted exposures.

Risk weighted exposures of equity investments are shown below:

**Table 17: Equity Exposures in the Banking Book**

Equity Type	Equity Investment Exposures RM'000	Risk Weighted Assets RM'000
Publicly traded equity		
– holdings of equity investments	1,306	1,306
Private held equity		
– for socio-economic purposes	16,616	16,616
– for non socio-economic purposes	14,544	14,544
<b>Total</b>	<b>32,466</b>	<b>32,466</b>

The Bank has not made any material gains or losses from the sale or liquidation of the equity exposures during the year.

## 9.0 Liquidity Risk

There are two types of liquidity risk, namely funding liquidity and market liquidity risk. Funding liquidity risk is the risk that the Bank is unable to meet its payment obligations as they fall due. These payment obligations could emanate from depositor withdrawals, the inability to roll over maturing debt or meet contractual commitments to lend. Market liquidity risk is the risk that the Bank will be unable to sell assets, without incurring an acceptable loss, in order to generate cash required to meet payment obligations under a stress liquidity event.

The primary role of a bank in terms of financial intermediation is the transformation of short-term deposits into longer term loans. By fulfilling the role of maturity transformation, banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risks.

Through the Group's Liquidity Practices Guide, the Bank manages the funding and market liquidity risk to ensure that banking operations continue uninterrupted under normal and stressed conditions. The key objectives that underpin the Group's Liquidity Practices Guide include maintaining financial market confidence at all times, protecting key stakeholder interests and meeting regulatory liquidity requirements.

The Group's ALCO supports Group's Risk Management Committee by performing the critical role in the management of liquidity risks, and is responsible in establishing strategies that assist in controlling and reducing any potential exposures to liquidity risk. The ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of liquidity risks and the Group's balance sheet profile. Global and domestic economic data, information and events are deliberated at the ALCO which enables the Group to determine its actions and reactions in the capital markets. The ALCO is also the governance body which sets interest/profit rates for liabilities products as well as reference rates for lending and financing products and services.

The liquidity management process involves establishing liquidity management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions.

Some of the key liquidity risk management tools are top depositors' mixture, funding source mixture, maturity profile of funding sources and contingency funding lines.

### Liquidity Contingency Plan

The Group's Liquidity Policy Statement establishes guidelines for managing a liquidity crisis, identifying early warning signs of a possible liquidity event and the need for heightened liquidity risk monitoring and reduced liquidity risk exposure. In addition, the Group's Liquidity Contingency Plan identifies the individuals responsible for formulating and executing the RHB Investment Bank Group's response to a liquidity event.



## 10.0 Interest Rate Risk / Rate Of Return Risk In The Banking Book

Interest rate risk in the banking book refers to any opportunity loss to the Bank's income and / or economic value to changes in interest rate, which may arise from both on and off balance sheet positions in the banking book. Interest rate risk occurs whenever there is a mismatch in the re-pricing period of assets and liabilities. Excessive interest rate risk can pose a significant threat to the Bank's earnings and capital. Changes in interest rates may affect the Bank's earnings in terms of the net interest income and economic value of equity.

Interest rate risk in the banking book comprises:

- Re-pricing risk (mismatch risk) – timing difference in the maturity (for fixed rate) and re-pricing (for floating rate) of bank's assets, liabilities and off-balance sheet positions;
- Basis risk – imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics;
- Yield curve risk – changes in the shape and slope of the yield curve; and
- Embedded optionality – the risk pertaining to interest-related options embedded in bank's products.

The ALCO supports Group Risk Management Committee in establishing policies, strategies and limits for the management of balance sheet risk exposure. Group Risk Management supports the ALCO in the monthly monitoring of the interest rate / rate of return risk profile of the banking book. The primary objective in managing balance sheet risk is to manage the net interest income, as well as to ensure that interest rate exposures are maintained within defined risk tolerances.

In addition, the Group has established the Interest Rate Risk / Rate of Return Risk Policy which provides for the governance of interest rate/rate of return. Interest rate/profit rate sensitivity triggers are applied on earnings for the respective profit centres within the Group. The Group regularly considers the economics and necessity of increasing or reducing its interest rate/profit rate risk hedges.

In line with the Group's Interest Rate Risk / Rate of Return Risk Policy to achieve a balance between profitability from banking activities and minimizing risk to earnings and capital from changes in interest rates, interest rate risk to earnings is controlled using Management Action Triggers ('MATs') and identified escalation procedures.

Stress testing is also performed regularly to determine the adequacy of capital in meeting the impact of extreme interest rate movements on the balance sheet. Such tests are also performed to provide early warnings of potential extreme losses, facilitating proactive management of interest rate risks in an environment of rapid financial market changes.

## 10.0 Interest Rate Risk / Rate Of Return Risk In The Banking Book (continued)

The effect of changes in interest rate to net earnings for position as at 31st December 2010 is shown below:

**Table 18: Interest Rate Risk / Rate of Return Risk in the Banking Book (in RM'000)**

Currency	Impact on Position as at Reporting Period (50 basis points) Parallel Shift			
	Increase/(Decline) in Earnings (RM'000)		Increase/(Decline) in Economic Value (RM'000)	
	Increase/(Decline) on +50 basis points	Impact based on -50 basis points	Impact based on +50 basis points	Impact based on -50 basis points
MYR	(13,880)	13,880	(63,468)	63,468
USD	15	(15)	(0)	0
Others*	80	(80)	(1)	1
<b>Total</b>	<b>(13,785)</b>	<b>13,785</b>	<b>(63,469)</b>	<b>63,469</b>

\*Inclusive of GBP, VND, THB, IDR etc

The impact to net earnings above represents financial assets and liabilities that have been prepared on the following basis:

- Interest rate sensitive assets and liabilities with residual maturity or re-pricing tenure of up to one year that is not captured in the trading portfolio are slotted into time bands based on the maturity or re-pricing tenure whichever that is earlier.
- A set of risk weights with its respective time band is used to project the 50 basis point interest rate change impact.
- For assets and liabilities with non-fix maturity, certain assumptions are made to reflect the actual sensitivity behaviour of interest bearing items.

Economic value is characterised by the impact of interest rate changes on the value of all net cash flows i.e. the effect on the economic value of the Bank's assets, liabilities and off-balance sheet positions. This provides a more comprehensive view of the potential long-term effects of changes in interest rates than is offered by the earnings perspective.

However, the computation of net cash flows is derived taking into consideration a series of assumptions, for instance, assets and liabilities with non-fix maturity e.g. current and savings accounts. Assumptions are made to reflect the behavioural changes against interest rate movements. The scenarios used are simplified whereby it is assumed that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business unites and risk management to mitigate the effect of this movement in key variables.

## 11.0 Operational Risk

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes, people and systems and from external events, which also includes IT and legal risks. Operational risks are inherent in RHB Investment Bank's operations and can never be eliminated entirely. The impact can be in the form of actual financial loss as well as non-financial loss such as loss of reputation, non-compliance and unsatisfactory service level to customers.

One of the Bank's primary safeguards against operational risks is the existence of a sound internal control system, based on the principle of dual control, checks and balance, segregation of duties, independent checks and verification processes, segmented system access control and authorisation process. These controls are documented through a set of policies and procedures at the respective business level.

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

- **Analysis & Enhancement** – The Group has implemented a Basel II compliant operational risk management system to support its workflow and analytical capabilities.
- **Education & Awareness** – The Group undertakes change management activities to improve the risk management knowledge, culture and policies of the Bank personnel. This is aligned with the principle and requirement that the front-line business and support units of the Group, are by nature of their direct involvement in interfacing with customers and in operating the business, responsible for managing operational risk and acting as the first line of defence against operational losses.
- **Monitoring & Intervention** – This is where the principal head office risk control units, including the operations management function, compliance function and the internal audit function, actively manage operational non-compliances, incidences, and undertake recovery actions, including business continuity measures in cases of incidences causing disruption to business activities.

### Operational Risk Management Function and Organisation

The Operational Risk Management Department reporting directly to the Head of Group Risk Management has the functional responsibility for the development of risk policies, frameworks and methodologies, and providing guidance and information to the business units on operational risk areas. Its function also includes generating a broader understanding and awareness of operational risk issues at all levels of the RHB Banking Group. It also ensures that operational risk from new products, processes and systems are adequately managed and mitigated. The respective business units are primarily responsible for managing operational risk on a day-to-day basis.

Regular operational risk reporting is made to the senior management, GRMC and the Board. These reports include various operational risk aspects such as reporting of significant operational loss events. Such reporting allows senior management to identify adverse operational lapses, take corrective actions promptly, and ensure appropriate risk mitigation decision making and action plans.

## 11.0 Operational Risk (continued)

### Risk Management Process and Methodologies

The Bank has defined an operational risk management process, comprising risk identification, assessment, monitoring, and reporting. These are outlined as follows:

- **Risk and Control Self Assessment ('RCSA')**

Each business unit is required to identify and assess their own operational risks. RCSA is a risk profiling tool which facilitates effective operational risk management for the Bank, and focuses on future risk assessment by using past records of loss or near misses, key risk indicators, and related issues such as audit findings. The RCSA process is facilitated by the business units themselves who together with personnel from Operational Risk Management would identify and assess key operational risks that could affect the effectiveness of controls and impact the achievement of business objectives. For identified risks lacking sufficient mitigation, the business units are required to establish action plans to improve the control environment so as to contain the risks to acceptable levels.

- **Key Risk Indicators ('KRIs')**

Business units are required to monitor their risk exposures via KRIs and are required to develop specific and concrete plans to address those where indicators are unfavourable. KRIs are embedded into critical processes to provide early warning signals of increasing risk and /or control failures by flagging up given frequencies of events as a mechanism for continuous risk assessment and monitoring.

- **Incident and Loss Management**

Business and support units are required to report operational losses for further analysis of root cause for further recurrence. This is also useful for reviewing the effectiveness of the RCSA and KRIs.

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.

### Risk Mitigation and Controls

Risk mitigation tools and techniques are used to minimise risk to an acceptable level and aims to decrease the likelihood of an undesirable event and the impact on the business, should it occur.

The control tools and techniques are as follows:-

- **Business Continuity Management ('BCM')**

To mitigate the impact of unforeseen operational risk events, the Bank has on-going and actively managed Business Continuity Planning ('BCP') programmes for its major critical business operations and activities at the Head Office, data centre, and branches' locations. The BCP programmes are subject to regular testing to ensure efficacy, reliability and functionality, and come under the responsibility of the Business Continuity Management ('BCM') Department.

The Board of Directors has an oversight function through the GRMC and CMC. The Group Business Continuity Management Steering Committee ('GBCMSC') is the committee that oversees the Group's business continuity framework, policies, budget and plans. The GBCMSC reports to the CMC.

## 11.0 Operational Risk (continued)

- **Outsourcing**

With the increasing need to outsource for cost and operational efficiency, the Group's Policy on Outsourcing of RHB Banking Group's Operations and Services ensures that outsourcing risks are adequately identified, assessed and managed prior to entering into any new arrangements and on an on-going basis.

- **Insurance Management**

RHB Investment Bank Group considers risk transfer by means of insurance to mitigate operational risk. The Group has a programme of insurances designed to reduce its exposure to liability and to protect its assets. The Group purchases insurance from leading insurers in the market covering fraud, theft, property and casualty, business disruption, liability and other risks for which it may be held responsible. These are provided by third party insurers and financially mitigate the economic consequences of risks.

### New Product and Services Approval Process

The RHB Banking Group has established a Policy on 'Introduction of New / Variation of Products & Services Lifecycle' which governs the risk management of new products, services, or significant changes thereto. The responsible units have a duty to assess the operational risks for new product launches and / or significant changes in product features or related processes and working systems, as well as to ensure that operational risk is at an acceptable level at all times.

### Legal Risk

Legal risk is part of operational risk. It can arise from unenforceable, unfavourable, defective or unintended contracts; lawsuits or claims; developments in laws and regulations, or non-compliance with applicable laws and regulations. Business units work together with the Group's legal counsel and external legal counsel to ensure that legal risks are effectively managed.

### Country Cross-Border Risk

Country cross-border risk is the risk that we will be unable to obtain payment from its customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments.

Cross border assets comprise loans and advances, interest bearing deposits with other banks, trade and other bills, acceptances, derivatives, certificates of deposit and other negotiable instruments, investment securities and other formal commitments where the counterparty is resident in a country other than where the assets are recorded. Cross border assets also include exposures to local residents denominated in currencies other than the local currency.

RHB Investment Bank is guided by the Group Guidance on Cross-Border Business, particularly on ethics in business practices, key success factors in managing such business, and the internal control measures which are essential to provide equal and adequate protection to its customers as well as the Group's interests, thus reducing the risks associated with business activities.

### Treatment for Operational Risk Capital Charge

Currently, the Bank adopts the Basic Indicator Approach for the calculation of regulatory operational risk capital for both levels of reporting i.e. RHB Investment Bank Global and RHB Investment Bank Consolidated. The operational risk weighted assets and the corresponding risk capital charge as at 31st December 2010 are shown below:

**Table 19: Operational Risk Weighted Assets and Capital Requirement**

	Group RM'000	Bank RM'000
<b>Operational Risk</b>		
Risk Weighted Assets	469,394	414,976
Capital Requirement at 8%	37,551	33,198

## 12.0 Reputational Risk

Reputational risk is the risk that negative publicity regarding the conduct of RHB Investment Bank or any of the entities within the Group, business practices or associations, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures.

Negative publicity about an institution's business practices may involve any aspect of its operations, but usually relates to questions of business ethics and integrity, or quality of products and services. Reputational risk will arise from failure to effectively mitigate one or more of country, credit, liquidity, market, regulatory, operational, environmental or social risk.

Reputational risk in the Bank is managed and controlled throughout by codes of conduct, governance practices and risk management practices, policies, procedures and training. Towards this end, the Group has developed and implemented a Reputational Risk Management Framework.

The key elements for management of reputational risk include:

- Prompt and effective communication with all stakeholders,
- Strong and consistent enforcement of controls relating to governance, business compliance and legal compliance,
- Continuous monitoring of threats to reputation,
- Ensuring ethical practices throughout the organization, and
- Establishing and continually updating crisis management plans.

## 13.0 Internal Capital Adequacy Assessment Process ('ICAAP')

BNM has recently issued the Guideline on 'Risk-Weighted Capital Adequacy Framework (Basel II) – Internal Capital Adequacy Assessment Process (Pillar 2)' in December 2010, and the Bank is in the process of implementing this.

# Branch Network

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