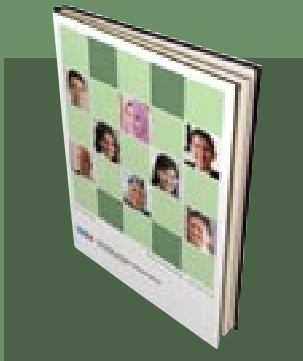


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delivering results



RHB SAKURA MERCHANT BANKERS BERHAD
ANNUAL REPORT **2005**



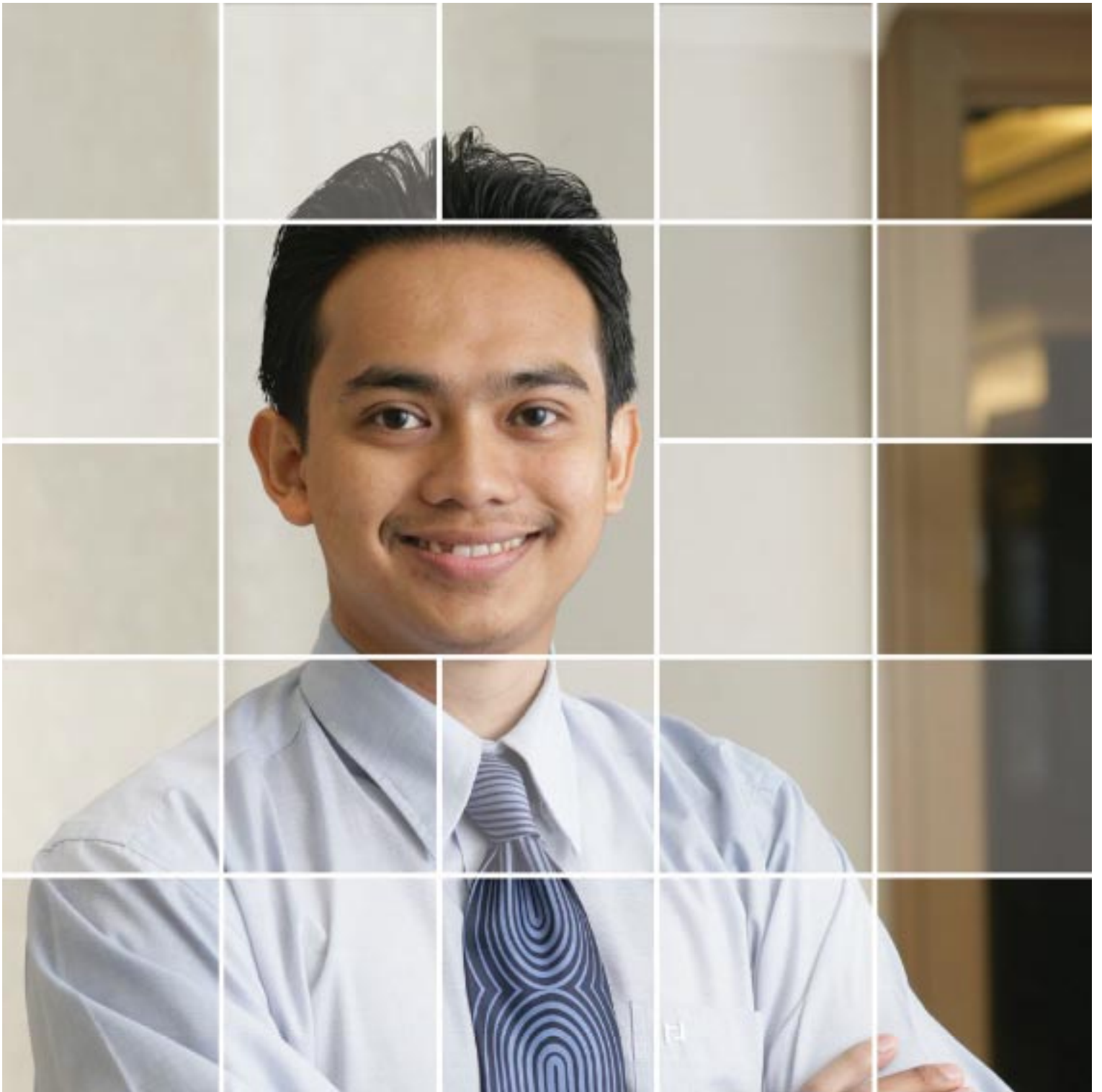
Delivering Results

Our philosophy is simple - treat customers as real people with real needs. Then follow it up with innovative products and services that surpass their expectations. You can't get any more customer centric than that. After all, we are in the business of delivering results for our customers.

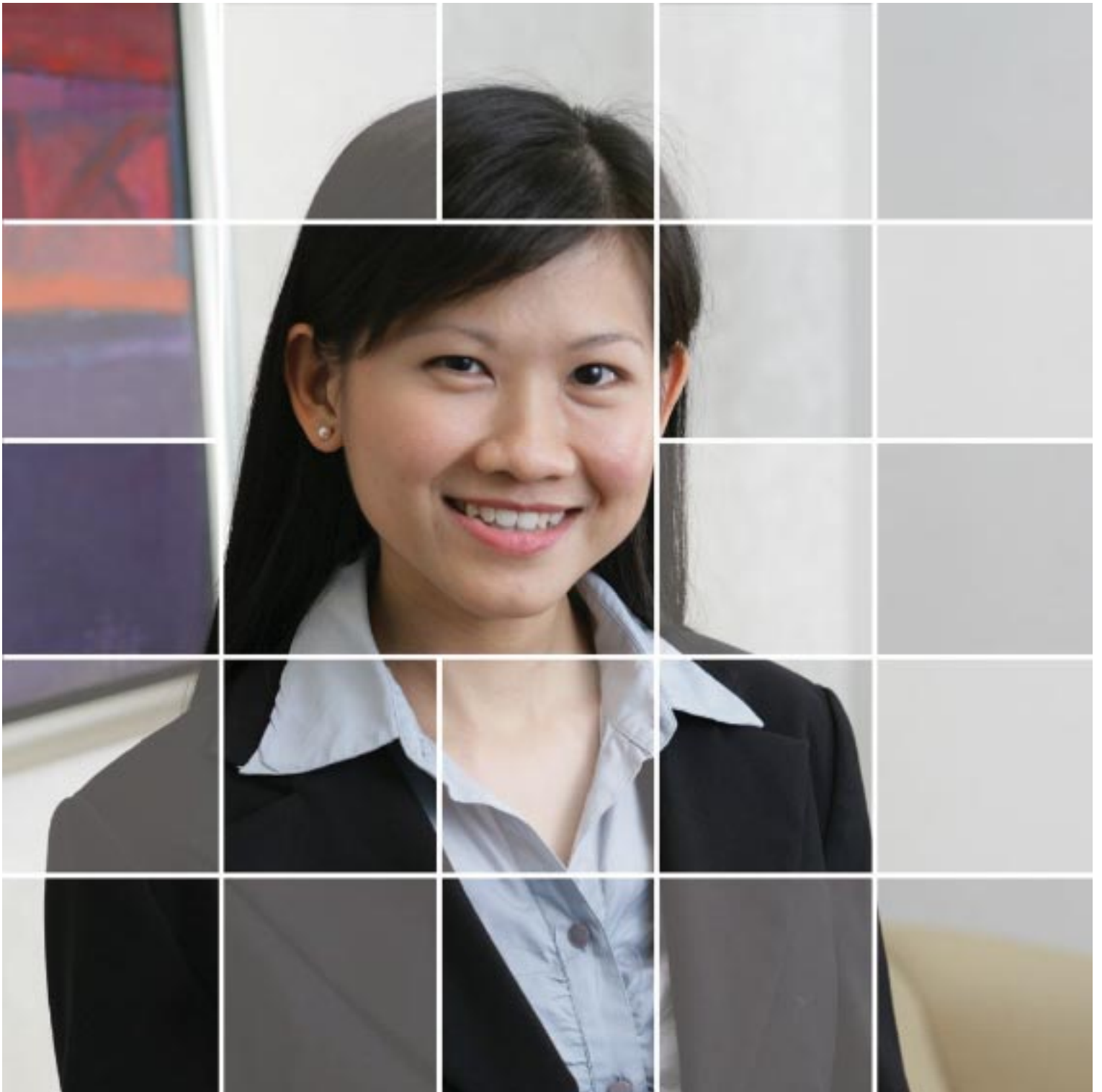
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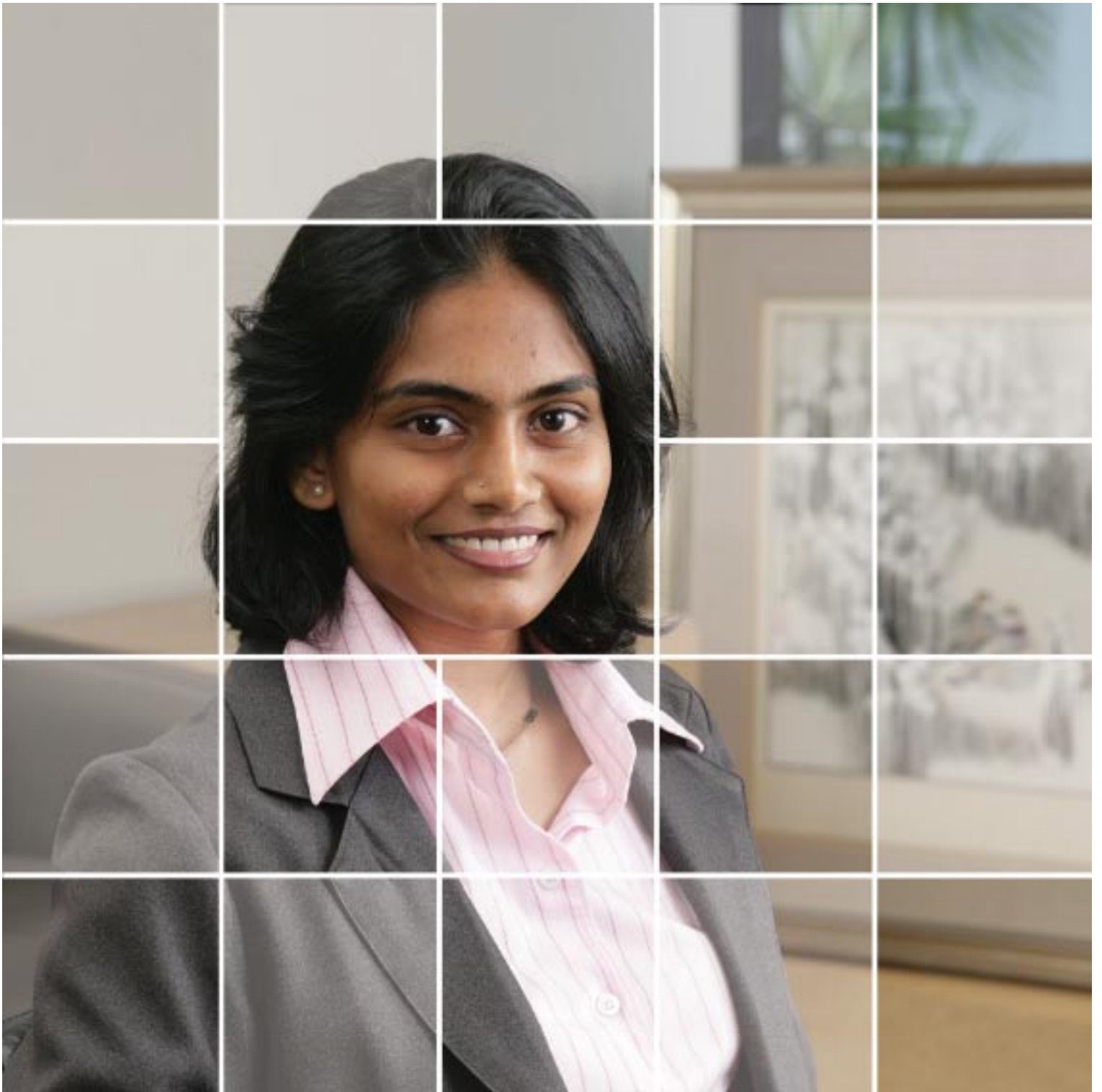
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We know that customers – individuals and businesses alike – require products and services that are easy and intuitive to use, and customer interactions as straightforward and hassle-free as possible. And that’s just the way our approach has been for all our customers since day one of our operations.



Our goal is to introduce cutting-edge technologies that drive markets and bring tangible benefits to our customers, helping businesses to be more productive and more competitive – locally or regionally. And we will continue to be there, for each and every one of our customers.



We are passionate about our brand promise of providing superior customer satisfaction. It is in our DNA. We are and will always be true to this commitment. That's why our focus is always centred around our customers. And this will never change.

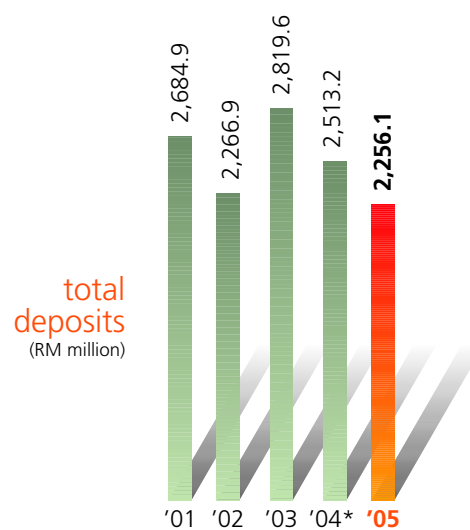
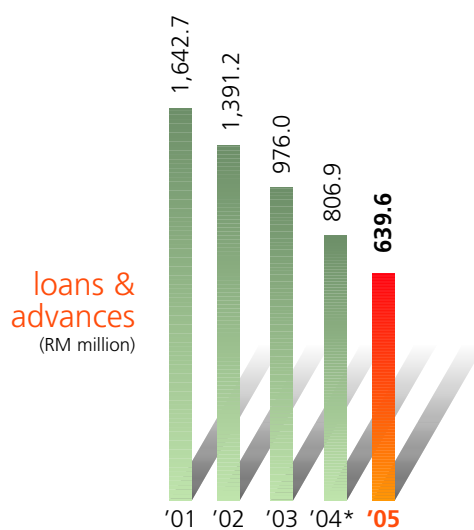
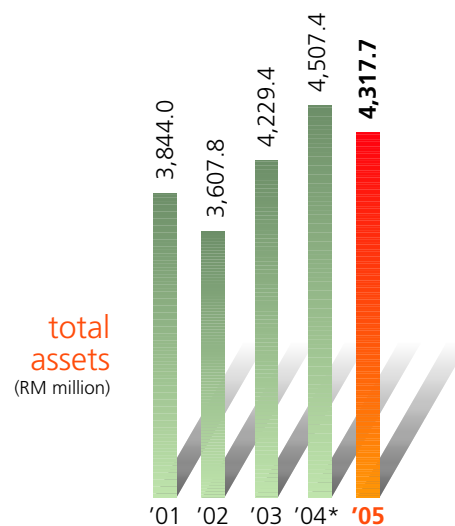
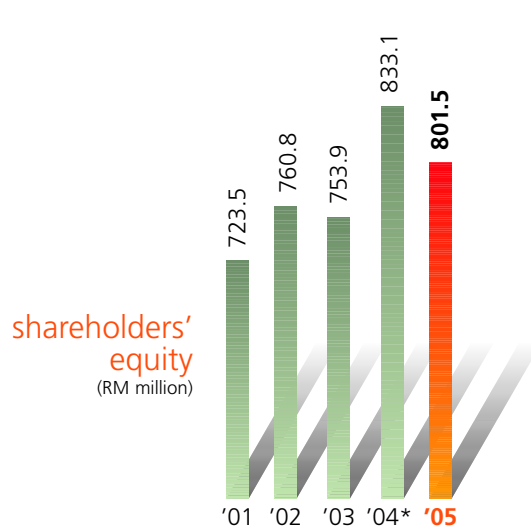
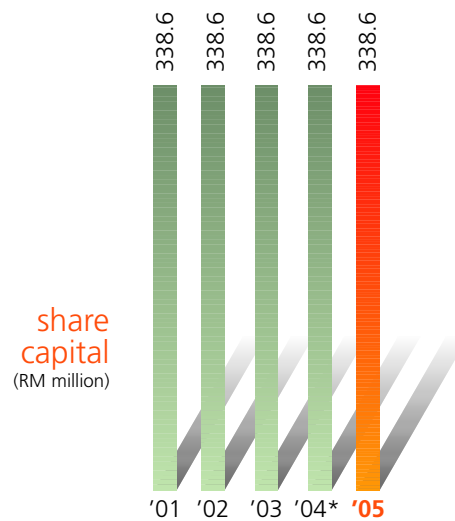
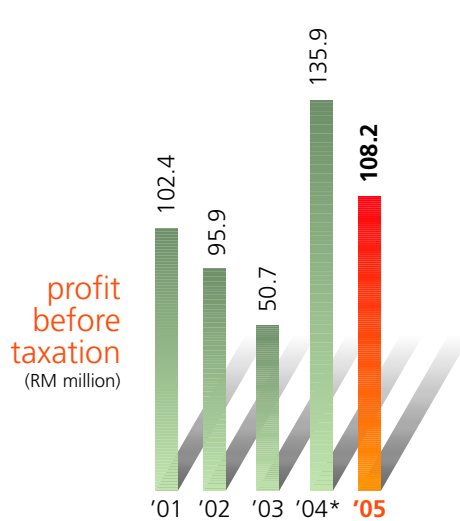
financial highlights

	2005	2004*	2003	2002	2001
	RM '000	RM '000	RM '000	RM '000	RM '000
RESULT					
Profit before taxation	108,157	135,932	50,676	95,911	102,365
Profit after taxation and minority interests	78,905	100,056	35,752	67,785	73,580
Net dividends	53,642	97,530	48,765	30,478	30,478
BALANCE SHEETS					
Share capital	338,646	338,646	338,646	338,646	338,646
Shareholders' equity	801,457	833,112	753,890	760,805	723,498
Total assets	4,317,726	4,507,414	4,229,385	3,607,779	3,843,955
Loans and advances	639,599	806,877	975,997	1,391,229	1,642,697
Total deposits	2,256,097	2,513,219	2,819,588	2,266,856	2,684,851
RATIOS					
Earnings per share (sen)	23.3	29.5	10.6	20.0	21.7
Gross dividend per share (sen)	22.0	40.0	20.0	12.5	12.5
Net tangible assets per share (sen)	185.6	195.0	171.6	224.7	213.6
Return on shareholders' equity (%)**	9.7	8.4	4.7	9.1	10.5

* The Bank changed its financial year end from 30 June to 31 December with effect from the financial period ended 31 December 2004 and accordingly, the results for that financial period are for eighteen months.

Certain figures for the 18 months period ended 31 December 2004 have been restated arising from the retrospective application of the revised guidelines on Financial Reporting for Licensed Institutions (BNM/GP8) issued by Bank Negara Malaysia.

** Annualised



* The Bank changed its financial year end from 30 June to 31 December with effect from the financial period ended 31 December 2004 and accordingly, the results for that financial period are for eighteen months.

Certain figures for the 18 months period ended 31 December 2004 have been restated arising from the retrospective application of the revised guidelines on Financial Reporting for Licensed Institutions (BNM/IGP8) issued by Bank Negara Malaysia.

corporate information

BOARD OF DIRECTORS

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

SECRETARIES

Encik Azman Shah Md Yaman
Puan Norazzah Sulaiman

AUDIT COMMITTEE

YBhg Dato' Mohamed Khadar Merican
Chairman

Encik Vaseehar Hassan Abdul Razack

Mr Lew Foon Keong

YBhg Datin Khamarzan Ahmed Meah

EXECUTIVE COMMITTEE

YBhg Dato Abdullah Mat Noh
Chairman

Encik Vaseehar Hassan Abdul Razack

Mr Akira Miyama

GROUP RISK MANAGEMENT COMMITTEE

YBhg Dato' Mohamed Khadar Merican
Chairman

YBhg Dato Abdullah Mat Noh

Encik Vaseehar Hassan Abdul Razack

REMUNERATION AND HUMAN RESOURCE COMMITTEE

YBhg Dato' Mohamed Khadar Merican
Chairman

YBhg Dato Abdullah Mat Noh

Encik Vaseehar Hassan Abdul Razack

NOMINATING COMMITTEE

YBhg Dato' Mohamed Khadar Merican
Chairman

YBhg Dato Abdullah Mat Noh

Encik Vaseehar Hassan Abdul Razack

Mr Akira Miyama

Mr Lew Foon Keong

SENIOR MANAGEMENT

TREASURY

Encik Hamdan Abd Manaf
Acting Head of Department / Senior Vice President

Ms Angie Ng Kat Wei
Senior Vice President

DEBT CAPITAL MARKETS

Mr Peter Choong Kia Woh
Head of Department / Senior Vice President

ISLAMIC FINANCE

Puan Mashitah Hj Osman
Head of Department / First Senior Vice President

Encik Ariff Salleh
Senior Vice President

CORPORATE FINANCE

YM Tengku Nurul Azian Tengku Shahrman
Head of Department / Senior Vice President

Ms Lee Sum Moi
Senior Vice President

Ms Wendy Lee Poh Teng
Senior Vice President

Mr Jaimie Sia Zui Kheng
Senior Vice President

Encik Abdul Hisham Md Hashim
Senior Vice President

CORPORATE BANKING

Mr Tan Kim Seng
Head of Department / Senior Vice President

INVESTMENT BANKING GROUP

Encik Roslan Hj Tik
Senior Vice President

Encik Mohamed Jamil Omar
Senior Vice President

Mr Leong Yew Loong
Senior Vice President

CREDIT ADMINISTRATION & REHABILITATION

Mr Tan Chee Hong
Head of Department / Senior Vice President

FINANCE & GENERAL SERVICES

Puan Rafiza Ghazali
Head of Department / Senior Vice President

GROUP RISK MANAGEMENT

Mr Patrick Ho Kwong Hoong
Head of Department / Senior Vice President

HUMAN RESOURCES & ADMINISTRATION

Puan Jamilah Abdul Sallam
Head of Department / Senior Vice President

GROUP INTERNAL AUDIT

Mr Lam Jin Fatt
Head of Department / Senior Vice President

COMPLIANCE & REVIEW

Mr Selva Durairajah
Head of Department / Senior Vice President

MANAGEMENT OF SUBSIDIARIES

RHB Unit Trust Management Berhad

Mr Michael Tan Lib Chau
Chief Executive Officer / Director

RHB Securities Sdn Bhd

Dr Zaha Rina Zahari
Chief Executive Officer / Director

RHB Asset Management Sdn Bhd

Encik Hasni Harun
Managing Director

RHB Futures Sdn Bhd

Ms Han Ai Le
Executive Director

RHB Research Institute Sdn Bhd

Mr Lim Chee Sing
Executive Director

REGISTERED OFFICE

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

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

BUSINESS ADDRESS

Head Office

Level 9, Tower Three
RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
Malaysia

Tel : 603-9287 3888
Fax : 603-9287 8000
Cable : DACMITSUI KUALA LUMPUR
Telex : DCNOMU MA 30913

Kuching Desk Office

2nd Floor, Lot 363, Section 11
Jalan Kulas
P. O. Box 2049
93400 Kuching
Sarawak

Tel : 082-232 515
082-234 516
Fax : 082-231 518

Penang Desk Office

Level 4
44, Lebuhr Pantai
Georgetown
10300 Pulau Pinang

Tel : 604-2631 122
Fax : 604-2632 211

Johor Bahru Desk Office

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

Tel : 607-2288 111
Fax : 607-2288 222

COMPANY NO.

19663-P

AUDITORS

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

board of directors

from left to right:

*Dato Abdullah Mat Noh
Datuk Azlan Mohd Zainol
Dato' Mohamed Khadar Merican
Datin Khamarzan Ahmed Meah
Akira Miyama
Vaseehar Hassan Abdul Razack
Lew Foon Keong
Johari Abdul Muid*



profile of the board of directors



YBHG DATO ABDULLAH MAT NOH

(65 years of age – Malaysian)

Non-Independent Non-Executive Chairman

YBhg 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 current directorships in public companies include RHB Bank Berhad (Deputy Chairman) and RHB Islamic Bank Berhad.

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



YBHG DATUK AZLAN MOHD ZAINOL

(56 years of age – Malaysian)

Non-Independent Non-Executive Director

YBhg Datuk Azlan Mohd Zainol (“Datuk Azlan”) is currently the Chief Executive Officer of Employees Provident Fund Board (EPF) since April 2001. Datuk Azlan has more than 25 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. He is a Fellow of the Institute of Chartered Accountants of England & Wales, Member of the Malaysia Institute of Accountants and Member of the Malaysian Institute of Certified Public Accountants.

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

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

profile of the board of directors



YBHG DATO' MOHAMED KHADAR MERICAN

(49 years of age – Malaysian)

Independent Non-Executive Director

YBhg Dato' Mohamed Khadar Merican ("Dato' Khadar") has had over 20 years financial and general management experience in the commercial environment. He is a Member of the Institute of Chartered Accountants in England and Wales and is also a Member of the Malaysian Institute of Accountants. He was a past President of Malaysian Association of Hotel Owners. He currently manages his own financial consultancy practice.

Dato' Khadar's current directorships in public companies include Rashid Hussain Berhad, RHB Bank Berhad, RHB Insurance Berhad and Astro All Asia Networks Plc.

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



MR AKIRA MIYAMA

(55 years of age – Japanese)

Non-Independent Non-Executive Director

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

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

Mr Miyama was appointed as a Director of RHB Sakura on 25 September 2000. He also serves as a Member of the Executive Committee and Nominating Committee.



ENCIK VASEEHAR HASSAN ABDUL RAZACK

(54 years of age – Malaysian)

Non-Independent Non-Executive Director

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

In addition to being the Chief Executive and Director of the Malaysian subsidiary of Dallah AlBaraka Group of Saudi Arabia, Encik Vaseehar Hassan's current directorships in public companies include Rashid Hussain Berhad, RHB Capital Berhad, RHB Bank Berhad, RHB Insurance Berhad, RHB Islamic Bank Berhad (Chairman), Utama Banking Group Berhad, CMS Trust Management Berhad and Ingress Corporation Berhad.

Encik Vaseehar Hassan was appointed as a Director of RHB Sakura on 7 May 2003 representing RHB Capital Berhad, the holding company of RHB Sakura. He also serves as a Member of the Executive Committee, Audit Committee, Remuneration and Human Resource Committee, Nominating Committee and Group Risk Management Committee.



ENCIK JOHARI ABDUL MUID

(48 years of age - Malaysian)

Non-Independent Non-Executive Director

Encik Johari Abdul Muid ("Encik Johari") is currently the Chief Investment Officer (Equity) of Employees Provident Fund (EPF). Encik Johari has more than 21 years of experience in the financial sector, starting his career as a Money Market Dealer with Asian International Merchant Bankers Berhad in 1981. From 1983 to 1994, he was with Commerce International Merchant Bankers Berhad, working in the Treasury Division and was made the Head of Treasury in 1988. He became the Senior Vice President of Institutional Sales in 1995, within a year of joining CIMB Securities Sdn Bhd ("CIMB Securities"), where he was responsible in setting up the Institutional Sales Team of CIMB Securities. Prior to joining EPF in August 2004, he was the Chief Investment Officer of ValueCap Sdn Bhd which he joined in February 2003. He is an Associate Member of the Chartered Institute of Management Accountants, United Kingdom.

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

Encik Johari was appointed as a Director of RHB Sakura on 1 April 2005, representing RHB Capital Berhad, the holding company of RHB Sakura.

profile of the board of directors



MR LEW FOON KEONG

(48 years of age – Malaysian)

Independent Non-Executive Director

Mr Lew Foon Keong (“Mr Lew”) has over 20 years of investment banking experience. He started his career in 1983 in the city of London with Wardley James Capel (then the merchant banking and stockbroking operations of the HongKong Bank Group) and subsequently worked for a British merchant bank, Robert Fleming and Credit Commercial de France before returning to Asia in 1990 to manage the regional corporate finance business for HG Asia Securities. In 1997, following the sale of HG Asia to ABN Amro Bank, Mr Lew was appointed Managing Director of ABN Amro’s merchant banking business in Singapore. In late 1999, Mr Lew founded Equator Capital Pte Limited, an investment management and advisory company which is currently active in equities options and derivatives trading apart from venture capital investments. Over the years, he has been involved in a wide range of investment banking work, including global Initial Public Offerings, equities placements, corporate takeovers and mergers, debt/equity restructuring and venture capital financing. He 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.

His other directorship in public company includes RHB Capital Berhad.

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



YBHG DATIN KHAMARZAN AHMED MEAH

(54 years of age – Malaysian)

Independent Non-Executive Director

YBhg Datin Khamarzan Ahmed Meah (“Datin Khamarzan”) was previously the Deputy Director, Privatisation Division, Economic Planning Unit from 1992 to 1995. Prior to that, she was the Principal Assistant Secretary of the Banking and International Financing Section, Ministry of Finance from 1982 until 1991. She holds a Bachelor of Economics (Honours) degree from University of Malaya and a Masters in Development Economics from Boston University, USA.

Datin Khamarzan’s current directorship in public company includes Rashid Hussain Berhad.

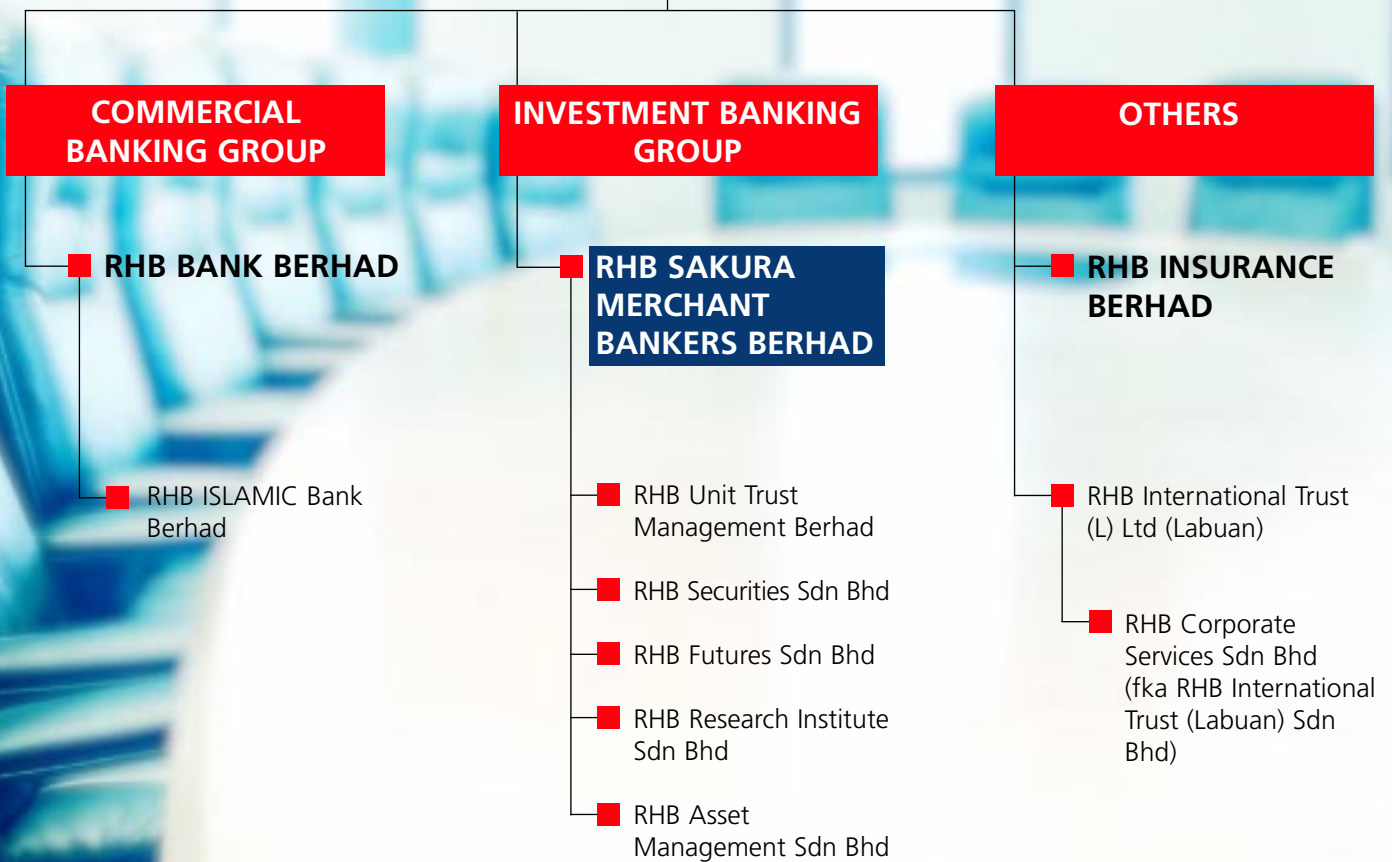
Datin Khamarzan was appointed as a Director of RHB Sakura on 3 April 2006. She also serves as a Member of Audit Committee.

RHB group corporate structure – As At 31 January 2006



RASHID HUSSAIN BERHAD

RHB CAPITAL BERHAD



senior



standing from left:
Patrick Ho, Selva Durairajah, Mashitah Hj Osman.

sitting from left:
Jamilah Abdul Sallam, Lam Jin Fatt.

management



standing from left:

*Tan Chee Hong, Rafiza Ghazali, Hamdan Abdul Manaf,
Tengku Nurul Azian Tengku Shahrman*

sitting from left:

Peter Choong, Tan Kim Seng

Senior Management of Subsidiaries



standing from left:

Lim Chee Sing, Michael Tan, Ken Ong, Han Ai Le

sitting:

Dr. Zeha Rina Zahari

Investment Banking Group



standing from left:
Hui Swee Ho, Mohamed Jamil Omar, Leong Yew Loong,
Badrulnizam Bahaman, Ngah Fuji Bakri

sitting:
Roslan Hj Tik



chairman's report 2005

“For RHB Sakura, the primary focus in 2005 was to leverage on favourable conditions in the debt capital markets to enhance its income and profitability and make up for the shortfall expected of businesses from the equities markets.”

On behalf of the Board of Directors, it gives me great pleasure to present the Annual Report and Audited Financial Statements of RHB Sakura Merchant Bankers Berhad ("RHB Sakura") for the financial year ended 31 December 2005.

Several significant milestones in the global and local economic environment marked 2005 as a challenging year. The year saw spiraling of the world's crude oil price to above US\$70 per barrel in August 2005, de-pegging of the Ringgit to allow it to operate in a managed float in July 2005 following re-pegging of the Chinese Yuan to a basket of foreign currencies and Bank Negara Malaysia ("BNM") raising the Overnight Policy Rate ("OPR") by 30 basis points to 3.0% in November 2005, the first increase since the OPR was introduced in April 2004.

For RHB Sakura, the primary focus in 2005 was to leverage on favourable conditions in the debt capital markets to enhance its income and profitability and make up for the shortfall expected of businesses from the equities markets. A key initiative was also taken to expand our market reach in Malaysia so as to better serve the needs of our clients in Kuching, Johor Bahru and Penang via the establishment of desk offices in these key marketplaces.

FINANCIAL HIGHLIGHTS

Despite another year of challenging conditions marked by intense competition in the marketplace, uncertainties as to rising interest rates and a poor performing equities

market amidst the de-pegging of the Ringgit, I am pleased to report that RHB Sakura not only remained profitable but was able to improve on its performance in 2005.

On a consolidated basis, RHB Sakura registered a profit of RM108.2 million before tax notwithstanding significantly lower contributions from its stockbroking and asset management subsidiaries. Compared to 2004 on an annualised basis, this represented a 19.4% jump in profitability. Total assets were marginally lower at RM4.3 billion as at 31 December 2005 whilst shareholder's equity dropped by about 4% to RM801.5 million on account of a dividend payout of RM97.5 million during the year. Nevertheless, the Risk Weighted Capital Adequacy Ratio of RHB Sakura remained strong at 17.6% as at the end of 2005, which was far above the statutory minimum of 8%.

Reflecting the fact that 2005 had been a very challenging year for the Malaysian equities market, our key subsidiaries, whilst still profitable, reported drops in earnings. RHB Securities Sdn Bhd ("RHB Securities") had its pre-tax earnings lowered to RM4.5 million in 2005 from RM43.2 million for the 18-month period of 2004. Both RHB Asset Management Sdn Bhd ("RHBAM") and RHB Unit Trust Management Bhd ("RHB Unit Trust"), meanwhile, reported more moderate declines in earnings.

RHBAM returned a pre-tax profit of RM4.0 million compared to RM7.0 million in 2004. At RHB Unit Trust, despite sales of unit trust funds breaching RM800.0 million in 2005, pre-tax profit fell from RM8.6 million in 2004 to RM2.9 million.

At the bank level, RHB Sakura delivered a profit before tax of RM101.4 million compared to RM96.9 million generated previously over an 18-month period ended 31 December 2004. Again on an annualised basis, profit contribution of the merchant bank to the RHB Sakura Group in 2005 rose by a substantial 57.0%. This was attributable to a substantial increase in other operating income, primarily in the form of fees and trading gains. The Bank was able to register significant trading income by capitalising on favourable conditions in the debt capital markets which also enabled it to triple debt origination fees. These more than made up for a drop in fee income from corporate finance activities during the year.

On the other hand, fund-based income contracted 3.7% compared to 2004 on an annualised basis due to a declining loan base following the implementation of a strategy that directs bilateral lending only to transactions that support fee-generating activities of the Bank. Nevertheless, the Bank managed to reap a steady flow of fund income from its gapping portfolio and positive funding of its bond portfolio. As a result, net of interest suspension, the Bank reported a fund income of RM38.3 million compared to RM59.6 million for the 18-month period of 2004.

It is also my pleasure to highlight here that the Bank was not only able to leverage on its strengths in debt market activities to improve its earnings but was also accorded several local and international

awards for its key role in jointly lead arranging the RM5.9 billion Islamic private debt issue for Jimah Energy Ventures Sdn Bhd:

- “Best Project Finance Award (Asia-Pacific) 2005” by Euromoney;
- “Malaysian Deal of the Year” by the Asset Magazine’s Triple A Country Award;

- “Asia Pacific Bond Deal of the Year” by Project Finance International; and
- “Best Corporate Finance Deal of the Year” by the Edge.

Recognising the Bank’s financial performance, Rating Agency Malaysia Berhad reaffirmed RHB Sakura’s long- and short-term ratings at A2 and P1 respectively with a stable outlook. Consequently, the rating for the Bank’s RM165 million Subordinated Bonds was also reaffirmed at A3 with a stable outlook.

DIVIDENDS

The Bank paid a first and final dividend of 40.0 sen per share less 28.0% tax for the financial period 2004 amounting to RM97.5 million on 31 March 2005.

As the Bank continues to enhance value to its shareholder, the Board of Directors has recommended a first and final dividend of 22.0 sen per share less 28.0% tax amounting to RM53.6 million in respect of the financial year ended 31 December 2005 on the fully issued and paid-up ordinary shares of the Bank of RM338.6 million.



REVIEW OF OPERATIONS

TREASURY AND FIXED INCOME

Throughout the financial year ended 31 December 2005, despite the OPR hike by 30 basis points to 3.0% on 30 November 2005, the stance of monetary policy adopted by the authorities remained accommodative and supportive of the economy. On the back of a soft and steady interest rate scenario, the Bank continued to reap in a steady flow of

income from its gapping portfolio and the positive funding of its bond holding. For the year under review, the Bank realised a total profit of RM38.3 million in fund-based income.

The sentiment in the domestic bond market, in general, was largely influenced by the rising interest rate scenario in the United States, which saw a total of 8 hikes throughout the year that led to the United

States Federal Reserve rate ending up at 4.25% from 2.25% at the start of the year. Another prominent issue impacting the market was the speculation on the de-pegging of the Ringgit which eventually materialised on 21 July 2005 when BNM announced that the exchange rate of the Ringgit would be allowed to operate in a managed float, with its value being determined by economic fundamentals.



Trading activities were generally moderate for the greater part of the financial year under review. However, new issues continued to attract buying interest from traders and investors alike, bolstered by speculation on the Ringgit, swelling liquidity in the cash market and steady domestic interest rates set-up. The Bank realised a total profit of RM68.2 million from sales of its trading portfolio during the year under review.

At the primary level, the Bank continued to be an active market player, taking on its books as primary subscriber bonds in excess of RM1.0 billion from a number of debt issues lead and co-lead managed by the Bank.

DEBT MARKETS

The Ringgit Private Debt Securities (“PDS”) market continued its impressive growth path in 2005, re-emphasising capital markets as a preferred source of funding for corporates. The amount of corporate debt issues outstanding in the market grew 15.1% to RM182.7

billion in 2005, compared to RM158.7 billion in 2004. The year 2005 was a vibrant year for Islamic capital market which saw the value of Islamic bonds outstanding grew 25% vis-à-vis 7% for conventional papers.

The year 2005 also saw the emergence of new players in the Islamic arena, with several local banks setting up stand-alone Islamic banking entities and the entry of foreign Islamic financial institutions. Despite the increased competition, the Bank performed commendably and maintained its position as one of the leading providers of innovative financial solutions for clients.

For the year under review, the Bank successfully arranged RM9.1 billion PDS issuance. Of particular note is the RM5.9 billion Islamic securities issue for Jimah Energy Ventures Sdn Bhd which stood out as one of the most outstanding deals of 2005. This landmark transaction registered several new firsts, not just for the financing of independent power plants specifically but also for project and Islamic financing in general. Testimony to that are 4 awards

garnered from international and local publications for the transaction which were highlighted in the “Financial Highlights” section above.

Other notable mandates concluded by the Bank in 2005 include:

- RM2.2 billion Murabahah Medium Term Notes (“MTN”) Programme for **Putrajaya Holdings Sdn Bhd**
- RM240.0 million Sukuk Ijarah for **Sarawak Gateway Sdn Bhd**
- RM160.0 million Sukuk Istisna’ for **Sacofa Sdn Bhd**
- RM160.0 million MTN Programme for **Priceworth Wood Products Berhad**
- RM120.0 million Commercial Papers (“CP”) Programme for **Prestar Resources Berhad**
- RM100.0 million CP/MTN Programme for **Texchem Resources Berhad**
- RM40.0 million Murabahah CP and RM60.0 million Murabahah MTN Programmes for **Pharmaniaga Berhad**
- RM150.0 million Serial Sukuk Musyarakah bonds issue for **ASSAR Chemicals Sdn Bhd.**

The ASSAR Chemicals transaction deserves special mention as a transaction which successfully employed the less utilised but more widely accepted Syariah principle of Musyarakah, or ‘profit and loss sharing’, in the structure of the financing.



“At the primary level, the Bank continued to be an active market player, taking on its books as primary subscriber bonds in excess of RM1.0 billion from a number of debt issues lead and co-lead managed by the Bank”

Going forward in 2006, the PDS market will remain a viable alternative for financing with issuers continuing to take advantage of the still-low interest rates to lock in funding costs amidst an environment of rising interest rates. With ample liquidity in the Malaysian financial system, we expect the demand for new debt issues to remain strong in year 2006.

EQUITIES MARKET

The equity market performance was relatively lacklustre in 2005, with the Kuala Lumpur Composite Index marking a slight decrease at the end of 2005 compared to the beginning of the year. The number of Initial Public Offerings (“IPOs”) increased slightly with 79 listings as at 31 December 2005 compared to 72 listings in 2004. However, the total number of new listings approved by the Securities Commission (“SC”) for 2005 was reduced to 69 from 82 in 2004. Fund raising exercises largely constituted the equity market

proposals in 2005 with 191 cases approved by the SC, representing 57.2% of the total corporate approvals in 2005.

Initial Public Offerings / Fund Raising

Equity market primary and secondary offerings undertaken by the Bank for the financial year ended 2005 included:

- **CNI Holdings Berhad's** IPO on the Main Board of Bursa Malaysia Securities Berhad (“Bursa Securities”) raising a total of RM81.9 million
- **MMS Ventures Berhad's** IPO on the Mesdaq Market of Bursa Securities raising a total of RM9.9 million
- **Prestar Resources Berhad's** rights issue of warrants of RM4.4 million

- **Poly Tower Ventures Berhad's** rights issue of RM17.6 million
- **Lion Corporation Berhad's** restricted offer for sale of RM67.6 million
- **BIMB Holdings Berhad's** rights and restricted issue of up to RM803.6 million.

Mergers & Acquisitions

In the area of acquisitions and divestitures, the Bank advised or managed several transactions which included:

- **Intan Utilities Berhad's** acquisition of approximately 25.7% equity interest in Berjaya Sports Toto Berhad and acquisition of freehold land and shopping complex for a total transactional value of approximately RM1.2 billion
- **Scomi Group Berhad's** disposal of the entire equity interests in OMS Oilfield Holdings (Malaysia) Sdn Bhd (formerly known as Oiltools Holdings (Malaysia) Sdn Bhd), Oiltools Pte Ltd, Scomi Transportation Solutions Sdn Bhd and Scomi Sdn Bhd for a total transactional value of RM285.0 million resulting in a reverse takeover of Bell & Order Berhad
- **Kinsteel Berhad's** acquisition of 51% equity interest in Perwaja Steel Sdn Bhd and other assets located in Gurun, Kedah Darul Aman for a total transactional value of RM297.6 million

- **Idaman Unggul Berhad's** disposal of its wholly-owned subsidiary, Tahan Insurance Malaysia Berhad's life insurance business and the property assets and entire equity interest of Advanced Electronics (M) Sdn Bhd for a total transactional value of RM124.0 million
- **FTEC Resources Berhad's** acquisition of UCH Technology Sdn Bhd, Atoz Computer Sdn Bhd and E-CTAsia Technology Sdn Bhd for a total transactional value of RM48.2 million
- **Emico Holdings Berhad's** disposal of 100% equity interest in Fuji Lift & Escalator Manufacturing Sdn Bhd, Fuji Lift & Escalator Sdn Bhd and Fein Blanking Sdn Bhd for a total transactional value of RM55.0 million
- **Maxis Communications Berhad's** acquisition of 74% equity interest in Aircel Limited, a company incorporated in the

Republic of India, for a total transactional value of USD800.0 million (equivalent to RM3,040 million).

Stockbroking

The stockbroking arm of RHB Sakura, RHB Securities, registered a pre-tax profit of RM4.5 million at the back of a poorer and increasingly competitive market environment. During the year, RHB Securities entered into a strategic tie-up with Phillip Securities Pte Ltd, Singapore to allow clients to access foreign markets and continued on cost savings programmes to be more cost-effective. In the year ahead, RHB Securities plans to continue to strengthen its position in the market, through aggressive and growth-focus activities, and at the same time continue with its rationalisation exercise to achieve better cost efficiency.

During the year, another of RHB Sakura's subsidiaries, RHB Research Institute Sdn Bhd, also co-launched the Dow Jones-RHB Islamic Malaysia

Index which tracks Syariah-compliant stocks listed on the Bursa Securities based on global standards. With the Dow Jones-RHB Islamic Malaysia Index, RHB Sakura will bring global recognition to Malaysian Syariah-compliant stocks as well as setting up a platform for the launching of new Islamic capital products.

Fund Management

The asset management business of RHB Sakura is undertaken via RHBAM, a wholly-owned subsidiary of the Bank, which is recognised as one of the top private asset managers domestically with a total of RM4.5 billion under management as at 31 December 2005, an increase of RM0.8 billion from the RM3.7 billion recorded in the previous year.

RHBAM provides fund management services specialising in equities and fixed income securities for a diverse range of clients – from institutional and individual funds. Funds under management comprise both conventional accounts totaling RM3.8 billion and Syariah-principled accounts totaling RM0.7 billion.

RHBAM achieved a pre-tax profit of RM4.0 million in the financial year under review compared to RM7.0 million recorded in the previous 18-month financial period.

“With the Dow Jones-RHB Islamic Malaysia Index, RHB Sakura will bring global recognition to Malaysian Syariah-compliant stocks as well as setting up a platform for the launching of new Islamic capital products.”

Unit Trust

The unit trust management business of RHB Sakura is undertaken via a wholly-owned subsidiary, RHB Unit Trust. As at the close of the financial year ended 31 December 2005, the total fund size under management reached RM1.6 billion compared to RM1.5 billion in the previous financial year. RHB Unit Trust registered a pre-tax profit of RM2.9 million while sales of unit trust funds breached the RM800.0 million mark.

With the liberalisation by BNM in April 2005, the unit trust industry has taken a new turn and has moved towards development of global and regional funds which offer investors more diversification in their investments. Since then, the market has been very receptive towards the global and regional flavour. RHB Unit Trust was one of the first few to launch a regional fund, the RHB Dividend Valued Equity Fund ("RHB Diva Fund"), with 70% exposure to the Asia-Pacific ex-Japan markets and 30% in Malaysia. Fund performance in particular has been very favourable, the fund recorded a total return of 11.7% for a 3-month performance as at 3 February 2006.

For our existing funds, the RHB Capital Fund registered a favourable piece of news for RHB Unit Trust when it won the The Edge-Lipper Malaysian Unit Trust Fund Award for Best Performing Equity Growth Fund for 2005 for a 10-year performance. RHBAM was the delegate fund manager of the RHB Capital Fund.



The RHB Diva Fund and the RHB GoldenLife Funds offered from RHB Unit Trust are managed by UOB-OSK Asset Management Berhad, while the other 8 funds are managed by RHBAM. RHB Unit Trust is also an Institutional Unit Trust Agent ("IUTA") which embraces a multiple fund manager approach in order to provide not just more but better choices for investment to investors, in catering to their financial well-being.

The core contribution for RHB Unit Trust will be mainly from our Bank-backed IUTAs comprising a consortium of banks including RHB Bank Berhad which currently contribute about 70% to 80% to our total sales. Despite that, the key strategic move for RHB Unit Trust for 2006 will be in the implementation of our new RHB Unit Trust Multiple Funds Investment Platform. The RHB Unit Trust Multiple Funds Investment Platform offers more than 60 funds from various leading unit trust companies.

This platform is developed to cater to the growing needs of financial planners in catering to their more sophisticated market segment. The key value of this platform is moving away from a product-centric to a client-centric approach to help investors realise their financial well-being over the long-term.

CORPORATE BANKING

The strategy to focus on lending to support the Bank's merchant banking activities has reduced the scope within which the Bank can generate lending opportunities. This short-term nature of funding compounded with the switch to the debt capital market for funding of large-scale projects and refinancing by prime borrowers had significantly contributed to the swings in the Bank's level of loans and advances.

During the financial year under review, the Bank approved a total of RM925.3 million new credit commitments, of which RM663.6 million (71.7%) were in the form of loans and advances. Despite this, the Bank experienced a further contraction in loan base by 22.4% from RM899.9 million previously to RM698.0 million as at end December 2005.

“Going forward, the Bank will continue to focus on lending towards supporting corporate finance-and debt capital markets-related exercises undertaken by the Bank in line with recommendations established by the regulatory authorities.”

In terms of asset quality, the Bank has managed to reduce the net Non Performing Loan (“NPL”) ratio marginally from 21.3% to 20.6% as at end December 2005. This was achieved against a backdrop of decreasing base of loans and advances. The Bank, during the year, also adopted a stricter NPL classification i.e. 3-month classification as against 6-month classification previously. The Bank’s general allowance ratio was maintained at 1.85% which is above the required minimum ratio of 1.5%.

As for exposure to broad property and share financing sectors, the Bank was well within the limits set by BNM of 20% and 30%, respectively. As at end December 2005, the Bank’s exposure to these sectors were 10.2% and 13.5%, respectively.

Going forward, the Bank will continue to focus on lending towards supporting corporate

finance- and debt capital markets-related exercises undertaken by the Bank in line with recommendations established by the regulatory authorities.

OPERATIONS

On the operational front, RHB Sakura continues with its rationalisation exercise in line with the recommendations of BNM under the Capital Market Masterplan and Financial Sector Masterplan. This exercise will further strengthen RHB Sakura’s existing infrastructure and enhance cross-selling of products and services within RHB Sakura Group and other subsidiaries of RHB Capital Berhad.

RISK MANAGEMENT

The Bank continued with key initiatives to enhance its risk management capabilities. Amongst the key activities completed during 2005 are as follows:

Basel II Project Workstream

- **Credit Risk**

The Group Risk Management department has implemented the Credit Grading Model Standards to be adapted on all credit risk modeling development/enhancement, monitoring and maintenance activities. This will ensure consistent development, validation and management of credit risk models across the Bank and also outlines the roles of development, management and ownership of the models.

An additional module has been developed in the credit rating system, CARES, to operate as a central repository for the collection and storage of NPL data, including bad debt. Although this is not a Basel requirement for the Foundation IRB approach, the development of the NPL module will assist in calculating exposure at default (EAD) and loss given default (LGD).

RHB Sakura continues to prepare for the implementation of BNM’s Basel II Standardised Approach for credit risk which is targeted for year 2008.

- **Operational Risk**

An operational risk management system, ORISS, which is built upon Basel II compliance requirements has been implemented to enable on-line monitoring, submission and mapping of loss events

data, key risk indicators as well as self-assessment exercises at group level. This will enhance the group-wide and business level definition and categorisation of operational risks and development of key risk indicators for each operational risk category and sub-category. On-line monitoring of self-assessment exercises is aimed at inculcating a more disciplined and structured approach towards proactive management of operational risks at both group and business level.

- **Business Continuity Management**

Disaster recovery plans and other forms of preventive and detection measures against business disruptions have always been in place to increase the Bank's resilience and to minimise negative impacts arising from these disruptions. The Bank continuously seek to upgrade and improve its Business Continuity Management Programme ("BCP") in line with good business practice and corporate governance. Resilience strategies, recovery objectives, business continuity and crisis management plans are some of the main focus of the Bank's comprehensive BCP Framework that seek to safeguard interests of its key stakeholders, reputation and value creating activities.

- **Enterprise Data Warehouse**

The Bank has embarked to develop a robust database platform to facilitate enterprise-wide risk management by consolidating data from various applications into a central repository. This also incorporates a risk dashboard layer, DIARI, on top of the database to provide the business intelligence for the Bank to leverage its information infrastructure to drive the corporate vision towards risk and reward. This project would be undertaken on various phases.

Risk Management Policies and Procedures

- **Policies and Procedures on the Classification and Recognition of Financial Instruments**

In line with enhanced financial reporting requirements stipulated under the International Financial Reporting Standards which prompted prudential regulatory guidelines to be issued by BNM, the Bank has duly instituted appropriate policies and procedures on the

recognition, classification and measurement of financial instruments. Guidelines adhering to regulatory requirements underpinned by good business practice and corporate governance are constantly reviewed and enhanced to ensure reliable estimations and consistent reporting of fair values of assets and liabilities in the Bank's financial statements.

BOARD OF DIRECTORS

Several changes took place in the Board during the year under review.

Mr. Lim Cheng Yeow retired from the Board in March 2005 and YBhg Dato Sri Sulaiman Abdul Rahman Taib ceased to be a Director of the Bank in June 2005. On behalf of the Board, I thank them for their services and contributions to the Bank during their tenure with us and wish them all the best in their future undertakings.

In their place, I welcome YBhg Datuk Azlan Mohd Zainol and YBhg Datin Khamarzan Ahmed Meah who were appointed to the Board in July 2005 and April 2006, respectively.





“Amidst the challenging environment, RHB Sakura shall leverage on its sound franchise value to defend market positions while it, simultaneously, looks out for more opportunities to enhance its income given the positive market and economic outlook in 2006.”

THE YEAR AHEAD

The year 2006 will continue to be a challenging one with increasing competition following the framework issued by BNM in 2005 enabling universal brokers to become investment banks and also the liberalisation of the financial services sector in 2007 which will see the emergence of new local players and the entrance of formidable foreign institutions.

RHB Sakura takes due cognisance of the fact that its near-term prospects depend very much on the development of the Malaysian capital market. Nevertheless, given the solid growth fundamentals and prospects of our capital market, RHB Sakura is looking forward to an even better year in 2006.

Amidst the challenging environment, RHB Sakura shall leverage on its sound franchise value to defend market positions while it, simultaneously, looks out for more opportunities to enhance its income given the positive market and economic outlook in 2006.

APPRECIATION

RHB Sakura's achievements for the year just ended would not have been possible without the dedication, hard work and support of the management and staff. I wish to record the Board's appreciation for their contribution.

I also wish to thank our clients for their continued support and the respective government authorities and regulators for their cooperation and goodwill.

Finally, I would also like to take this opportunity to thank my colleagues on the Board of Directors for their guidance and advice throughout the year.

Dato Abdullah Mat Noh

Chairman

25 April 2006

RHB Group achievements & awards

1. **Gold Award
Best Chip Card Programme for AirAsia
Credit Card**
RHB Bank Berhad
2. **Special Award in Recognition of
Initiative**
As the First VISA Infinite Card Issuer in
Malaysia
RHB Bank Berhad
3. **Best Domestic Providers of FX
Services**
As Voted By Malaysia Market
RHB Bank Berhad
4. **Best Domestic Providers of FX
Services**
As Voted By Financial Institutions
RHB Bank Berhad
5. **ACM 2005 Best @ Show Award
Winner, Best New Service**
RHB Bank Berhad
6. **Standard & Poor's Malaysia Fund
Awards 2005** by The Star
RHB Islamic Bond Fund
7. **Best Project Finance Award (Asia-
Pacific) 2005** Jimah Energy Ventures Sdn
Bhd by Euromoney
RHB Sakura Merchant Bankers Berhad
8. **Malaysian Deal of the Year**
Jimah Energy Ventures Sdn Bhd by the
Asset Magazine's Triple A Country Award
RHB Sakura Merchant Bankers Berhad
9. **Asia Pacific Bond Deal of the Year**
Jimah Energy Ventures Sdn Bhd by
Project Finance International
RHB Sakura Merchant Bankers Berhad
10. **House of the Year Malaysia 2005** by
Asia Risk
RHB Securities Sdn Bhd
11. **Best Corporate Finance Deal of the
Year** Jimah Energy Ventures Sdn Bhd by
The Edge
*RHB Sakura Merchant Bankers Berhad
(not in picture)*
12. **Best Local Brokerage (rank 3) & Best
in Sales Trading in Malaysia (rank 3)**
by Asia Money Brokers Poll 2005
*RHB Securities Sdn Bhd
(not in picture)*
13. **Best Performing Equity Growth Fund
for 2005 for a 10-year Performance** by
The Edge-Lipper
*RHB Unit Trust Management Berhad
(not in picture)*



1		
2	3	4
5	6	7
8	9	10



RHB Sakura Merchant Bankers Berhad corporate highlights

business activities



1	2	3
4	5	
6		

- 1. Regional Gathering**
21 September 2005 at Mutiara Johor Bahru
- 2. Johor Bahru Desk Office Launch**
21 September 2005 at Mutiara Johor Bahru
- 3. Johor Business Seminar**
17 May 2005 at Putri Pan Pacific, Johor Bahru
- 4. Penang Business Seminar**
7 September 2005 at The Gurney Hotel & Residences, Penang
- 5. Regional Gathering**
7 September 2005 at The Gurney Hotel & Residences, Penang
- 6. Penang Desk Office Launch**
7 September 2005 at The Gurney Hotel & Residences, Penang



1	2
3	
4	5

- 1. Jimah Energy Ventures Sdn Bhd Signing Ceremony**
22 April 2005 at Nikko Hotel Kuala Lumpur
- 2. Pharmaniaga Berhad Signing Ceremony**
4 May 2005 at Le Meridien Kuala Lumpur
- 3. ASSAR Chemicals Sdn Bhd Signing Ceremony**
27 June 2005 at Crowne Plaza Riverside Hotel, Kuching
- 4. IJN Capital Sdn Bhd Signing Ceremony**
29 July 2005 at Ministry of Finance, Putrajaya
- 5. MMS Ventures Berhad Listing Ceremony**
6 January 2006 at Bursa Malaysia Securities Berhad

corporate governance statement

INTRODUCTION

The Board of Directors ('Board') of RHB Sakura Merchant Bankers Berhad ('Bank') is pleased to report on the application by the Bank and its subsidiaries ('Group') of the principles contained in the Malaysian Code on Corporate Governance ('Code') and the extent of compliance with the best practices of the Code. The Bank was delisted from the Kuala Lumpur Stock Exchange (now known as Bursa Malaysia Securities Berhad) on 27 November 2002 following the group restructuring exercise. Although the Bank is no longer a listed entity, the Board has endeavoured to apply the principles of and comply with the relevant best practices of corporate governance as set out in the Code.

BOARD OF DIRECTORS

1. Board Responsibility

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

2. Composition of the Board

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

Name of Director

Designation

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

The Bank has complied with the requirement under Bank Negara Malaysia's Revised Guidelines (Revised BNM/GP1) states that at least one-third of the board members are Independent Directors.

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

In the Bank and the operating subsidiaries, there are clear division of responsibilities between the Chairman and the

Chief Executive Officers to ensure the balance of power and authority. At the Bank level, pending the appointment of a new Chief Executive Officer, a Management Committee has been established with the approval of Bank Negara Malaysia (BNM) with the primary responsibility of administering the day-to-day management of the Bank. The Management Committee together with the Non-Executive Directors ensure that the strategies and policies are fully discussed, examined and implemented, and taking into account the long-term interests of the various stakeholders including shareholders, employees, customers, suppliers and the various communities in which the Bank and the Group conduct their businesses with.

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

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

The profile of each Director is presented on page 9 to page 12 of this Annual Report.

3. Board Meetings

The Board meets on a monthly basis with special meetings held when urgent issues and important decisions are required to be made between the scheduled meetings.

The Board met fifteen (15) times during the financial year ended 31 December 2005. The attendance of each Director in office at the end of the financial year at the aforesaid Board meetings are set out below:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
YBhg Dato Abdullah Mat Noh	14/15	93
YBhg Dato' Mohamed Khadar Merican	12/15	80
Mr Akira Miyama	15/15	100
Encik Vaseehar Hassan Abdul Razack	14/15	93
Mr Lew Foon Keong	13/15	87
Encik Johari Abdul Muid ¹	10/12*	83
YBhg Datuk Azlan Mohd Zainol ²	4/7*	57

Notes:

1. Appointed on 1 April 2005.
2. Appointed on 27 July 2005.

* Based on the number of Board meetings held during the tenure of the director.

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

Scheduled Board meetings are structured with a pre-set agenda. The Board's principal focus is on the overall strategic direction, financial and corporate developments of the Group. Minutes of meetings of the various committees within the Bank are tabled to the Board of the Bank, for notation.

Key matters such as the Bank's business strategy, annual interim results, material contracts, major capital expenditure and corporate communication programme are reserved for the Board's decision. Agenda and Board papers are circulated to the Board prior to the Board meetings so as to give the Directors time to consider and deliberate on the issues to be raised at the Board meetings. To provide the Board members with relevant information which are important for their decision making, the Directors have full access to the senior management of the Bank and the advice and services of the Company Secretaries. In addition, the Directors may also seek independent professional advice, at the Bank's expense, if required. Directors may also consult with the Chairman and other Board members prior to seeking any independent professional advice.

BOARD COMMITTEES

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

- i. Audit Committee;
- ii. Executive Committee;
- iii. Remuneration and Human Resource Committee;
- iv. Nominating Committee; and
- v. Group Risk Management Committee.

i) Audit Committee

The Audit Committee of the Board has been in place since 23 June 1997. The Audit Committee currently comprises four (4) Non-Executive Directors,

corporate governance statement

three (3) of whom are Independent Non-Executive Directors. There is also a separate Audit Committee at RHB Securities Sdn Bhd, the stockbroking subsidiary of the Bank.

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

During the financial year ended 31 December 2005, the Audit Committee had met 7 times.

The composition and terms of reference and the activities of the Audit Committee during the financial year ended 31 December 2005 are set out in the Audit Committee Report on page 44 to page 47 of this Annual Report.

ii) Executive Committee

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

The Executive Committee had met 15 times during the financial year ended 31 December 2005.

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

Objective

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

Duties and Responsibilities

1. To review and thereafter affirm or veto all applications for credit facilities, renewals and/or extensions, annual reviews and any variations to previously approved terms and conditions which has been approved by the Underwriting and Credit Committee and, where appropriate, impose additional or more stringent terms and conditions as deemed necessary.
2. To note the credit applications and other accommodation/commitment which have been rejected by the Underwriting and Credit Committee.
3. To review and thereafter affirm or veto the following:-
 - a. Underwriting of equities and equity related instruments;
 - b. Underwriting and subscription of PDS, including under 'bought-deal' structures; and

- c. Disposal of such instruments arising from (a) above;

as approved by the Underwriting and Credit Committee and, where appropriate, impose additional or more stringent terms and conditions so deemed necessary.

4. Matters related to Treasury:
 - a. To consider and approve operational matters on Treasury activities which include investment, trading and derivatives.
 - b. To review policies and guidelines on Treasury operations (except in respect of those relating to risk management and matters incidental thereto) and to recommend the same to the Board for approval.
5. To review and thereafter affirm/veto the restructuring and rescheduling of non-performing loans approved by the Underwriting and Credit Committee.
6. To review and thereafter affirm/veto the restructuring and rescheduling of performing loans approved by the Underwriting and Credit Committee.

7. To consider and approve:-
- i. fee discounts, the write-off of fees, invoices and / or sundry debtors of up to RM250,000.00 in respect of each client, each invoice and / or each sundry debtor (other than that for which approval authority is specifically conferred to the management or Underwriting and Credit Committee under the management discretionary powers provided for in the Credit Risk Management Policy); and
 - ii. the disposal of collateral quoted shares and other instruments arising from debt-to-bond/equity restructuring exercises of non-performing loan accounts under circumstances as provided for in the Credit Risk Management Policy.
8. To consider the restructuring and/or rescheduling of loans which require writing off as recommended by the Underwriting and Credit Committee and make the appropriate recommendation to the Board.
9. To consider the provisioning for non-performing loans and sundry debtors as recommended by the Underwriting and Credit Committee and make the appropriate recommendation to the Board.
10. To consider the Management Discretionary Powers as recommended by the Underwriting and Credit Committee and make the appropriate recommendation to the Board.
11. To consider and approve the disposal of collateral quoted shares and other instruments arising from debt-to-bond/equity restructuring exercises of non-performing loan accounts recommended by the Underwriting and Credit Committee.
12. To provide guidance to management on customer requests that are unusual and exceptional.
13. To review the performance of every business and operational unit and their plans for meeting targets.
14. To review and approve all plans and proposals for major administration matters not within the ambit of the Management Discretionary Powers or the CEO's/COO's Discretionary Powers and to make the necessary recommendation to the Board.
15. To review strategic policies and directions, provide guidance on operational matters and to recommend to the Board any necessary changes to previous approvals on the same.
16. To review director-related loan cases and make the appropriate recommendation to the Board.
17. To consider and review the granting of Power of Attorney and any other authority as it deems necessary and thereafter to recommend the same for the Board's approval.
18. To approve operational expenditure and capital expenditure that are above the CEO's/COO's approval limit and which is not budgeted with the following limitations:-
- i. not exceeding RM100,000 per transaction; and
 - ii. subject to a cumulative amount of RM600,000 per annum.
19. To review the Bank's Assets and Liabilities position.
20. To perform such other functions as delegated by the Board from time to time.

Meetings

At least once a month.

Quorum

Three (3) members

Membership

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

corporate governance statement

Minutes

Standard requirement

Secretaries

The Company Secretary or his representative(s).

Composition

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

By Invitation

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

iii) Remuneration And Human Resource Committee

The Board has established the Human Resource Committee on 31 October 2001 and on 31 July 2003, the Board changed its name to Remuneration and Human Resource Committee. The Remuneration and Human Resource Committee comprises three (3) Non-Executive Directors, one (1) of whom is an Independent Non-Executive Director. The Remuneration and Human Resource Committee

had met 9 times during the financial year ended 31 December 2005.

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

Objectives

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

Duties and Responsibilities

The Remuneration and Human Resource Committee is responsible for:-

1. Recommending a framework of remuneration for directors, chief executive officer and key senior management officers

for the full Board's approval. The remuneration framework should support the Bank's culture, objectives and strategy and should reflect the responsibility and commitment, which goes with Board membership and responsibilities of the chief executive officer and senior management officers. There should be a balance in determining the remuneration package, which should be sufficient to attract and retain directors of calibre, and yet not excessive to the extent of the Bank's funds are used to subsidise the excessive remuneration packages. The framework should cover all aspects of remuneration including director's fee, salaries, allowance, bonuses, options and benefit-in-kind.

2. Recommending specific remuneration packages for executive directors and the chief executive officer. The remuneration package should be structured such that it is competitive and consistent with the Bank's culture, objectives and strategy. Salary scales drawn up should be within the scope of the general business policy and not be dependant on short-term performance to avoid incentives for excessive risk-taking. As for non-executive directors and independent directors, the level of remuneration should be linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board.

3. To recommend to the Board the remuneration of the Chief Internal Auditor, Head of Risk Management, Head of Compliance, any other special positions and members of the senior management team.
4. To ensure the establishment of a formal and transparent procedure for developing policies, strategies and framework for the remuneration of executive directors, management and staff.
5. To review the succession planning programme and leadership framework.
6. To review and assess the effectiveness of the HR Division in supporting the organisation.
7. To perform any other functions as defined by the Board.

Authority

1. The Committee is authorised by the Board to investigate any matter under its terms of reference, to obtain the resources which it needs, and to have full and unrestricted access to information.
2. The Committee is authorised by the Board to seek appropriate professional advice as and when necessary or engage consultants at the Bank's expense to aid the Committee in the discharge of its duties.

Meetings

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

Membership

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

Composition

1. Dato' Mohamed Khadar Merican - Chairman
(Independent Non-Executive Director)
2. Dato Abdullah Mat Noh - Member
(Non-Independent Non-Executive Chairman)
3. Encik Vaseehar Hassan Abdul Razack - Member
(Non-Independent Non-Executive Director)

corporate governance statement

In Attendance

Head, Human Resource
Department

iv) Nominating Committee

On 7 May 2003, the Board established the Nominating Committee, which currently comprises five (5) Non-Executive Directors, two (2) of whom are Independent Non-Executive Directors. The Nominating Committee had met 5 times during the financial year ended 31 December 2005.

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

Objectives

1. To provide a formal and transparent procedure for the appointment of directors and chief executive officer as well as assessment of effectiveness of individual directors, Board as a whole and performance of chief executive officer and key senior management officers of the Bank.
2. To assist the Board in ensuring that appointments are made on merit against an agreed specification.
3. To assist the Board in identifying and reviewing, on an annual basis, the required mix of skills, experience and other qualities, including core competencies which directors should bring to the Board and which the Board requires for it to function completely and efficiently.

4. To examine the size of the Board with a view of determining the impact of the number upon its effectiveness.

Duties And Responsibilities

The Nominating Committee is responsible for:-

1. Establishing minimum requirements for the Board i.e. required mix of skills, experience, qualification and other core competencies required of a director. The Committee is also responsible for establishing minimum requirements for the chief executive officer. The requirements and criteria should be approved by the full Board.
2. Recommending and assessing the nominees for directorship, Board committee members as well as for nominees for the chief executive officer. This includes assessing directors for reappointment, before an application for approval is submitted to Bank Negara Malaysia. The actual decision as to who shall be nominated should be the responsibility of the full Board.
3. Overseeing the overall composition of the Board, in terms of the appropriate size and skills, and the balance between executive directors, non-executive directors and independent directors through annual review.

4. Recommending to the Board the removal of a director/chief executive officer from the Board/management if the director/chief executive officer is ineffective, errant and negligent in discharging his responsibilities.

5. Establishing a mechanism for the formal assessment on the effectiveness of the Board as a whole and the contribution of each director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the chief executive officer and other key senior management officers. Annual assessment should be conducted based on an objective performance criterion. Such performance criteria should be approved by the full Board.
6. Ensuring that all directors receive an appropriate continuous training program in order to keep abreast with the latest developments in the industry.
7. Overseeing the appointment, management succession planning and performance evaluation of key senior management officers.
8. Recommending to the Board the removal of key senior management officers if they are ineffective, errant and negligent in discharging their responsibilities.

9. Assessing, on an annual basis, that the directors and key senior management officers are not disqualified under section 56 of the Banking and Financial Institutions Act 1989.
10. To perform any other functions as defined by the Board.

Authority

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

Meetings

1. Meetings shall be held at least once a year with a quorum of two (2) members and at least one (1) member present shall be an independent non-executive director. Additional meetings may be called at the discretion of the Chairman of the Committee.

2. The Committee may invite any other directors, management and staff to be in attendance during meetings to assist in its deliberation.
3. Meetings of the Committee shall be governed by the provisions of the Bank's Articles of Association relating to Board meetings except in so far as the same are not amended in these terms of reference.
4. The Company Secretary shall be the Secretary of the Committee.
5. Minutes of each Committee meeting shall be kept and distributed to all Committee members. The minutes of the Committee meeting shall be presented at the Board Meeting and the Chairman of the Committee shall report on each Committee meeting to the Board.

Membership

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

4. In order to avoid conflict of interest, a member of the Committee shall abstain from participating in discussions and decisions on matters involving him.

Disclosure

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

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

Composition

1. Dato' Mohamed Khadar Merican – Chairman
(Independent Non-Executive Director)
2. Dato Abdullah Mat Noh – Member
(Non-Independent Non-Executive Chairman)
3. Encik Vaseehar Hassan Abdul Razack – Member
(Non-Independent Non-Executive Director)
4. Mr Akira Miyama – Member
(Non-Independent Non-Executive Director)
5. Mr Lew Foon Keong – Member
(Independent Non-Executive Director)

corporate governance statement

v) Group Risk Management Committee

The Board has established the Risk Management Committee on 20 December 2001 and on 16 September 2004, the Board changed its name to Group Risk Management Committee to reflect the actual function of the Committee with the revision of the Bank's Credit Risk Management Policy. The Group Risk Management Committee currently comprises three (3) Non-Executive Directors, one (1) of whom is an Independent Non-Executive Director.

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

The Board has delegated the day-to-day risk management function to the Group Risk Management Department of the Bank which in turn reports to the Asset and Liability Committee, Group Risk Management Committee and the Board of Directors. The Group Risk Management Committee had met 9 times during the financial year ended 31 December 2005.

The composition and Terms of Reference of the Group Risk Management Committee are set out in the Directors' Report on page 58 to page 59 of this Annual Report.

Disclosure On Group Shariah Committee

Apart from the above Board Committees, the RHB Group has established its Group Shariah Committee comprising of four qualified local and foreign Shariah Professionals to act as the advisor for the RHB Group. The current composition of the Group Shariah Committee is as follows:-

- i. Professor Dr Hj Abdul Samat Musa (Chairman)
- ii. Dr Ahmed Mohieddin Ahmed
- iii. Associate Professor Dr Joni Tamkin Borhan
- iv. Professor Dr Mohd Ma'sum Billah

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

- Advise the RHB Group on all Shariah matters in order to ensure that the business operations of the RHB Group comply with Shariah principles.
- Endorse the relevant Manual(s) which must specify the manner in which a submission or request for advice be made to the Group Shariah Committee, the conduct of the Group Shariah Committee's meeting and the manner of compliance with any decision thereof.

- Endorse and validate the following relevant documentation:-
 - a. the terms and conditions contained in the proposal form, contract, agreement or other legal documentation used in executing the transactions; and
 - b. the product manual, marketing advertisements, sales illustrations and brochures used to describe the product.
- Provide assistance to related parties of the RHB Group such as legal counsel, auditor or consultant on Shariah matters to ensure compliance with Shariah principles.
- Advise the RHB Group to consult the Shariah Advisory Council, where relevant, on any Shariah matters which have not been resolved or endorsed by the Shariah Advisory Council.
- Prepare written Shariah opinions particularly in the following circumstances:-
 - a. where the RHB Group make reference to the Shariah Advisory Council for advices; or
 - b. where the RHB Group submits applications to Bank Negara Malaysia or Securities Commission for new product approval in

accordance with guidelines on product approval issued by Bank Negara Malaysia and Securities Commission.

- Explain on the Shariah issues involved and the recommendations for a decision which must be supported by relevant Shariah jurisprudential literature from the established sources, to assist the Shariah Advisory Council on any matters referred by the RHB Group and to ensure that all Shariah Advisory Council's decisions are properly implemented by the RHB Group.

However, the Bank mainly deals only in Islamic Securities whereby submission and approval of the structures are obtained from the Securities Commission and the framework is governed by the Guidelines on the Offering of Islamic Securities. The Islamic Securities transactions will be endorsed/approved by independent shariah adviser (who is approved by the Securities Commission) being appointed by the issuer of the Islamic Securities as per the said Guidelines.

Re-Election of Directors

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

Directors' Remuneration

The remuneration of Directors is determined at levels which enable the Group to attract and retain the Directors with the relevant experience and expertise needed to assist in managing the Group effectively. In the case of Non-Executive Directors, the level of remuneration reflects the level of responsibilities undertaken by the particular Non-Executive Director concerned in the Bank and in the Group.

Non-Executive Directors' fees are determined after taking into consideration the amounts paid by comparable merchant banking groups in the market and payable upon obtaining shareholder's approval at the Annual General Meeting.

4. Accountability and Audit

Financial Reporting

In presenting the annual audited financial statements, quarterly and half-yearly results of the Group, the Directors take responsibility to present a balanced and understandable assessment of the Group's position and prospects. The Audit Committee assists by scrutinising the information to be disclosed, to ensure accuracy and adequacy. A Statement by Directors of their responsibilities in preparing the financial statements is set out on page 137 of this Annual Report.

Internal Control

The Statement on Internal Control set out on page 42 to page 43 of this Annual Report provides an overview of the state of internal controls within the Group.

Relationship with the Auditors

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

The role of the Audit Committee in relation to the internal and external auditors is described in the Audit Committee Report set out on page 44 to page 47 of this Annual Report.

internal control statement

INTRODUCTION

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

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

RESPONSIBILITY OF THE BOARD

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

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

RISK MANAGEMENT FRAMEWORK

The Group has in place an ongoing process for identifying, evaluating, managing and reporting on the significant risks that may affect the achievement of its business objectives throughout the financial year under review and up to the date of this report. This process is regularly reviewed by the Board.

The Board has established a Group Risk Management Committee, which meets regularly with the objective of assisting the Board in carrying out its responsibilities in relation to managing the Bank's range of inter-related risks in an integrated manner. Risk management units have also been established within the principal operating companies in the Group while for those operating companies without specific risk management unit, the day-to-day management of the risks is undertaken by the companies themselves and monitored at the Bank's level to assist the Group Risk Management Committee in discharging its duties.

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

CONTROL SELF-ASSESSMENT PROCESS

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

OTHER KEY ELEMENTS OF INTERNAL CONTROL

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

- The management of the Bank is delegated to its Chief Operating Officer (until 31 October 2005) and its Management Committee (since 1 November 2005) while for the various companies in the Group, the management is delegated to the respective chief executive officer whose role and responsibilities and authority limits are set by the respective Board. Appointment of such officers at the companies concerned requires the approval of their respective Board;
- Specific responsibilities have been delegated to the relevant Board committees, all of which have written terms of reference which are reviewed regularly. These committees have the authority to examine all matters within their scope of responsibility and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters however lies with the entire Board;
- Policies and procedures manuals for key processes are documented and regularly updated for application across the Group. These are supplemented by operating standards set by the individual company, as required for the type of business or geographical location of each company;
- Compliance units are established at principal operating companies in the Group to enhance the overall compliance framework of the Group;
- There is a clear procedure for investment appraisal, including equity investment or divestment and capital expenditure;
- There are proper guidelines for hiring and termination of staff, training programmes for staff, annual performance appraisal and other relevant procedures in place to achieve the objective of ensuring staff are competent to carry out their responsibilities;
- Regular and comprehensive information is provided to management for monitoring of performance against the strategic plan approved by the Board, covering all key financial and operational indicators;
- A detailed budgeting process is established requiring all key operating companies in the Group to prepare budgets annually which are discussed and approved by the Board. Effective reporting system on actual performance against approved budgets is in place and significant variances are followed up by management and reported at the Board;
- Ongoing reviews of the internal control system are carried out by the Group internal auditors. Results of such reviews are reported to the Audit Committee. The work of the Group internal auditors is focused on areas of priority as identified by risk analysis and in accordance with the internal audit plans approved by the Audit Committee. The head of Group internal audit function reports to the Audit Committee ; and
- The Audit Committee holds regular meetings to deliberate on findings and recommendations for improvement by both the Group internal auditors and external auditors as well as Bank Negara Malaysia examiners on the state of the internal control system. The minutes of the Audit Committee meetings are tabled to the Board.

audit committee report

ACTIVITIES OF THE AUDIT COMMITTEE AND THE GROUP INTERNAL AUDIT FUNCTION DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

ACTIVITIES OF THE AUDIT COMMITTEE

During the financial year ended 31 December 2005 ("year"), a total of 7 Audit Committee ("Committee") meetings were held. The Committee comprises the following members and details of attendance of each member at the Committee meetings held during the year are as follows:-

Composition Of The Committee	No. Of Meetings Attended Whilst In Office
1. YBhg Dato' Mohamed Khadar Merican <i>(Chairman / Independent Non-Executive Director)</i>	7 out of 7 meetings
2. Mr Lim Cheng Yeow <i>(Member / Senior Independent Non-Executive Director)</i> <i>retired on 28 March 2005</i>	3 out of 3 meetings
3. Mr Lew Foon Keong <i>(Member / Independent Non-Executive Director)</i> <i>appointed on 29 March 2005</i>	4 out of 4 meetings
4. Encik Vaseehar Hassan Abdul Razack <i>(Member / Non-Independent Non-Executive Director)</i>	5 out of 7 meetings

On 29 March 2005, Mr Lew Foon Keong, an Independent Non-Executive Director, was appointed as a member of the Committee. Mr Lim Cheng Yeow had retired as a member of the Committee on 28 March 2005.

The Committee's activities are concentrated at RHB Sakura Merchant Bankers Berhad and the direct subsidiary companies of RHB Sakura Merchant Bankers Berhad, excluding the RHB Securities Sdn Bhd Group which has its own audit committee. The main activities undertaken by the Committee during the year are as follows:-

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

- Reviewed the non-audit services rendered by the external auditors and the related fees as well as made recommendation on their reappointment to the Board for approval;
- Reviewed and approved the scope and adequacy of the internal audit plans, including manpower resource needs as well as monitored the status of completion of the internal audit plans;
- Reviewed the results of the risk-based audit work carried out and investigations by the group internal auditors as well as monitored the status of implementation of recommended actions by management in respect of the findings. The group internal auditors attended all the Committee meetings and a total of twenty (20) audit reports were tabled to the Committee during the year;
- Reviewed the revised Terms of Reference of the Committee and recommended the same for approval by the Board;
- Reviewed the revised Audit Charter of the group internal audit function and recommended the same for approval by the Board;
- Reviewed the inspection and examination reports issued by the regulatory authorities and
- Reviewed the adequacy of provisioning for non-performing loans, sundry debtors, and bad and doubtful debts, including write-off of bad loans and debts and recommended the same for approval by the Board;
- Reviewed the related party transactions ("RPTs") and the adequacy of the Group's procedures for monitoring and reviewing of RPTs;
- Reviewed with the external auditors, the nature and scope of their engagement and audit plan, their fees as well as the findings emanating from their examination of the financial statements. The Committee met with the external auditors twice during the year;

monitored the status of remedial actions taken by management in respect of the findings;

- The Committee met with the external auditors without the presence of management and any executive Board members;
- Reviewed the minutes of meetings of the audit committee of RHB Securities Sdn Bhd Group to the extent permitted by the relevant regulatory authorities to satisfy itself that all matters arising therefrom have been appropriately addressed by such audit committee; and
- Tabled the minutes of each Committee meeting to the Board for noting, and for further action by the Board, where necessary.

GROUP INTERNAL AUDIT FUNCTION

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

The group internal auditors adopt a risk-based approach towards the planning and conduct of audits which is consistent with the Group's framework in designing, implementing and monitoring its internal control system.

The control self-assessment exercise which continued to be rolled out by the group internal auditors during the year for implementation throughout the principal business units in the Bank and the Group, is

in alignment with the practice of generating an embedded risk management capability and acceptable risk culture.

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

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

- TERMS OF REFERENCE OF THE AUDIT COMMITTEE

Objectives

1. To assist the Board discharge its responsibilities by reviewing the adequacy and integrity of the Bank's and the RHB Sakura Merchant Bankers Berhad Group's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.
2. To reinforce the independence of the external auditors and thereby help assure that they will have free rein in the audit process.

3. To provide, by way of regular meetings, a line of communication between the Board and the external auditors.

4. To provide emphasis on the group internal audit function by increasing the objectivity and independence of the group internal auditors and provide a forum for discussion that is independent of the management.

5. To review the quality of the audits conducted by the group internal auditors and the external auditors of the Bank.

6. To enhance the perceptions held by stakeholders (including shareholders, regulators, creditors and employees) of the credibility and objectivity of financial reports.

Duties and Responsibilities

1. To review the quarterly results and year-end financial statements of the Bank and the Group, and to recommend the same to the Board for approval whilst ensuring that they are prepared in a timely and accurate manner complying with all applicable accounting and regulatory requirements and are promptly published.
2. To review the adequacy of provisioning for non-performing loans, sundry debtors, and bad and doubtful debts, including any write-off of bad loans or debts (except in respect

- of amounts written off pursuant to the exercise by the Bank's Executive Committee of its approval authority under its Term of Reference) and to recommend the same to the Board for approval.
3. To review any related party transaction and conflict of interest situation that may arise within the Bank or the Group, including any transaction, procedure or course of conduct that raises questions of management integrity.
 4. To review with the external auditors and group internal auditors whether the employees of the Group have given them appropriate assistance in discharging their duties.
 5. To review the adequacy of the scope, functions and resources of the group internal audit function and that it has the necessary authority to carry out its work.
 6. To review the internal audit plan and processes, the results of the internal audit programme or investigation undertaken and whether or not appropriate action is taken by management on the recommendations of the group internal auditors.
 7. To appraise the performance of the head of group internal audit and to review the appraisals of senior staff members of the group internal audit function.
 8. To approve any appointment or termination of the head of group internal audit and senior staff members of the group internal audit function and to review any resignations of group internal audit staff members and provide resigning staff members an opportunity to submit reasons for resigning, where necessary.
 9. To review with the external auditors, the nature and scope of their audit plan, their evaluation of the system of internal controls and their management letter and discuss any matter that the external auditors may wish to raise in the absence of management, where necessary.
 10. To recommend to the Board on the appointment and the annual reappointment of the external auditors and their audit fee, after taking into consideration the independence and objectivity of the external auditors and the cost effectiveness of their audit.
 11. To discuss and review with the external auditors any proposal from them to resign as auditors.
 12. To review the non-audit services rendered by the external auditors and the related fees, and to recommend the same to the Board for approval.
 13. To review the co-ordination of the audit approach where more than one audit firm of external auditors is involved and the co-ordination between the external auditors and group internal auditors.
 14. To review the minutes of meetings of other audit committees within the Group to the extent permitted by the relevant regulatory authorities and be satisfied that all matters arising therefrom are being appropriately addressed by these other audit committees.
 15. To review inspection and examination reports issued by any regulatory authority and to ensure prompt and appropriate actions are taken in respect of any findings.
 16. To perform any other functions as authorised by the Board.

Authority

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

2. The Committee shall have direct communication channels with the external auditors and group internal auditors.
3. The Committee is authorised by the Board to obtain independent professional or other advice at the Bank's expense and to invite outsiders with relevant experience and expertise to attend meetings if it considers this necessary.

Meetings

1. Meetings shall be held at least four (4) times a year with a minimum quorum of two (2) members and the majority of members present shall be independent non-executive directors. Additional meetings may be called at any time at the discretion of the Chairman of the Committee.
2. The head of group internal audit shall be in attendance at meetings of the Committee. The Committee may invite the external auditors, the chief financial officer, any other directors or members of the management and employees of the Group to be in attendance during meetings to assist in its deliberations.
3. At least once a year, the Committee shall meet with the external auditors without any executive

Board member present and upon the request of the external auditors, the Chairman of the Committee shall convene a meeting to consider any matter which the external auditors believe should be brought to the attention of the Board or shareholders.

4. The Bank's Company Secretary shall be the Secretary of the Committee.
5. The minutes of each Committee meeting shall be tabled to the Board by the Chairman of the Committee.

Membership

1. The Committee shall be appointed by the Board from amongst its number and shall comprise not less than three (3) members, the majority of whom are independent non-executive directors.
2. The Chairman of the Committee shall be an independent non-executive director appointed by the Board.
3. No alternate director shall be appointed as a member of the Committee.
4. At least one member of the Committee:-
 - i. shall be a member of the Malaysian Institute of Accountants ; or

- ii. if he is not a member of the Malaysian Institute of Accountants, he shall have at least three (3) years' working experience and :-
 - a. he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967 ; or
 - b. he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.
5. The term of office and performance of the Committee and each of its members must be reviewed by the Board at least once every three (3) years.
6. If a member of the Committee resigns or for any other reason ceases to be a member with the result that the number of members is reduced to below three (3), the Board shall within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.

services

INVESTMENT BANKING

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

TREASURY SERVICES

Treasury facilitate client transactions with a diverse group of corporations and take proprietary positions through market making in, trading of an investing in fixed income and equity products, currencies, commodities and derivatives on such products. In addition, we engage in specialise and market-making activities on equities and options exchanges on equities and options exchanges and we clear client transactions on major stock, options and futures exchanges worldwide. Treasury is also an authorised dealer and custodian in Malaysian Government Securities, Malaysian Treasury Bills, Malaysian Government Investment Certificates, Bank Negara Bills, Cagamas Bonds and Notes.

CAPITAL MARKETS (ISLAMIC & CONVENTIONAL)

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

CORPORATE FINANCE

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

CORPORATE BANKING

Corporate Banking offers corporate clients a wide range of financing products and services, such as short, medium and long term loans, bridging loans, bridging loans, bankers' acceptance and bill discounting, financial guarantees and performance bonds and syndication.

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directors' report

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 2005.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are merchant banking and provision of related financial services. The principal activities of the Group consist of merchant banking, provision of related financial services, unit trust management, stock and share broking, asset management, futures broking, research services and provision of nominee services.

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

RESULTS

	Year ended 31.12.2005	
	Group	Bank
	RM'000	RM'000
Profit before taxation	108,157	101,366
Taxation	(29,252)	(28,411)
Net profit for the financial year	78,905	72,955
Transfer to statutory reserves	(18,239)	(18,239)
Net profit after transfer to statutory reserves	60,666	54,716
Retained profits brought forward	269,773	262,713
Profit available for distribution	330,439	317,429
Dividends	(97,530)	(97,530)
Retained profits carried forward	232,909	219,899

DIVIDENDS

The dividends declared and paid by the Bank since 31 December 2004 were as follows:

	RM'000
In respect of the financial period ended 31 December 2004 as shown in the directors' report of that financial period:	
Final gross dividend of 40 sen per share less tax of 28% paid on 31 March 2005	97,530

directors' report (continued)

DIVIDENDS (CONTINUED)

The directors now recommend the payment of a final gross dividend of 22 sen per share less tax of 28% amounting to RM53,641,526 in respect of the current financial year on the fully issued and paid up ordinary shares of the Bank totalling RM338,646,000 which is subject to the approval of the member at the forthcoming Annual General Meeting of the Bank.

RESERVES AND PROVISIONS

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

NON-PERFORMING DEBTS

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

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

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.

directors' report (continued)

CONTINGENT AND OTHER LIABILITIES (CONTINUED)

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Significant events during the financial year are disclosed in Note 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)
Dato' Mohamed Khadar Merican	
Vaseehar Hassan Abdul Razack	
Akira Miyama	
Lew Foon Keong	
Datuk Azlan Mohd Zainol	(appointed on 27 July 2005)
Johari Abdul Muid	(appointed on 1 April 2005)
Lim Cheng Yeow	(retired on 28 March 2005)
Dato Sri Sulaiman Abdul Rahman Taib	(ceased to be a director wef 21 June 2005)

Pursuant to Article 93 of the Bank's Articles of Association, Encik Vaseehar Hassan Abdul Razack and Mr Akira Miyama retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Pursuant to Article 97 of the Bank's Articles of Association, Datuk Azlan Mohd Zainol and Encik Johari Abdul Muid retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

directors' report (continued)

DIRECTORS' INTERESTS IN SECURITIES

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

	Number of ordinary shares of RM1 each			
	As at 1.1.2005	Bought	Sold	As at 31.12.2005
Ultimate Holding Company				
Rashid Hussain Berhad				
Dato' Mohamed Khadar Merican – Direct	5,000	–	–	5,000
Vaseehar Hassan Abdul Razack – Indirect ¹	238,127,000	–	–	238,127,000
Holding Company				
RHB Capital Berhad				
Dato' Mohamed Khadar Merican – Direct	10,000	–	–	10,000
Vaseehar Hassan Abdul Razack – Indirect ²	1,182,896,459	–	–	1,182,896,459

	Number of Warrants 2001/2007			
	As at 1.1.2005	Bought	Sold	As at 31.12.2005
Ultimate Holding Company				
Rashid Hussain Berhad				
Vaseehar Hassan Abdul Razack – Indirect ¹	8,000,000	–	–	8,000,000

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

directors' report (continued)

DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)

Nominal Amount (RM) of 2002/2012 0.5% Irredeemable Convertible Unsecured Loan Stocks of RM1.00 each nominal value ('RHB ICULS-A')			
As at 1.1.2005	Bought	Sold/ Converted	As at 31.12.2005

Ultimate Holding Company Rashid Hussain Berhad

Vaseehar Hassan Abdul Razack
– Indirect¹

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

Nominal Amount (RM) of 2002/2012 3.0% Irredeemable Convertible Unsecured Loan Stocks of RM1.00 each nominal value ('RHB ICULS-B')			
As at 1.1.2005	Bought	Sold	As at 31.12.2005

Ultimate Holding Company Rashid Hussain Berhad

Vaseehar Hassan Abdul Razack
– Indirect¹

403,471,898	–	–	403,471,898
-------------	---	---	-------------

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

Notes

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

directors' report (continued)

DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)

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

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

DIRECTORS' BENEFITS

Since the end of the previous financial period, no director of the Bank has received or become entitled to receive any benefit (other than as disclosed in Note 29 to the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

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

DISCLOSURE OF COMMITTEES

AUDIT COMMITTEE

The Board has an Audit Committee in place since 23 June 1997. The Audit Committee currently comprises three (3) Non-Executive Directors, two (2) of whom are Independent Non-Executive Directors. There is also a separate Audit Committee at RHB Securities Sdn Bhd, the stockbroking subsidiary of the Bank.

During the financial year ended 31 December 2005, a total of 7 meetings were held. The Audit Committee comprises the following members and details of attendance of each member at the Audit Committee meetings held during the year are as follows:

Composition of the Audit Committee	Attendance at the committee meetings
Current Members:	
1. Dato' Mohamed Khadar Merican (Chairman/Independent Non-Executive Director)	7 out of 7 meetings
2. Encik Vaseehar Hassan Abdul Razack (Member/Non-Independent Non-Executive Director)	5 out of 7 meetings
3. Mr Lew Foon Keong (Member/Independent Non-Executive Director) - Appointed as member on 29 March 2005	4 out of 4 meetings
4. Mr Lim Cheng Yeow (Member/Senior Independent Non-Executive Director) - Retired as director on 28 March 2005	3 out of 3 meetings

directors' report (continued)

DISCLOSURE OF COMMITTEES (CONTINUED)

EXECUTIVE COMMITTEE

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

During the financial year ended 31 December 2005, a total of 15 meetings were held. The Executive Committee comprises the following members and details of attendance of each member at the Executive Committee meetings held during the year are as follows:

Composition of the Executive Committee	Attendance at the committee meetings
Current Members:	
1. Dato Abdullah Mat Noh (Chairman/Non-Independent Non-Executive Chairman) – Appointed as Chairman on 24 June 2005	14 out of 15 meetings
2. Encik Vaseehar Hassan Abdul Razack (Member/Non-Independent Non-Executive Director)	15 out of 15 meetings
3. Mr Akira Miyama (Member/Non-Independent Non-Executive Director)	15 out of 15 meetings
4. Dato Sri Sulaiman Abdul Rahman Taib (Member/Non-Independent Non-Executive Director) – Ceased to be a Director on 21 June 2005	3 out of 9 meetings

NOMINATING COMMITTEE

The Board has established the Nomination Committee on 7 May 2003 which was renamed as Nominating Committee on 31 July 2003. During the financial year ended 31 December 2005, a total of 5 meetings were held. The Nominating Committee of the Bank comprises the following members and details of attendance of each member of the Nominating Committee meetings held during the year are as follows:

Composition of the Nominating Committee	Attendance at the committee meetings
Current Members:	
1. Dato' Mohamed Khadar Merican (Chairman/Independent Non-Executive Director) – Appointed as Chairman on 29 March 2005	5 out of 5 meetings
2. Dato Abdullah Mat Noh (Member/Non-Independent Non-Executive Chairman)	5 out of 5 meetings
3. Encik Vaseehar Hassan Abdul Razack (Member/Non-Independent Non-Executive Director)	4 out of 5 meetings

directors' report (continued)

DISCLOSURE OF COMMITTEES (CONTINUED)

NOMINATING COMMITTEE (CONT'D)

Composition of the Nominating Committee

Attendance at the committee meetings

Current Members:

- | | |
|--|---------------------|
| 4. Mr Akira Miyama
(Member/Non-Independent Non-Executive Director)
– Appointed as Member on 29 March 2005 | 2 out of 4 meetings |
| 5. Mr Lew Foon Keong
(Member/Non-Independent Non-Executive Director)
– Appointed as Member on 25 August 2005 | 2 out of 2 meetings |
| 6. Dato Sri Sulaiman Abdul Rahman Taib
(Member/Non-Independent Non-Executive Director)
– Ceased to be a Director on 21 June 2005 | 0 out of 3 meetings |
| 7. Mr Lim Cheng Yeow
(Chairman/Senior Independent Non-Executive Director)
– Retired as Director on 28 March 2005 | 0 out of 0 meetings |

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

REMUNERATION AND HUMAN RESOURCE COMMITTEE

The Board has established the Human Resource Committee on 31 October 2001 which was renamed as the Remuneration and Human Resource Committee on 31 July 2003. During the financial year ended 31 December 2005, a total of 9 meetings were held. The Remuneration and Human Resource Committee comprises the following members and details of attendance of each member at the Remuneration and Human Resource Committee meetings held during the year are as follows:

Composition of the Remuneration and Human Resource Committee

Attendance at the committee meetings

Current Members:

- | | |
|--|---------------------|
| 1. Dato' Mohamed Khadar Merican
(Chairman/Independent Non-Executive Director) | 9 out of 9 meetings |
| 2. Dato Abdullah Mat Noh
(Member/Non-Independent Non-Executive Chairman) | 9 out of 9 meetings |
| 3. Encik Vaseehar Hassan Abdul Razack
(Member/Non-Independent Non-Executive Director) | 9 out of 9 meetings |
| 4. Mr Lim Cheng Yeow
(Member/Senior Independent Non-Executive Director)
– Retired as Director on 28 March 2005 | 2 out of 2 meetings |
| 5. Dato Sri Sulaiman Abdul Rahman Taib
(Member/Non-Independent Non-Executive Director)
– Ceased to be a Director on 21 June 2005 | 1 out of 4 meetings |

directors' report (continued)

DISCLOSURE OF COMMITTEES (CONTINUED)

RISK MANAGEMENT AT RHB SAKURA MERCHANT BANKERS BERHAD

Risk Management Overview

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

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

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

Group Risk Management Committee

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

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

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

Terms of Reference of The Group Risk Management Committee

Objective

To provide oversight and management of all risks in the Group, and to ensure that the risk management process is in place and functioning, and that there is an on-going process to continuously manage the Bank's risks proactively. The financial risk management objectives and policies are disclosed in Note 40 of the financial statements.

directors' report (continued)

DISCLOSURE OF COMMITTEES (CONTINUED)

RISK MANAGEMENT AT RHB SAKURA MERCHANT BANKERS BERHAD (CONTINUED)

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

Duties and Responsibilities

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

Composition

The GRMC comprises not less than three (3) members, all of whom are non-executive directors and chaired by an independent non-executive director.

During the financial year ended 31 December 2005, a total of 9 meetings were held. The GRMC comprises the following members and details of attendance of each member at the committee meetings held during the financial year ended 31 December 2005 are as follows:

Composition of GRMC

Attendance at the committee meetings

Current Members:

- | | |
|--|---------------------|
| 1. Dato' Mohamed Khadar Merican
(Chairman/Independent Non-Executive Director)
– Appointed as Chairman on 29 March 2005 | 9 out of 9 meetings |
| 2. Dato Abdullah Mat Noh
(Member/Non-Independent Non-Executive Chairman) | 9 out of 9 meetings |
| 3. Encik Vaseehar Hassan Abdul Razack
(Member/Non-Independent Non-Executive Director)
– Appointed as Member on 29 March 2005 | 6 out of 6 meetings |
| 4. Mr Lim Cheng Yeow`
(Chairman/Senior Independent Non-Executive Director)
– Retired as director on 28 March 2005 | 3 out of 3 meetings |

directors' report (continued)

HOLDING AND ULTIMATE HOLDING COMPANY

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

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

BUSINESS PLAN AND STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 AND OUTLOOK FOR 2006

The Bank's main focus for the financial year ended 31 December 2005 was to enhance its fee and non-interest income by leveraging on the positive performance of the debt market. Amongst the strategies identified was the need to achieve a better market reach and tap regional opportunities. The Bank implemented this strategy by opening up desk offices in Kuching, Penang and Johor Bahru in 2005.

On the operational front, the Group continues with the rationalisation of its merchant banking, securities and futures businesses to form an investment bank. This exercise will strengthen the Group's existing infrastructure and enhance cross-selling of products and services within the investment banking entity and other companies in the RHB Group.

For the year 2006, the Bank is mindful of the increasing competition following the framework issued by BNM in 2005 enabling universal brokers to become investment banks and also the liberalisation of the financial services sector in 2007 which will see the entrance of some formidable foreign institutions.

Amidst the challenging environment, the Bank shall continue to intensify efforts to enhance its fee and non-interest income by leveraging on the positive market and economic outlook in 2006.

RATING BY AGENCY

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

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

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

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

directors' report (continued)

AUDITORS

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

Signed on behalf of the Board of Directors in accordance with their resolution dated 27 February 2006.

DATO ABDULLAH MAT NOH
CHAIRMAN

DATO' MOHAMED KHADAR MERICAN
DIRECTOR

balance sheets

as at 31 December 2005

	Note	Group		Bank	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
ASSETS					
Cash and short term funds	2	652,329	857,948	608,864	791,320
Securities purchased under resale agreements		85,482	148,843	–	–
Deposits and placements with banks and other financial institutions	3	101,921	–	100,000	–
Securities held-for-trading	4	1,567,910	721,057	1,563,881	712,724
Securities available-for-sale ('AFS')	5	157,441	733,135	153,402	718,643
Securities held-to-maturity	6	337,721	431,220	337,721	431,220
Loans and advances	7	639,599	806,877	639,599	806,877
Clients' and brokers' balances	8	247,268	272,079	–	–
Other assets	9	35,118	30,204	23,811	21,204
Amount due from holding company	10	205,180	205,615	–	–
Amount due from a subsidiary	11	–	–	53,153	53,153
Deferred tax assets	12	7,021	4,382	6,939	4,258
Tax recoverable		15,923	17,121	16,936	16,533
Statutory deposit with Bank Negara Malaysia	13	76,606	89,556	76,606	89,556
Investments in subsidiaries	14	–	–	482,866	489,574
Property, plant and equipment	15	15,363	16,533	4,468	3,067
Goodwill	16	172,844	172,844	–	–
TOTAL ASSETS		4,317,726	4,507,414	4,068,246	4,138,129
LIABILITIES AND SHAREHOLDER'S EQUITY					
Deposits from customers	17	1,252,417	1,370,015	1,252,417	1,370,015
Deposits and placements of banks and other financial institutions	18	1,003,680	1,143,204	1,003,680	1,143,204
Obligations on securities sold under repurchase agreements		822,378	597,307	822,378	597,307
Clients' and brokers' balances	19	198,490	297,533	–	–
Other liabilities	20	70,650	91,025	36,382	35,161
Taxation		3,445	3,729	–	–
Deferred tax liabilities		209	1,488	–	1,488
Short term borrowings	21	–	5,001	–	–
Subordinated bonds	22	165,000	165,000	165,000	165,000
TOTAL LIABILITIES		3,516,269	3,674,302	3,279,857	3,312,175
Share capital	23	338,646	338,646	338,646	338,646
Reserves	24	462,811	494,466	449,743	487,308
SHAREHOLDER'S EQUITY		801,457	833,112	788,389	825,954
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		4,317,726	4,507,414	4,068,246	4,138,129
COMMITMENTS AND CONTINGENCIES	36	5,750,425	2,672,226	5,750,425	2,672,226

income statements

for the financial year ended 31 December 2005

	Note	Group		Bank	
		12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000
Interest income	25	158,537	238,328	145,649	220,438
Interest expense	26	(109,277)	(163,055)	(107,379)	(160,798)
Net interest income		49,260	75,273	38,270	59,640
Other operating income	27	225,807	254,647	147,649	100,582
Net income		275,067	329,920	185,919	160,222
Other operating expenses	28	(125,501)	(186,649)	(46,159)	(56,499)
Operating profit before allowances		149,566	143,271	139,760	103,723
(Allowances)/write back for losses on loans and other losses	30	(41,336)	23,121	(31,613)	23,612
Allowances for impairment loss	31	(73)	(30,460)	(6,781)	(30,460)
Profit before taxation		108,157	135,932	101,366	96,875
Taxation	32	(29,252)	(35,876)	(28,411)	(27,199)
Net profit for the financial year/period		78,905	100,056	72,955	69,676
Basic earnings per share (sen)	33	23.3	29.5	21.5	20.6
Dividends per share (sen)	34	22.0	40.0	22.0	40.0

statement of changes in shareholders' equity

for the financial year ended 31 December 2005

	Share Capital RM'000	Statutory reserve RM'000	Revaluation reserve RM'000	Translation reserve RM'000	Retained profits RM'000	Total RM'000
Group						
Balance as at 31.12.2004						
As previously reported	338,646	220,412	–	98	268,697	827,853
Prior year adjustments	–	358	3,825	–	1,076	5,259
As restated	338,646	220,770	3,825	98	269,773	833,112
Net profit for the financial year	–	–	–	–	78,905	78,905
Currency translation differences	–	–	–	(40)	–	(40)
Unrealised loss arising in fair value of AFS securities	–	–	(3,997)	–	–	(3,997)
AFS reserve realised on disposal	–	–	(14,442)	–	–	(14,442)
AFS reserve realised on impairment	–	–	397	–	–	397
Deferred tax	–	–	5,052	–	–	5,052
Dividend for the financial period ended 31.12.2004	–	–	–	–	(97,530)	(97,530)
Transfer to statutory reserve	–	18,239	–	–	(18,239)	–
Balance as at 31.12.2005	<u>338,646</u>	<u>239,009</u>	<u>(9,165)</u>	<u>58</u>	<u>232,909</u>	<u>801,457</u>
Balance as at 30.6.2003						
As previously reported	338,646	203,440	–	23	211,781	753,890
Prior year adjustments	–	(88)	31,502	–	(264)	31,150
As restated	338,646	203,352	31,502	23	211,517	785,040
Net profit for the financial period	–	–	–	–	100,056	100,056
Currency translation differences	–	–	–	75	–	75
Unrealised loss arising in fair value of AFS securities	–	–	(23,279)	–	–	(23,279)
AFS reserve realised on disposal	–	–	(15,817)	–	–	(15,817)
AFS reserve realised on impairment	–	–	656	–	–	656
Deferred tax	–	–	10,763	–	–	10,763
Dividend for the financial year ended 30.6.2003	–	–	–	–	(24,382)	(24,382)
Transfer to statutory reserve	–	17,418	–	–	(17,418)	–
Balance as at 31.12.2004	<u>338,646</u>	<u>220,770</u>	<u>3,825</u>	<u>98</u>	<u>269,773</u>	<u>833,112</u>

statement of changes in shareholders' equity

for the financial year ended 31 December 2005 (continued)

	Share Capital RM'000	Statutory reserve RM'000	Revaluation reserve RM'000	Retained profits RM'000	Total RM'000
Bank					
Balance as at 31.12.2004					
As previously reported	338,646	220,412	–	261,637	820,695
Prior year adjustments	–	358	3,825	1,076	5,259
As restated	338,646	220,770	3,825	262,713	825,954
Net profit for the financial year	–	–	–	72,955	72,955
Unrealised loss arising in fair value of AFS securities	–	–	(9,843)	–	(9,843)
AFS reserve realised on disposal	–	–	(8,596)	–	(8,596)
AFS reserve realised on impairment	–	–	397	–	397
Deferred tax	–	–	5,052	–	5,052
Dividend for the financial period ended 31.12.2004	–	–	–	(97,530)	(97,530)
Transfer to statutory reserve	–	18,239	–	(18,239)	–
Balance as at 31.12.2005	338,646	239,009	(9,165)	219,899	788,389
Balance as at 30.6.2003					
As previously reported	338,646	203,440	–	235,101	777,187
Prior year adjustments	–	(88)	31,502	(264)	31,150
As restated	338,646	203,352	31,502	234,837	808,337
Net profit for the financial period	–	–	–	69,676	69,676
Unrealised loss arising in fair value of AFS securities	–	–	(23,279)	–	(23,279)
AFS reserve realised on disposal	–	–	(15,817)	–	(15,817)
AFS reserve realised on impairment	–	–	656	–	656
Deferred tax	–	–	10,763	–	10,763
Dividend for the financial year ended 30.6.2003	–	–	–	(24,382)	(24,382)
Transfer to statutory reserve	–	17,418	–	(17,418)	–
Balance as at 31.12.2004	338,646	220,770	3,825	262,713	825,954

cash flow statements

for the financial year ended 31 December 2005

	Note	Group		Bank	
		12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000
OPERATING ACTIVITIES					
Profit before taxation		108,157	135,932	101,366	96,875
Adjustments for items not involving movements of cash and cash equivalents:					
Property, plant and equipment					
– depreciation		6,005	11,651	1,565	1,456
– written off		63	584	–	–
– gain on disposal		(249)	(883)	(3)	(453)
Accretion of discount less amortisation of premium		(3,467)	(5,461)	(3,467)	(5,461)
Allowances for losses on loans (net)		47,717	17,356	37,994	16,865
Allowances for loss on other debtors (net)		369	(4,634)	369	(4,634)
Net interest suspended		2,640	1,643	2,640	1,643
Allowances for impairment loss		73	30,460	6,781	30,460
Interest income from securities held-to-maturity		(18,970)	(17,842)	(18,970)	(17,842)
Other income from securities held-to-maturity		(3,636)	(5,712)	(3,636)	(5,712)
Gain on allocation of Bursa Malaysia Berhad shares		–	(12,492)	–	–
Gain from early redemption of securities held-to-maturity		(13,192)	1,278	(13,192)	(116)
Gross dividend income		(809)	(844)	(680)	(810)
Dividend income from subsidiaries		–	–	(13,565)	(22,000)
Gain on disposal of a subsidiary		–	(107)	–	–
Unrealised (gain)/loss on revaluation of securities held for trading		(4,045)	(27)	(4,045)	(27)
Unrealised (gain)/loss on revaluation of derivatives		(1,086)	625	(1,086)	625
Operating profit before working capital changes		119,570	151,527	92,071	90,869

cash flow statements

for the financial year ended 31 December 2005 (continued)

Note	Group		Bank	
	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000
(Increase)/decrease in operating assets:				
Securities purchased under resale agreements	63,361	(129,766)	–	–
Deposits and placements with banks and other financial institutions	(101,921)	33,506	(100,000)	19,000
Securities held-for-trading	(842,808)	(350,491)	(847,112)	(384,183)
Securities available-for-sale	557,255	340,232	546,802	351,223
Loans and advances	126,644	150,612	126,644	150,612
Clients' and brokers' balances	15,088	(129,262)	–	–
Other assets	(6,292)	61,371	(4,380)	18,093
Statutory deposit with Bank Negara Malaysia	12,950	(8,350)	12,950	(8,350)
(Decrease)/increase in operating liabilities:				
Deposits from customers	(117,598)	3,069	(117,598)	3,069
Deposits and placements of banks and other financial institutions	(139,524)	(309,438)	(139,524)	(309,438)
Obligations on securities sold under repurchase agreements	225,071	362,884	225,071	362,884
Amount due to Cagamas Berhad	–	(16,544)	–	(16,544)
Bills and acceptances payable	–	(2,936)	–	(2,936)
Clients' and brokers' balances	(99,043)	160,329	–	–
Other liabilities	(20,560)	(5,454)	1,036	2,373
Cash (used in)/generated from operations	(207,807)	311,289	(204,040)	276,672
Tax paid	(9,045)	(7,721)	(5,312)	(2,681)
Tax recovered	697	10,858	–	10,858
Net cash (used in)/generated from operating activities	(216,155)	314,426	(209,352)	284,849

cash flow statements

for the financial year ended 31 December 2005 (continued)

	Note	Group		Bank	
		12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000
INVESTING ACTIVITIES					
Proceeds from sale net of purchase of securities held-to-maturity		110,482	(210,217)	110,482	(208,823)
Other income from securities held-to-maturity		(14,994)	(22,233)	(14,994)	(22,233)
Interest received from securities held-to-maturity		21,645	22,551	21,645	22,551
Purchase of property, plant and equipment		(4,950)	(7,925)	(2,971)	(2,946)
Proceeds from sale of property, plant and equipment		301	1,232	8	459
Dividend income received from securities held-to-maturity		583	608	489	583
Dividend income received from subsidiaries		–	–	9,767	15,840
Proceeds from disposal of a subsidiary		–	377	–	–
Net cash generated from/(used in) investing activities		113,067	(215,607)	124,426	(194,569)
FINANCING ACTIVITIES					
(Repayment)/drawdown of borrowings		(5,001)	5,001	–	–
Dividends paid to shareholder		(97,530)	(24,382)	(97,530)	(24,382)
Net cash used in financing activities		(102,531)	(19,381)	(97,530)	(24,382)
Net (decrease)/increase in cash and short-term funds		(205,619)	79,438	(182,456)	65,898
Cash and cash equivalents at beginning of the financial year/period		857,948	778,510	791,320	725,422
Cash and cash equivalents at end of the financial year/period		652,329	857,948	608,864	791,320
ANALYSIS OF CASH AND CASH EQUIVALENTS:					
Cash and short-term funds	2	652,329	857,948	608,864	791,320

summary of significant accounting policies

for the financial year ended 31 December 2005

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

A BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements of the Group and the Bank have been prepared under the historical cost convention (unless otherwise indicated), and in accordance with the directives and guidelines issued by Bank Negara Malaysia ('BNM'), Malaysian Accounting Standards Board ('MASB') approved accounting standards in Malaysia and comply with the provisions of the Companies Act, 1965.

The new applicable BNM's guideline adopted in these financial statements is the revised guidelines on Financial Reporting for Licensed Institutions (BNM/GP8) issued by BNM which became effective for the current financial year. The adoption of the revised BNM/GP8 has resulted in changes in the accounting policies of the Group and the Bank which have been applied retrospectively as disclosed in Note 42. However, BNM has granted indulgence to the Group and the Bank from complying with the requirement on the impairment of loans under the revised BNM/GP8. The Group and the Bank will be deemed to be in compliance with the requirements on the loan impairment under the revised BNM/GP8 if the allowances for non-performing debts are computed based on BNM/GP3 requirements.

The preparation of financial statements in conformity with the provisions of the Companies Act 1965, MASB approved accounting standards in Malaysia and BNM's guidelines requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported year. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from those estimates.

B BASIS OF CONSOLIDATION

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

Subsidiaries are consolidated using the acquisition method of accounting. Under the method of acquisition accounting, the results of subsidiaries acquired or disposed of during the financial year are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements. The excess of the acquisition cost over the fair value of the Group's share of the subsidiaries identifiable net assets at the date of acquisition is reflected as goodwill.

All material inter-company transactions and balances have been eliminated on consolidation.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's shares of its net assets together with the goodwill on consolidation.

C INVESTMENT IN SUBSIDIARIES

Subsidiaries are those corporations or other entities in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

summary of significant accounting policies

for the financial year ended 31 December 2005 (continued)

C INVESTMENT IN SUBSIDIARIES (CONTINUED)

Investments in subsidiaries are shown at cost less any impairment losses. At each balance sheet date, the Bank assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount.

D GOODWILL

Goodwill arising on consolidation represents the excess of the purchase price over the fair value of the separable net assets of subsidiaries at the date of acquisition.

Goodwill is retained in the consolidated balance sheet and is stated at cost less any impairment losses. At each balance sheet date, the Group assesses whether there is any indication of impairment in goodwill. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note N on impairment of assets.

E SECURITIES

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

(i) SECURITIES HELD-FOR-TRADING

Securities are 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 it is part of portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Such securities are stated at fair value at initial recognition. Any gain or loss arising from a change in the fair value or arising from derecognition of such securities is recognised in the income statement.

(ii) SECURITIES HELD-TO-MATURITY

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

(iii) SECURITIES AVAILABLE-FOR-SALE

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

summary of significant accounting policies

for the financial year ended 31 December 2005 (continued)

E SECURITIES (CONTINUED)

(iii) SECURITIES AVAILABLE-FOR-SALE (CONTINUED)

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

Dividends on an available-for-sale equity instrument are recognised in the income statement when the Group's right to receive payment is established.

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

Previously, securities held by the Group were classified as either 'Dealing' or 'Investment' securities. Under Dealing Securities classification, the securities were stated at the lower of cost and market value on portfolio basis. Under Investment Securities classification, the securities according to type, were either stated at cost adjusted for amortisation of premium or accretion of discount or at the lower of cost and market value determined on a portfolio basis with allowance made for any permanent diminution in value. The impact of prior year adjustments is disclosed in Note 42 to the financial statements.

F RECEIVABLES

Receivables are carried at anticipated realisable value. An estimate is made for doubtful debts based on 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.

G REPURCHASE AGREEMENTS

Securities purchased under resale agreements are securities which the Group had committed to resell at a future dates and are reflected as an asset on the balance sheet.

Conversely, obligation on securities sold under repurchase agreements are securities which the Group had committed to repurchase at a future dates and is reflected as a liability on the balance sheet.

H DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

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

The best evidence of the fair value of a derivative at initial recognition is the transaction price (ie. 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 (ie. without modification or repackaging) or based on valuation techniques whose variables include only data from observable markets. When such evidence exists, the Group recognises profits on day one.

summary of significant accounting policies

for the financial year ended 31 December 2005 (continued)

H DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

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

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

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that is 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 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 is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

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

(c) Derivatives that do not qualify for hedge accounting

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

summary of significant accounting polices

for the financial year ended 31 December 2005 (continued)

H DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)

Previously, interest income or interest expense associated with interest rate swaps that qualify as hedged is recognised over the life of the swap agreement as a component of interest income or interest expense. Gains and losses on interest rate swaps, futures, forward and option contracts that qualify as hedges are deferred and amortised over the life or the hedged assets or liabilities as adjustments to interest income or interest expense. Gains and losses on interest rate swaps, futures, forward and option contracts that do not qualify as hedges are recognised in the current financial year using the marked-to-market method, and are included in the income statement. The impact of the prior year adjustments is disclosed in Note 42 to the financial statement.

I BILLS AND ACCEPTANCES PAYABLE

Bills and acceptances payable represent the Bank's own bills and acceptances rediscounted and outstanding in the market.

J RECOURSE OBLIGATION ON LOANS SOLD TO CAGAMAS BERHAD ('CAGAMAS')

In the normal course of banking operations, the Bank enters into agreements with third parties to acquire loans for onward sale to Cagamas. The Bank is liable in respect of loans which are regarded as defective and this obligation is reflected as a liability on the balance sheet. The liability is fully indemnified by the originator of the loans and accordingly the amount indemnified is recognised as an asset on the balance sheet.

K PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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

Depreciation is calculated to write off the cost of the property, plant and equipment on a straight line basis over their estimated useful lives at the following annual depreciation rates:

Office equipment and furniture	15% to 33 1/3%
Renovations	10%
Computer equipment	33 1/3%
Motor vehicles	20%

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

At each balance sheet date, the Group assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount.

summary of significant accounting policies

for the financial year ended 31 December 2005 (continued)

L INCOME RECOGNITION

- (i) Interest income is recognised on an accrual basis.

Where a loan is classified as non-performing, interest accrued and recognised as income prior to the date the loan is classified as non-performing shall be reversed out of income statement and set off against the accrued interest receivable account in the balance sheet. Subsequently, the interest earned on non-performing loans is in cash basis instead of being accrued and suspended at the same time as prescribed previously.

- (ii) Interest income from margin financing, clients' overdue outstanding purchases and contra losses are recognised on an accrual basis and where an account is classified as non-performing, recognition of interest income is suspended until it is realised on a cash basis. The stockbroking subsidiary's policy of classifying an account as non-performing conforms with the requirements of Chapter 11, Schedule 7, Rule 1104.1 laid down in the Rules of the Bursa Malaysia Securities Berhad.
- (iii) Loan arrangement, management and participation fees, acceptance and underwriting commissions are recognised as income when all conditions precedent are fulfilled.
- (iv) Brokerage is recognised when contracts are executed.
- (v) Guarantee fees are recognised as income upon issuance of guarantees.
- (vi) Commitment fees are recognised as income based on time apportionment.
- (vii) Corporate advisory fees are recognised as income on completion of each stage of the engagement and issuance of invoice.
- (viii) Management fees of the unit trust management company are recognised on an accrual basis. Sales value of trust units is recognised on the approval of a unitholder's application. Value from the cancellation of trust units is recognised upon the approval by the Trustee.
- (ix) Dividends from subsidiaries are recognised when the shareholders' right to receive payment is established, while dividends from other investments are recognised on receipt basis.

M ALLOWANCE FOR NON-PERFORMING DEBTS

Specific allowances are made for debts which have been individually reviewed and specifically identified as non-performing.

A general allowance for banking operations based on a percentage of the loan portfolio is also made to cover possible losses which are not specifically identified.

General allowance for securities operations is made based on a percentage of the total amount due from clients after deducting the amount of interest-in-suspense and specific allowance for bad and doubtful debts. These percentages are reviewed annually in the light of past experience and prevailing circumstances and an adjustment is made on the overall general allowance, if necessary.

summary of significant accounting policies

for the financial year ended 31 December 2005 (continued)

M ALLOWANCE FOR NON-PERFORMING DEBTS (CONTINUED)

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

During the financial year, the Group has changed its basis for classification of non-performing debts by changing the period of default for non-performing loans from 6 months to 3 months.

The Group and the Bank's allowance for non-performing debts is in conformity with the minimum requirements of BNM's 'Guidelines on the Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts' ('GP 3'), which is deemed as in conformity with the requirement on the allowance for loan impairment under the revised BNM/GP8.

The stockbroking subsidiary's allowance for non-performing debts is in conformity with the requirements of Chapter 11, Schedule 7, Rule 1104.1 of the Rules of the Bursa Malaysia Securities Berhad.

N IMPAIRMENT OF ASSETS

Property, plant and equipment and other non-current assets, including intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. The impairment loss is charged to the income statement. Any subsequent increase in recoverable amount is recognised in the income statement.

O IMPAIRMENT OF SECURITIES PORTFOLIO

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

(i) Securities carried at amortised cost

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

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

summary of significant accounting polices

for the financial year ended 31 December 2005 (continued)

O IMPAIRMENT OF SECURITIES PORTFOLIO (CONTINUED)

(ii) Securities carried at fair value

In the case of securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for securities available-for-sale, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent year, 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 the income statement.

P EMPLOYEE BENEFITS

(i) Short term employee benefits

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

(ii) Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions to a national pension scheme, Employee Provident Fund ('EPF').

The Group's contributions to defined contribution plans are charged to the income statement in the year to which they relate. Once the contributions have been paid, the Group has no further legal or constructive obligations.

Q INCOME TAXES

Current tax expense is determined according to the tax laws of each subsidiary in which the Group operates and includes all taxes upon the taxable profits.

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.

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

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

R CURRENCY CONVERSION AND TRANSLATION

The financial statements are presented in Ringgit Malaysia.

summary of significant accounting polices

for the financial year ended 31 December 2005 (continued)

R CURRENCY CONVERSION AND TRANSLATION (CONTINUED)

Transactions in foreign currencies are converted into Ringgit Malaysia at the rates of exchange ruling at transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Ringgit Malaysia at rates of exchange approximating to those ruling at that date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

The principal closing rate used in translation of foreign currency amounts was as follows:

Foreign currency	2005 RM	2004 RM
1 US Dollar ('USD')	3.7795	3.8000

S ASSETS PURCHASED UNDER LEASE - OPERATING LEASES

Leases of assets where a significant portion of the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

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

T BORROWINGS

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

U CASH AND CASH EQUIVALENTS

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

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

V DIVIDENDS

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

notes to the financial statements

for the financial year ended 31 December 2005

1 GENERAL INFORMATION

RHB Sakura Merchant Bankers Berhad is a public limited company, incorporated and domiciled in Malaysia. It is principally engaged in merchant banking and provision of related financial services.

The principal activities of the Group consist of merchant banking, provision of related financial services, unit trust management, stockbroking, asset management, futures broking, research services and provision of nominee services.

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

The number of employees at end of the financial year was 642 (2004: 703) in the Group and 235 (2004: 225) in the Bank.

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

2 CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Cash and balances with banks and other financial institutions	28,531	43,232	564	370
Money at call and deposit placements maturing within one month	623,798	814,716	608,300	790,950
	652,329	857,948	608,864	791,320

Included in cash and balances with banks and other financial institutions of the Group are trust accounts totalling RM7,625,000 (2004: RM10,958,000) maintained by the stockbroking and futures broking subsidiaries in trust for clients.

Included in money at call and deposit placements of the Group are

- i) trust accounts totalling RM49,454,000 (2004: RM122,788,000) held by stockbroking and other securities related business subsidiaries in trust for clients and remisers, and
- ii) deposit placements of RM120,000 (2004: RM120,000) pledged to a licensed bank concerned as collateral for facility granted to its stockbroking business.

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Licensed banks	101,921	–	100,000	–

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

4 SECURITIES HELD-FOR-TRADING

	Group		Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At fair value				
Money market instruments:				
Khazanah Bonds	77,970	–	77,970	–
Malaysia Government treasury bills	846	–	846	–
Bankers' acceptances	743,290	689,598	743,290	689,598
Private debt securities	681,781	3,009	681,781	3,009
Negotiable instruments of deposits	59,994	20,117	59,994	20,117
Quoted securities:				
In Malaysia				
Shares	–	2,465	–	–
Unit trust	4,029	5,868	–	–
	1,567,910	721,057	1,563,881	712,724

5 SECURITIES AVAILABLE-FOR-SALE

	Group		Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At fair value				
Money market instruments:				
Malaysian Government securities	–	125,351	–	125,351
Bank Negara treasury bills	–	40	–	40
Bank Negara negotiable notes	–	1,328	–	1,328
Private debt securities	138,430	556,194	138,430	556,194
Quoted securities:				
In Malaysia				
Shares	12,378	26,449	10,539	26,449
Private debt securities	4,433	9,281	4,433	9,281
Unquoted securities:				
In Malaysia				
Shares	2,200	14,492	–	–
	157,441	733,135	153,402	718,643

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

6 SECURITIES HELD-TO-MATURITY

	Group		Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At amortised cost				
Money market instruments:				
Malaysian Government securities	54,985	55,219	54,985	55,219
Khazanah bonds	49,922	47,995	49,922	47,995
Prasarana bonds	97,941	97,663	97,941	97,663
Private debt securities	198,610	326,420	198,610	326,420
Unquoted securities:				
In Malaysia				
Shares	2,200	2,200	2,200	2,200
Bonds	23	23	23	23
	403,681	529,520	403,681	529,520
Accumulated impairment losses	(65,960)	(98,300)	(65,960)	(98,300)
	337,721	431,220	337,721	431,220

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

7 LOANS AND ADVANCES

(i) By type:

	Group and Bank	
	2005 RM'000	2004 RM'000
Term loans - floating rate	394,954	542,411
Claims on customers under acceptance credits	20,272	22,717
Revolving credits	274,837	326,462
Staff loans	7,995	8,441
	698,058	900,031
Unearned interest	(79)	(135)
Gross loans and advances	697,979	899,896
Allowance for bad and doubtful debts		
– specific	(46,324)	(77,810)
– general	(12,056)	(15,209)
Net loans and advances	639,599	806,877

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

7 LOANS AND ADVANCES (CONTINUED)

(ii) By sector:

	Group and Bank 2005 RM'000	2004 RM'000
Agriculture	20,305	34,073
Mining and quarrying	33,081	31,293
Manufacturing	155,861	237,747
Electricity, gas and water	4,113	65,200
Construction	37,910	21,896
Real estate	134,836	134,823
Purchase of landed property (of which:		
(i) Residential	4,911	5,249
(ii) Non-residential)	10,655	11,885
General commerce	36,833	58,135
Transport, storage and communication	–	2
Purchase of securities	142,765	247,443
Purchase of transport vehicles	2,989	3,105
Consumption credit	15,911	20,147
Others	97,809	28,898
	697,979	899,896

(iii) By type of customer:

Domestic business enterprises		
– others	661,737	754,353
Individuals	36,242	145,543
	697,979	899,896

(iv) By interest/profit rate sensitivity:

Fixed rate		
Other fixed rate loan	12,209	11,260
Variable rate		
Cost plus	685,770	888,636
	697,979	899,896

(v) Movements in the non-performing loans are as follows:

Balance as at beginning of the financial year/period	252,580	434,296
Non-performing during the financial year/period (gross)	48,200	23,374
Amount converted to securities	(416)	(122,050)
Amount recovered	(47,713)	(44,772)
Amount written off	(72,466)	(38,268)
	180,185	252,580
Specific allowance on non-performing loans	(46,197)	(77,511)
	133,988	175,069
Ratio of net non-performing loans to net loans	20.56%	21.30%

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

7 LOANS AND ADVANCES (CONTINUED)

	Group and Bank	
	2005	2004
	RM'000	RM'000
(vi) Movements in the allowances for bad and doubtful debts are as follows:		
General allowance		
Balance as at beginning of the financial year/period	15,209	18,396
Allowance made / (written back) during the financial year/period	(3,153)	(3,187)
	<hr/>	<hr/>
Balance as at end of the financial year/period	12,056	15,209
	<hr/>	<hr/>
% of total gross loans and advances less specific allowance	1.85%	1.85%
	<hr/>	<hr/>
Specific allowance		
Balance as at beginning of the financial year/period	77,810	100,696
Allowance made during the financial year/period	43,199	20,443
Transferred to accumulated impairment loss in value of securities	(167)	(4,670)
Amount recovered	(2,052)	(391)
Amount written off	(72,466)	(38,268)
	<hr/>	<hr/>
Balance as at end of the financial year/period	46,324	77,810
	<hr/>	<hr/>
(vii) Non-performing loans by sector:		
Manufacturing	43,594	94,181
Electricity, gas and water	–	45,000
Construction	9,219	2,819
Real estate	61,354	42,653
Purchase of landed property:		
- Non-residential	1,365	1,365
Wholesale & retail trade and restaurants & hotels	7,189	7,189
Purchase of securities	32,103	32,258
Others	25,361	27,115
	<hr/>	<hr/>
	180,185	252,580
	<hr/>	<hr/>

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

8 CLIENTS' AND BROKERS' BALANCES

	Group and Bank	
	2005	2004
	RM'000	RM'000
Performing accounts	232,771	270,004
Non-performing accounts – Bad	31,890	9,862
	264,661	279,866
Less: Allowance for bad and doubtful debts		
- Specific	(16,419)	(6,882)
- General	(974)	(905)
	247,268	272,079
Movements in the specific allowance are as follows:		
Balance as at beginning of the financial year/period	6,882	5,696
Allowance made during the financial year/period	9,540	5,489
Amount recovered	(3)	(4,303)
Balance as at end of the financial year/period	16,419	6,882

9 OTHER ASSETS

	Group		Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Amounts due from related companies (i)	1,439	1,978	755	766
Other debtors, deposits and prepayments	18,331	14,112	7,721	6,329
Derivatives assets (ii)	3,716	2,445	3,716	2,445
Accrued interest receivable	11,632	11,669	11,619	11,664
	35,118	30,204	23,811	21,204

The other debtors, deposits and prepayments balances for the Group and the Bank are stated at net of allowance for doubtful debts of RM696,047 (2004: RM6,613,758).

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

(ii) Derivatives assets

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

9 OTHER ASSETS (CONTINUED)

	Group and Bank Contract or underlying principal amount RM'000	Year-end positive fair value RM'000
2005		
Foreign exchange related contracts:		
– forwards	19,314	130
Interest rate related contracts:		
– futures	3,180,000	2,541
– swaps	320,000	1,045
	<u>3,519,314</u>	<u>3,716</u>
2004		
Interest rate related contracts:		
– futures	1,470,000	1,981
– swaps	150,000	464
	<u>1,620,000</u>	<u>2,445</u>

10 AMOUNT DUE FROM HOLDING COMPANY

	Group	
	2005 RM'000	2004 RM'000
Amounts due from holding company	<u>205,180</u>	<u>205,615</u>

Amounts due from holding company are unsecured, interest free and not subject to fixed repayment terms except an amount of RM76,352,000 (2004: RM76,352,000), which bears interest ranging from 3.6% to 4.2% (2004: 3.6% to 7.9%) per annum.

11 AMOUNT DUE FROM A SUBSIDIARY

	Bank	
	2005 RM'000	2004 RM'000
Amount due from a subsidiary	<u>53,153</u>	<u>53,153</u>

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

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

12 DEFERRED TAX ASSETS/LIABILITIES

	Group	
	2005 RM'000	2004 RM'000
Deferred tax assets	7,021	4,382
Deferred tax liabilities	(209)	(1,488)
	6,812	2,894

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

	Property plant and equipment RM'000	General allowance on loans and advances RM'000	Unabsorbed tax losses RM'000	Other temporary differences RM'000	AFS reserve RM'000	Total RM'000
Group 2005						
Balance as at beginning of the financial year	(740)	4,258	413	451	–	4,382
Prior year adjustment	–	–	–	–	(1,488)	(1,488)
As restated (Charged)/credited to income statement	(740)	4,258	413	451	(1,488)	2,894
Charged to AFS reserve	(277)	(883)	67	(41)	–	(1,134)
	–	–	–	–	5,052	5,052
Balance as at end of the financial year	(1,017)	3,375	480	410	3,564	6,812
2004						
Balance as at beginning of the financial period	920	5,151	8,975	258	–	15,304
Prior year adjustment	–	–	–	–	(12,251)	(12,251)
As restated (Charged)/credited to income statement	920	5,151	8,975	258	(12,251)	3,053
Charged to AFS reserve	(1,660)	(893)	(8,562)	193	–	(10,922)
	–	–	–	–	10,763	10,763
Balance as at end of the financial period	(740)	4,258	413	451	(1,488)	2,894

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

12 DEFERRED TAX ASSETS/LIABILITIES (CONTINUED)

	Bank	
	2005 RM'000	2004 RM'000
Deferred tax assets	6,939	4,258
Deferred tax liabilities	–	(1,488)
	6,939	2,770

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

	General allowance on loans and advances RM'000	AFS reserve RM'000	Total RM'000
Bank 2005			
Balance as at beginning of the financial year	4,258	–	4,258
Prior year adjustment	–	(1,488)	(1,488)
As restated	4,258	(1,488)	2,770
Charged to income statement	(883)	–	(883)
Charged to AFS reserve	–	5,052	5,052
Balance as at end of the financial year	3,375	3,564	6,939
2004			
Balance as at beginning of the financial period	5,151	–	5,151
Prior year adjustment	–	(12,251)	(12,251)
As restated	5,151	(12,251)	(7,100)
Charged to income statement	(893)	–	(893)
Charged to AFS reserve	–	10,763	10,763
Balance as at end of the financial period	4,258	(1,488)	2,770

13 STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

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

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

14 INVESTMENTS IN SUBSIDIARIES

	Bank	
	2005 RM'000	2004 RM'000
Unquoted shares at cost	489,574	489,574
Less: Allowance for impairment loss	(6,708)	–
	482,866	489,574

The subsidiaries of the Bank are as follows:

Name of Company	Country of incorporation	Paid-up share capital RM	Effective equity interest		Principal activities
			2005 %	2004 %	
RHB Unit Trust Management	Malaysia	2,000,000	100	100	Management Berhad of unit trust funds
RHB Merchant Nominees (Tempatan) Sdn Bhd	Malaysia	10,000	100	100	Nominee services for Malaysian beneficial shareholders
RHB Merchant Nominees (Asing) Sdn Bhd	Malaysia	10,000	100	100	Nominee services for foreign beneficial shareholders
RHB Venture Capital Sdn Bhd	Malaysia	2	100	100	Dormant
RHB Holdings Sdn Bhd	Malaysia	2	100	100	Dormant
RHB Securities Sdn Bhd	Malaysia	200,000,000	100	100	Stock broking
RHB Nominees Sdn Bhd	Malaysia	25,000	100	100	Nominee and custodian services
RHB Nominees (Tempatan) Sdn Bhd	Malaysia	25,000	100	100	Nominee and custodian services for Malaysian beneficial shareholders
RHB Nominees (Asing) Sdn Bhd	Malaysia	25,000	100	100	Nominee and custodian services for foreign beneficial shareholders
Straits Nominees (Tempatan) Sdn Bhd	Malaysia	25,000	100	100	Dormant

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

14 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of Company	Country of incorporation	Paid-up share capital RM	Effective equity interest		Principal activities
			2005 %	2004 %	
Straits Nominees (Asing) Sdn Bhd	Malaysia	25,000	100	100	Dormant
RHB Marketing Services Sdn Bhd	Malaysia	100,000	100	100	Investment holding
Straits Asset Holdings Sdn Bhd	Malaysia	45,000,000	100	100	Investment holding
SSSB Services (Melaka) Sdn Bhd	Malaysia	40,000,000	100	100	Dormant
SFSB Services (Melaka) Sdn Bhd	Malaysia	5,000,000	100	100	Dormant
RHB Research Institute Sdn Bhd	Malaysia	500,000	100	100	Research services
RHB Asset Management Sdn Bhd	Malaysia	2,000,000	100	100	Asset management services
RHB Futures Sdn Bhd	Malaysia	13,500,000	100	100	Futures and options broking
RHB Management Services (Jersey) Limited	Jersey, Channel Islands	72	100	100	Management services

All subsidiaries are audited by PricewaterhouseCoopers, Malaysia.

15 PROPERTY, PLANT AND EQUIPMENT

Group	Office equipment and furniture RM'000	Renovation RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
2005 Cost					
Balance as at beginning of the financial year	20,482	26,020	57,103	4,437	108,042
Additions	1,907	236	1,845	962	4,950
Disposal	(324)	(14)	(194)	(904)	(1,436)
Write-offs/transfer	(2,364)	(4,744)	(16,568)	(11)	(23,687)
Balance as at end of the financial year	19,701	21,498	42,186	4,484	87,869

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group	Office equipment and furniture RM'000	Renovation RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total
2005 Cost					
Accumulated depreciation					
Balance as at beginning of the financial year	19,408	24,271	42,361	2,544	88,584
Charge for the financial year	583	707	3,996	719	6,005
Disposal	(320)	(12)	(180)	(872)	(1,384)
Write-offs/transfer	(2,363)	(4,733)	(16,522)	(6)	(23,624)
Balance as at end of the financial year	<u>17,308</u>	<u>20,233</u>	<u>29,655</u>	<u>2,385</u>	<u>69,581</u>
Impairment losses					
Balance as at beginning and end of the financial year	-	-	2,925	-	2,925
Net book value as at end of the financial year	<u>2,393</u>	<u>1,265</u>	<u>9,606</u>	<u>2,099</u>	<u>15,363</u>
2004					
Cost	20,482	26,020	57,103	4,437	108,042
Accumulated depreciation	(19,408)	(24,271)	(42,361)	(2,544)	(88,584)
Impairment loss	-	-	(2,925)	-	(2,925)
Net book value as at end of the financial period	<u>1,074</u>	<u>1,749</u>	<u>11,817</u>	<u>1,893</u>	<u>16,533</u>
Bank					
2005 Cost					
Balance as at beginning of the financial year	8,721	-	5,627	1,484	15,832
Additions	1,589	-	783	599	2,971
Disposal	-	-	(5)	(9)	(14)
Write-offs/transfer	(146)	-	(467)	(6)	(619)
Balance as at end of the financial year	<u>10,164</u>	<u>-</u>	<u>5,938</u>	<u>2,068</u>	<u>18,170</u>

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Office equipment and furniture RM'000	Renovation RM'000	Computer equipment RM'000	Motor vehicles RM'000	Total RM'000
2005					
Cost					
Accumulated depreciation					
Balance as at beginning of the financial year	8,139	–	4,315	311	12,765
Charge for the financial year	268	–	936	361	1,565
Disposal	–	–	(5)	(4)	(9)
Write-offs/transfer	(146)	–	(467)	(6)	(619)
Balance as at end of the financial year	8,261	–	4,779	662	13,702
Net book value as at end of the financial year	1,903	–	1,159	1,406	4,468
2004					
Cost	8,721	–	5,627	1,484	15,832
Accumulated depreciation	(8,139)	–	(4,315)	(311)	(12,765)
Net book value as at end of the financial period	582	–	1,312	1,173	3,067

16 GOODWILL ON CONSOLIDATION

	Group	
	2005 RM'000	2004 RM'000
Balance as at beginning and end of the financial year/period	172,844	172,844

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

17 DEPOSITS FROM CUSTOMERS

	Group	
	2005 RM'000	2004 RM'000
Fixed deposits	1,252,417	1,370,015
(i) Maturity structure of fixed deposits is as follows:		
Due within six months	1,252,417	1,210,015
Six months to one year	–	160,000
	1,252,417	1,370,015
(ii) The deposits are sourced from the following customers:		
Business enterprises	880,256	979,315
Others	372,161	390,700
	1,252,417	1,370,015

18 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group and Bank	
	2005 RM'000	2004 RM'000
Licensed banks	725,000	770,000
Other financial institutions	278,680	373,204
	1,003,680	1,143,204

19 CLIENTS' AND BROKERS' BALANCES

Included in clients' and brokers' balances are clients' trust balances, held by a subsidiary in trust for clients of RM43,894,000 (2004: RM128,862,000).

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

20 OTHER LIABILITIES

	Group		Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Accrued interest payable	14,798	11,548	14,798	11,548
Amount due to related companies (i)	620	7,805	480	8,624
Amount due to immediate holding company (i)	1,481	679	266	–
Amount payable for creation of units due to funds	865	14,037	–	–
Amount payable for redemption of units	–	742	–	–
Derivatives liabilities (ii)	3,192	3,007	3,192	3,007
Remisiers' trust deposits	8,690	12,048	–	–
Accrued personnel costs	15,866	10,342	12,675	8,591
Other accruals and payables	25,138	30,817	4,971	3,391
	70,650	91,025	36,382	35,161

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

(ii) Derivatives liabilities

	Group and Bank	
	Contract or underlying principal amount RM'000	Year-end negative fair value RM'000
2005		
Foreign exchange related contracts:		
– forwards	19,314	70
Interest rate related contracts:		
– futures	3,180,000	1,232
– swaps	320,000	1,890
	3,519,314	3,192
2004		
Interest rate related contracts:		
– futures	1,470,000	1,001
– swaps	150,000	2,006
	1,620,000	3,007

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

21 SHORT TERM BORROWINGS

	Group	
	2005 RM'000	2004 RM'000
Unsecured:		
Revolving credits	–	5,000
Bank overdrafts	–	1
	<hr/>	<hr/>
	–	5,001
	<hr/>	<hr/>

These borrowings for the financial period ended 31 December 2004 bear interest rates ranging from 1.25% to 1.75% per annum above the cost of funds or base lending rate of the respective banking institutions.

22 SUBORDINATED BONDS

	Group and Bank	
	2005 RM'000	2004 RM'000
Subordinated bonds	165,000	165,000
	<hr/>	<hr/>

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

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

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

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

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

23 SHARE CAPITAL

	Bank	
	2005 RM'000	2004 RM'000
Ordinary shares of RM1 each:		
Authorised	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid	<u>338,646</u>	<u>338,646</u>

24 RESERVES

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

Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and tax exempt income under Section 12 of the Income Tax (Amendment) Act 1999 to pay dividends out of its entire retained profits as at 31 December 2005.

25 INTEREST INCOME

	Group		Bank	
	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000
Loans and advances				
– interest income other than recoveries from NPLs	40,642	58,761	40,642	58,761
– recoveries from NPLs	5,193	22,253	5,193	22,253
Money at call and deposit placements with banks and other financial institutions	28,998	38,165	27,582	35,884
Securities held-for-trading	38,048	54,828	38,048	54,828
Securities available-for-sale	13,690	26,153	13,690	26,153
Securities held-to-maturity	18,970	17,842	18,970	17,842
Margin financing	7,461	5,818	–	–
Others	4,708	10,690	697	899
	<u>157,710</u>	<u>234,510</u>	<u>144,822</u>	<u>216,620</u>
Amortisation of premium less accretion of discount	3,467	5,461	3,467	5,461
Interest suspended	(2,640)	(1,643)	(2,640)	(1,643)
	<u>158,537</u>	<u>238,328</u>	<u>145,649</u>	<u>220,438</u>

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

26 INTEREST EXPENSE

	Group		Bank	
	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000
Deposits and placements of banks and other financial institutions	56,204	83,871	56,204	83,871
Deposits from customers	35,854	55,243	35,854	55,243
Subordinated bonds	13,530	20,388	13,530	20,388
Others	3,689	3,553	1,791	1,296
	109,277	163,055	107,379	160,798

27 OTHER OPERATING INCOME

	Group		Bank	
	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000
Fee income:				
Brokerage	51,171	109,779	50	268
Fund management fees	6,941	9,546	–	–
Fees on loans and advances	4,761	10,553	4,761	10,553
Corporate advisory fees	7,849	15,684	7,849	15,684
Guarantee fees	2,777	3,042	2,777	3,042
Underwriting fees	4,140	5,044	3,479	4,967
Unit trust fee income	24,433	37,599	–	–
Other fee income	17,501	16,984	15,143	12,015
	119,573	208,231	34,059	46,529
Net gain/(loss) arising from sale/redemption of securities and derivatives:				
Net gain from sale of				
– Securities held-for-trading	67,433	10,362	68,221	10,362
– Securities available-for-sale	14,442	15,817	8,596	15,817
Net gain/(loss) from redemption of				
– Securities held-to-maturity	13,192	(1,278)	13,192	116
Derivatives	(33)	(1,032)	(33)	(1,032)
	95,034	23,869	89,976	25,263

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

27 OTHER OPERATING INCOME (CONTINUED)

	Group		Bank	
	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000
Unrealised gain/(loss) on revaluation of securities held-for-trading and derivatives:				
Securities held-for-trading	4,045	27	4,045	27
Derivatives	1,086	(625)	1,086	(625)
	5,131	(598)	5,131	(598)
Gross dividend income from:				
Securities held-to-maturity	680	810	680	810
Securities available for sale	129	34	–	–
Subsidiaries	–	–	13,565	22,000
	809	844	14,245	22,810
Other income:				
Foreign exchange gain				
– Realised	317	4	317	4
Gain on disposal of property, plant and equipment	249	883	3	453
Others	4,694	21,414	3,918	6,121
	5,260	22,301	4,238	6,578
Other operating income	225,807	254,647	147,649	100,582

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

28 OTHER OPERATING EXPENSES

	Group		Bank	
	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000
Personnel costs				
Salaries, allowances and bonus	54,635	77,046	26,968	29,741
Defined contribution plans	7,327	9,573	4,499	5,016
Other staff costs	9,116	11,009	3,267	4,905
	71,078	97,628	34,734	39,662
Establishment costs				
Property, plant and equipment				
– written off	63	584	–	–
– depreciation	6,005	11,562	1,565	1,456
Rental of premises	10,623	15,801	2,759	4,116
Information technology expenses	2,838	4,411	791	755
Others	9,211	14,338	521	610
	28,740	46,696	5,636	6,937
Marketing expenses				
Sales commission	9,079	13,173	–	–
Advertising and publicity	2,390	2,282	1,053	330
Others	3,961	2,716	958	920
	15,430	18,171	2,011	1,250
Administration and general expenses				
Auditors' remuneration				
– statutory audit fees	332	157	100	50
– special statutory audit fees	–	268	–	90
– non-audit	–	238	–	–
Communication expenses	3,529	4,872	785	1,447
Legal and professional fees	1,273	3,212	513	1,293
Others	5,119	15,407	2,380	5,770
	10,253	24,154	3,778	8,650
	125,501	186,649	46,159	56,499

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

29 DIRECTORS' REMUNERATION

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

Dato Abdullah Mat Noh (Chairman)	
Dato' Mohamed Khadar Merican	
Vaseehar Hassan Abdul Razack	
Akira Miyama	
Lew Foon Keong	
Datuk Azlan Mohd Zainol	(appointed on 27 July 2005)
Johari Abdul Muid	(appointed on 1 April 2005)
Lim Cheng Yeow	(retired on 28 March 2005)
Dato' Sri Sulaiman Abdul Rahman Taib	(ceased to be a director wef 21 June 2005)

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

	Group		Bank	
	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000
Executive				
– Salaries	–	–	–	–
– Benefits-in-kind (based on estimated money value)	–	–	–	–
– Bonus	–	–	–	–
– Defined contribution plans	–	–	–	–
– Others	–	–	–	–
Non-executive				
– Fees	202	323	163	288
– Allowances	725	1,055	698	1,046
	927	1,378	861	1,334

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

	Group		Bank	
	2005 No. of Directors	2004 No. of Directors	2005 No. of Directors	2004 No. of Directors
Non-Executive RM				
0 – 50,000	3	4	4	4
50,001 – 100,000	3	2	2	2
100,001 – 150,000	2	1	2	1
150,001 – 200,000	–	1	–	1
200,001 – 250,000	–	1	–	1
250,001 – 300,000	–	–	–	–
300,001 – 350,000	–	–	–	–
350,001 – 400,000	1	–	1	–
400,001 – 450,000	–	–	–	–
450,001 – 500,000	–	–	–	–
500,001 – 550,000	–	1	–	1
	9	10	9	10

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

30 (ALLOWANCES) / WRITE BACK FOR LOSSES ON LOANS AND OTHER LOSSES

	Group		Bank	
	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000
Allowance for losses on loans				
Specific allowance				
– Made during the financial year/period	52,739	25,932	43,199	20,443
– Written back	(2,055)	(4,694)	(2,052)	(391)
	50,684	21,238	41,147	20,052
– General allowance in the financial year/period	(3,084)	(3,882)	(3,153)	(3,187)
Bad debts				
– recovered	(104)	(1,571)	(104)	(1,571)
– written off	117	–	–	–
Amount recovered from Danaharta	(6,646)	(34,272)	(6,646)	(34,272)
Specific allowance for other debtors	369	(4,634)	369	(4,634)
	41,336	(23,121)	31,613	(23,612)

The Bank has evaluated its portfolio of non-performing loans that had been in default and remained uncollected for more than 7 years and also those non-performing loans in default for more than 5 years but less than 7 years. For the loans in default for more than 7 years, no value is assigned as the realisable value of collateral. For the loans in default for more than 5 years but less than 7 years, 50% of the realisable value of asset held has been assigned as collateral value. The effect of this exercise amounted to RM11,780,000 (2004: RM2,520,000).

31 ALLOWANCES FOR IMPAIRMENT LOSS

	Group		Bank	
	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000
Charge/(reversal) for the financial year/period				
– Securities available-for-sale	397	656	397	656
– Securities held-to-maturity	(324)	29,804	(324)	29,804
– Investment in a subsidiary	–	–	6,708	–
	73	30,460	6,781	30,460

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

32 TAXATION

	Group		Bank	
	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000
Income tax based on profit for the financial year/period				
– Malaysian income tax	28,121	25,923	27,528	26,306
Deferred taxation	1,134	10,922	883	893
Over provision in respect of prior years				
– Malaysian income tax	(3)	(969)	–	–
Tax expense	29,252	35,876	28,411	27,199

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

	Group		Bank	
	12 months ended 31.12.2005 %	18 months ended 31.12.2004 %	12 months ended 31.12.2005 %	18 months ended 31.12.2004 %
Group and Bank average applicable tax rate	28.0	28.0	28.0	28.0
Tax effects in respect of:				
Non allowable expenses	0.4	0.9	–	(0.4)
Non-taxable income	(1.3)	(2.8)	–	0.5
Effect of different tax rate	(0.1)	(0.1)	–	–
Temporary differences previously not recognised	–	0.4	–	–
Average effective tax rate	27.0	26.4	28.0	28.1

	Group	
	12 months ended 31.12.2005 RM'000	18 months ended 31.12.2004 RM'000
Tax losses are analysed as follows:		
Tax savings recognised during the financial year/period arising from utilisation of tax losses brought forward from previous years	–	8,117

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

33 BASIC EARNINGS PER SHARE

The basic earnings per share has been calculated by dividing the net profit for the financial year/period of the Group and the Bank of RM78,905,000 (2004:RM100,056,000) and RM72,955,000 (2004: RM69,676,000) by the weighted average number of ordinary shares in issue during the financial period/year of 338,646,000 (2004: 338,646,000).

34 DIVIDENDS ON ORDINARY SHARES

Dividends declared or proposed in respect of the financial year ended 31 December 2005 are as follows:

	Group and Bank			
	12 months ended 31.12.2005		18 months ended 31.12.2004	
	Gross dividend per share Sen	Amount of dividend; net of tax RM'000	Gross dividend per share Sen	Amount of dividend; net of tax RM'000
Ordinary shares				
Proposed final dividend	22	53,642	40	97,530
	22	53,642	40	97,530

The directors now recommend the payment of a final gross dividend of 22 sen per share less tax of 28% amounting to RM53,641,526 in respect of the current financial year on the fully issued and paid up ordinary shares of the Bank totalling RM338,646,000 which is subject to the approval of the member at the forthcoming Annual General Meeting of the Bank.

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

35 SIGNIFICANT RELATED PARTY DISCLOSURES

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

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

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Significant related party transactions and balances

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

	Holding companies RM'000	Other related companies RM'000
Financial year ended 31.12.2005		
Significant related party transactions of the Group:		
Income		
Interest on deposits	–	1,432
Interest on loans and advances	2,822	–
Brokerage fees	–	4
Fund management fees	–	374
	<hr/> 2,822	<hr/> 1,810
Expenditure		
Insurance premium	–	35
Interest on deposits	–	13,847
Rental of premises	–	10,391
Security services	–	103
Personnel expenses	30	263
Marketing expenses	–	3,159
Administration and general expenses	–	618
	<hr/> 30	<hr/> 28,416
As at 31.12.2005		
Related party balances of the Group:		
Amount due from		
Cash and short term funds	–	79,462
Securities purchased under resale agreements	–	85,482
Other assets	205,180	1,432
	<hr/> 205,180	<hr/> 166,376

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	Holding companies RM'000	Other related companies RM'000
As at 31.12.2005		
Amount due to		
Deposits and placements of financial institutions	–	500,000
Others	1,481	5,986
	<u>1,481</u>	<u>505,986</u>
Financial period ended 31.12.2004		
Significant related party transactions of the Group:		
Income		
Interest on deposits	–	2,557
Interest on loans and advances	5,861	763
Brokerage fees	–	33
Fund management fees	–	487
Other fee income/operating income	–	324
	<u>5,861</u>	<u>4,164</u>
Expenditure		
Insurance premium	–	910
Interest on deposits	–	22,501
Management fees	–	5,812
Rental of premises	–	16,782
Security services	–	417
Personnel expenses	–	1,215
Marketing expenses	–	7,223
Administration and general expenses	–	589
	<u>–</u>	<u>55,449</u>

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	Holding companies RM'000	Other related companies RM'000
As at 31.12.2004		
Related party balances of the Group:		
Amount due from		
Cash and short term funds	–	123,802
Securities purchased under resale agreements	–	148,843
Other assets	205,615	1,977
	<u>205,615</u>	<u>274,622</u>
Amount due to		
Deposits and placements of financial institutions	–	540,000
Other liabilities	678	7,805
	<u>678</u>	<u>547,805</u>
	Subsidiary companies RM'000	Other related companies RM'000
Financial year ended 31.12.2005		
Significant related party transactions of the Bank:		
Income		
Interest on deposits	–	93
Dividends	13,565	–
Commitment fee	38	–
	<u>13,603</u>	<u>93</u>

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	Subsidiary companies RM'000	Other related companies RM'000
Financial year ended 31.12.2005		
Significant related party transactions of the Bank:		
Expenditure		
Insurance premium	–	195
Interest on deposits	–	13,755
Management fees	–	26
Rental of premises	–	2,682
Security services	–	16
Administration and general expenses	–	221
	–	16,895
As at 31.12.2005		
Related party balances of the Bank:		
Amount due from		
Cash and short term funds	–	50,136
Other assets	53,153	755
	53,153	50,891
Amount due to		
Deposits and placements of financial institutions	–	505,366
Other liabilities	1	745
	1	506,111

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

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

	Subsidiary companies RM'000	Other related companies RM'000
Financial period ended 31.12.2004		
Significant related party transactions of the Bank:		
Income		
Interest on deposits	–	290
Interest on loans and advances	–	763
Dividends	22,000	–
Services charges/other operating income	164	–
	<u>22,164</u>	<u>1,053</u>
Expenditure		
Insurance premium	–	850
Interest on deposits	–	22,495
Management fees	–	608
Rental of premises	–	3,847
Administration and general expenses	56	513
	<u>56</u>	<u>28,313</u>
As at 31.12.2004		
Related party balances of the Bank:		
Amount due from		
Cash and short term funds	–	87,184
Other assets	53,153	766
	<u>53,153</u>	<u>87,950</u>
Amount due to		
Deposits and placements of financial institutions	–	540,000
Other liabilities	947	7,678
	<u>947</u>	<u>547,678</u>

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

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

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

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

36 COMMITMENTS AND CONTINGENCIES

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

Risk Weighted Exposures of the Group and Bank as at 31 December 2005

	Group and Bank					
	As at 31.12.2005			As at 31.12.2004		
	Principal amount RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000	Principal amount RM'000	Credit equivalent amount* RM'000	Risk weighted amount RM'000
Direct credit substitutes	185,160	185,160	185,160	167,947	167,947	167,947
Transaction-related contingent items	1,229,520	31,260	31,260	3,724	1,862	1,862
Obligations under underwriting agreements	248,113	–	–	144,204	72,102	72,102
Irrevocable commitments to extend credit:						
– maturity not exceeding one year	360,518	–	–	621,921	–	–
– maturity exceeding one year	186,484	93,243	93,136	114,430	57,215	57,044
Foreign exchange-related contracts:						
– less than one year	19,314	417	165	–	–	–
– one to less than five years	–	–	–	–	–	–
Interest rate related contracts:						
– less than one year	810,000	33	6	520,000	–	–
– one to less than five years	2,690,000	10,330	2,066	1,100,000	4,464	893
Miscellaneous	21,316	21,079	21,032	–	–	–
	5,750,425	341,522	332,825	2,672,226	303,590	299,848

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

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

36 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies

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

On 19 May 2005, the Kuala Lumpur High Court dismissed the Plaintiff's claims against the subsidiary company. The plaintiffs are appealing to the Court of Appeal.

37 LEASE COMMITMENTS

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

	Group	
	2005 RM'000	2004 RM'000
Future minimum lease payments		
Not later than 1 year	1,486	–
More than 5 years	–	1,832
	<u>1,486</u>	<u>1,832</u>

38 CAPITAL COMMITMENTS

	Group		Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Capital expenditure for property, plant and equipment:				
– authorised and contracted for	<u>8,250</u>	<u>11,865</u>	<u>–</u>	<u>322</u>

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

39 CAPITAL ADEQUACY

The capital adequacy ratios of the Bank are as follows:

	2005 RM'000	2004 RM'000
Tier I Capital		
Paid-up share capital	338,646	338,646
Other reserves	449,743	487,308
	788,389	825,954
AFS revaluation reserve	9,165	(3,825)
Deferred tax assets	(6,939)	(4,258)
Deferred tax liabilities	–	1,488
Total Tier I Capital	790,615	819,359
Tier II Capital		
General allowance for bad and doubtful debts	12,056	15,209
Subordinated bonds	165,000	165,000
Total Tier II capital	177,056	180,209
Total capital	967,671	999,568
Less: Investments in subsidiaries	(482,866)	(489,574)
Total capital base	484,805	509,994
Before deducting proposed dividends		
Core capital ratio	19.82%	21.89%
Risk-weighted capital adequacy ratio	19.82%	21.89%
After deducting proposed dividends		
Core capital ratio	17.63%	17.70%
Risk-weighted capital adequacy ratio	17.63%	17.70%

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

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

39 CAPITAL ADEQUACY (CONTINUED)

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

	2005 RM'000	2004 RM'000
0%	825,090	417,152
10%	14,956	–
20%	202,207	1,544,209
50%	5,398	5,590
100%	1,376,282	2,017,545
	2,423,933	3,984,496
Total risk-weighted assets for credit risk	1,420,918	2,329,182
Total risk-weighted assets for market risk *	1,024,404	–
Total risk-weighted assets	2,445,322	2,329,182

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

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

40 USE OF FINANCIAL INSTRUMENTS

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

The Bank

A Financial risk management objectives and policies

Market risk

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

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

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

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

40 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

A Financial risk management objectives and policies (continued)

Market risk (cont'd)

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 perform stress tests on its portfolios using multiple scenarios that are continually reviewed and updated to reflect changes in economic events.

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

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

Credit risk

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

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

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

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

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

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

40 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

A Financial risk management objectives and policies (continued)

Netting arrangements

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

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

Liquidity and funding risk

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

The Bank's liquidity risk management is modelled based on Bank Negara Malaysia's New Liquidity Framework (NLF). The NLF analyses cash flows of assets, liabilities and potential off-balance sheet funding requirements under specific normal behaviour assumptions to ensure that the Bank has sufficient liquidity to meet potential future cash requirements over a 30-day forward horizon.

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

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

Operational risk

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

The Bank endeavours to minimise operational risk by maintaining a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment. The Bank has established and maintained a comprehensive system of internal controls based on the principle of checks and balances, segregation of duties, independent checks and verification processes.

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

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

40 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

A Financial risk management objectives and policies (Continued)

The stockbroking subsidiary

Market risk

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

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

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

Credit Risk

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

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

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

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

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

40 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk

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

	Group 31.12.2005							Total RM'000	Effective average interest rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Trading book RM'000		
Assets									
Cash and short-term funds	626,104	-	-	-	-	26,225	-	652,329	3.01
Securities purchased under resale agreements	85,482	-	-	-	-	-	-	85,482	2.70
Deposits and placements with banks and other financial institutions	1,798	100,000	123	-	-	-	-	101,921	3.04
Securities held-for-trading	-	-	-	-	-	-	1,567,910	1,567,910	4.04
Securities available-for-sale	25,021	37,025	5,006	61,058	14,753	14,578	-	157,441	6.33
Securities held-to-maturity	-	-	2,098	250,894	148,466	(63,737)	-	337,721	5.55
Loans and advances									
– Performing	329,025	178,250	2,524	3,084	4,911	(127)	-	517,667	6.38
– non-performing	-	-	-	-	-	121,932	-	121,932	-
Clients' and brokers' balances	85,048	-	-	-	-	162,220	-	247,268	8.80
Other assets	150	-	167	507	961	29,617	3,716	35,118	3.92
Amounts due from holding company	76,352	-	-	-	-	128,828	-	205,180	3.77
Deferred tax assets	-	-	-	-	-	7,021	-	7,021	-
Tax recoverable	-	-	-	-	-	15,923	-	15,923	-
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	76,606	-	76,606	-
Property, plant and equipment	-	-	-	-	-	15,363	-	15,363	-
Goodwill	-	-	-	-	-	172,844	-	172,844	-
Total assets	1,228,980	315,275	9,918	315,543	169,091	707,293	1,571,626	4,317,726	

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

40 USE OF FINANCIAL INSTRUMENTS(CONTINUED)

B Interest rate risk (continued)

	Group 31.12.2005								Effective average interest rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000	Trading book RM'000	Total RM'000	
Liabilities									
Deposits from customers	667,970	562,647	21,800	-	-	-	-	1,252,417	2.85
Deposits and placements of banks and other financial institutions	159,359	291,321	303,000	250,000	-	-	-	1,003,680	3.14
Obligations on securities sold under repurchase agreements	822,378	-	-	-	-	-	-	822,378	2.86
Amount due to Cagamas Berhad	-	-	-	-	-	-	-	-	-
Clients' and brokers' balances	35,794	-	-	-	-	162,696	-	198,490	2.60
Other liabilities	-	-	-	-	-	67,458	3,192	70,650	-
Taxation	-	-	-	-	-	3,445	-	3,445	-
Deferred tax liabilities	-	-	-	-	-	209	-	209	-
Subordinated bonds	-	-	-	165,000	-	-	-	165,000	8.20
Total liabilities	1,685,501	853,968	324,800	415,000	-	233,808	3,192	3,516,269	
 Net interest rate gap	 (456,521)	 (538,693)	 (314,882)	 (99,457)	 169,091				

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

40 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Group 31.12.2004							Total RM'000	Effective average interest rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000	Trading book RM'000		
Assets									
Cash and short-term funds	809,637	-	-	-	-	48,311	-	857,948	2.76
Securities purchased under resale agreements	148,843	-	-	-	-	-	-	148,843	2.68
Securities held-for-trading	-	-	-	-	-	-	721,057	721,057	2.86
Securities available-for-sale	1,039	12,251	19,843	548,913	110,148	40,941	-	733,135	4.93
Securities held-to-maturity	3,434	-	69,651	194,301	259,911	(96,077)	-	431,220	6.12
Loans and advances									
– performing	469,087	166,543	3,245	3,192	5,249	(299)	-	647,017	5.87
– non-performing	-	-	-	-	-	159,860	-	159,860	-
Clients' and Brokers' balance	23,528	71,358	-	-	-	177,193	-	272,079	7.74
Amounts due from holding company	76,352	-	-	-	-	129,263	-	205,615	5.10
Other assets	-	-	212	419	820	26,308	2,445	30,204	4.00
Deferred taxation assets	-	-	-	-	-	4,382	-	4,382	-
Tax recoverable	-	-	-	-	-	17,121	-	17,121	-
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	89,556	-	89,556	-
Property, plant and equipment	-	-	-	-	-	16,533	-	16,533	-
Goodwill	-	-	-	-	-	172,844	-	172,844	-
Total assets	1,531,920	250,152	92,951	746,825	376,128	785,936	723,502	4,507,414	

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

40 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Group 31.12.2004							Total RM'000	Effective average interest rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000	Trading book RM'000		
Liabilities									
Deposits from customers	555,019	574,796	240,200	-	-	-	-	1,370,015	2.76
Deposits and placements of banks and other financial institutions	151,060	230,735	571,409	190,000	-	-	-	1,143,204	2.99
Obligations on securities sold under repurchase agreements	597,307	-	-	-	-	-	-	597,307	2.66
Clients' and brokers' balances	105,697	-	-	-	-	191,836	-	297,533	2.68
Other liabilities	12,048	-	-	-	-	75,970	3,007	91,025	3.00
Taxation	-	-	-	-	-	3,729	-	3,729	-
Deferred tax liabilities	-	-	-	-	-	1,488	-	1,488	-
Borrowings	5,001	-	-	-	-	-	-	5,001	4.22
Subordinated bonds	-	-	-	165,000	-	-	-	165,000	8.20
Total liabilities	1,426,132	805,531	811,609	355,000	-	273,023	3,007	3,674,302	
 Net interest rate gap	 105,788	 (555,379)	 (718,658)	 391,825	 376,128				

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

40 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Bank 31.12.2005						Trading book RM'000	Total RM'000	Effective average interest rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000			
Assets									
Cash and short-term funds	608,300	-	-	-	-	564	-	608,864	3.02
Deposits and placements with banks and other financial institutions	-	100,000	-	-	-	-	-	100,000	3.04
Securities held-for-trading	-	-	-	-	-	-	1,563,881	1,563,881	4.04
Securities available-for-sale	25,021	37,025	5,006	61,058	14,753	10,539	-	153,402	6.33
Securities held-to-maturity	-	-	2,098	250,894	148,466	(63,737)	-	337,721	5.55
Loans and advances									
– performing	329,025	178,250	2,524	3,084	4,911	(127)	-	517,667	6.38
– non-performing	-	-	-	-	-	121,932	-	121,932	-
Other assets	-	-	-	-	-	20,095	3,716	23,811	-
Amounts due from subsidiaries	-	-	-	-	-	53,153	-	53,153	-
Deferred tax assets	-	-	-	-	-	6,939	-	6,939	-
Tax recoverable	-	-	-	-	-	16,936	-	16,936	-
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	76,606	-	76,606	-
Investments in subsidiaries	-	-	-	-	-	482,866	-	482,866	-
Property, plant and equipment	-	-	-	-	-	4,468	-	4,468	-
Total assets	962,346	315,275	9,628	315,036	168,130	730,234	1,567,597	4,068,246	

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

40 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Bank 31.12.2005								Effective average interest rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest bearing RM'000	Trading book RM'000	Total RM'000	
Liabilities									
Deposits from customers	667,970	562,647	21,800	-	-	-	-	1,252,417	2.85
Deposits and placements of banks and other financial institutions	159,359	291,321	303,000	250,000	-	-	-	1,003,680	3.14
Obligations on securities sold under repurchase agreements	822,378	-	-	-	-	-	-	822,378	2.86
Other liabilities	-	-	-	-	-	33,190	3,192	36,382	-
Subordinated bonds	-	-	-	165,000	-	-	-	165,000	8.20
Total liabilities	1,649,707	853,968	324,800	415,000	-	33,190	3,192	3,279,857	
Net interest rate gap	(687,361)	(538,693)	(315,172)	(99,964)	168,130				

	Bank 31.12.2004								Effective average interest rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Trading book RM'000	Total RM'000	
Assets									
Cash and short-term funds	790,950	-	-	-	-	370	-	791,320	2.75
Securities held-for-trading	-	-	-	-	-	-	712,724	712,724	2.86
Securities available-for-sale	1,039	12,251	19,843	548,913	110,148	26,449	-	718,643	4.93
Securities held-to-maturity	3,434	-	69,651	194,301	259,911	(96,077)	-	431,220	6.12
Loans and advances									
- performing	469,087	166,543	3,245	3,192	5,249	(299)	-	647,017	5.87
- non-performing	-	-	-	-	-	159,860	-	159,860	-
Other assets	-	-	-	-	-	18,759	2,445	21,204	-
Amount due from a subsidiary	-	-	-	-	-	53,153	-	53,153	-
Deferred taxation assets	-	-	-	-	-	4,258	-	4,258	-
Tax recoverable	-	-	-	-	-	16,533	-	16,533	-
Statutory deposit with Bank Negara Malaysia	-	-	-	-	-	89,556	-	89,556	-
Investments in subsidiaries	-	-	-	-	-	489,574	-	489,574	-
Property, plant and equipment	-	-	-	-	-	3,067	-	3,067	-
Total assets	1,264,510	178,794	92,739	746,406	375,308	765,203	715,169	4,138,129	

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

40 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

	Bank 31.12.2004					Non- interest bearing RM'000	Trading book RM'000	Total RM'000	Effective average interest rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000				
Liabilities									
Deposits from customers	555,019	574,796	240,200	-	-	-	-	1,370,015	2.76
Deposits and placements of banks and other financial institutions	151,060	230,735	571,409	190,000	-	-	-	1,143,204	2.99
Obligations on securities sold under repurchase agreements	597,307	-	-	-	-	-	-	597,307	2.66
Deferred tax liabilities	-	-	-	-	-	1,488	-	1,488	-
Other liabilities	-	-	-	-	-	32,154	3,007	35,161	-
Subordinated bonds	-	-	-	165,000	-	-	-	165,000	8.20
Total liabilities	1,303,386	805,531	811,609	355,000	-	33,642	3,007	3,312,175	
 Net interest rate gap	 (38,876)	 (626,737)	 (718,870)	 391,406	 375,308				

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

Derivative financial instruments

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

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

40 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

B Interest rate risk (continued)

Derivative financial instruments (continued)

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

	Group and Bank	
	2005	2004
	RM'000	RM'000
One to five years	320,000	150,000

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

	Group and Bank	
	Average interest receivable rate	Average interest payable rate
	%	%
2005		
Pay variable interest and receive fixed interest	3.78	2.93
Pay fixed interest and receive floating	2.95	4.23
2004		
Pay variable interest and receive fixed interest	3.78	2.85
Pay fixed interest and receive floating	2.86	4.38

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

40 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

C Credit risk

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

	Group 31.12.2005								
	Short term funds and placements with financial institutions RM'000	Securities purchased under resale agreements RM'000	Securities held-for- trading RM'000	Securities available- for-sale RM'000	Securities held-to- maturity RM'000	Loans and advances RM'000	Clients' and brokers' balances and other financial assets RM'000	On- balance sheet total RM'000	Commitments and contingencies* RM'000
Agricultural	-	-	-	4,142	33,287	20,305	334	58,068	-
Mining and quarrying	-	-	-	-	-	33,081	-	33,081	130
Manufacturing	-	-	217,600	11,850	94,768	135,573	3,001	462,792	228,031
Electricity, gas and water	-	-	159,478	-	-	4,113	3,811	167,402	1,383,378
Construction	-	-	34,848	-	-	35,320	254	70,422	246,998
Real estate	-	-	29,577	86,719	-	118,503	2,183	236,982	47,500
General commerce	-	-	29,963	24,905	-	31,034	606	86,508	88,289
Transport, storage and communication	-	-	75,715	-	97,942	-	799	174,456	107,300
Finance, insurance and business services	208,950	85,482	817,993	14,956	-	-	233,866	1,361,247	3,570,359
Government and government agencies	545,300	-	78,815	-	104,907	-	886	729,908	-
Purchase of landed property	-	-	-	-	-	15,342	1,558	16,900	256
Purchase of securities	-	-	-	-	-	142,363	226,976	369,339	23,549
Purchase of transport vehicles	-	-	-	-	-	2,989	-	2,989	165
Consumption credit	-	-	-	-	-	15,911	-	15,911	887
Others	-	-	119,892	291	5,594	97,121	13,292	236,190	53,583
Total	754,250	85,482	1,563,881	142,863	336,498	651,655	487,566	4,022,195	5,750,425
Assets not subject to credit risk	-	-	4,029	14,578	1,223	(12,056) ^	-	7,774	-
	754,250	85,482	1,567,910	157,441	337,721	639,599	487,566	4,029,969	5,750,425

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

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

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

40 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

C Credit risk (continued)

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

	Group 31.12.2004								
	Short term funds and placements with financial institutions RM'000	Securities purchased under resale agreements RM'000	Securities held-for- trading RM'000	Securities available- for-sale RM'000	Securities held-to- maturity RM'000	Loans and advances RM'000	Clients' and brokers' balances and other financial assets RM'000	On- balance sheet total RM'000	Commitments and contingencies* RM'000
Agricultural	-	-	-	9,281	79,008	34,073	132	122,494	8,500
Mining and quarrying	-	-	-	-	-	31,293	-	31,293	3,000
Manufacturing	-	-	-	61,175	106,772	176,196	2,196	346,339	252,751
Electricity, gas and water	-	-	-	86,913	-	65,200	2,023	154,136	259,374
Construction	-	-	-	-	-	19,535	85	19,620	138,636
Real estate	-	-	3,009	118,099	-	129,069	2,620	252,797	41,500
General commerce	-	-	-	35,298	34,311	52,335	872	122,816	107,786
Transport, storage and communication	-	-	-	173,910	97,663	2	3,080	274,655	76,879
Finance, insurance and business services	154,048	148,843	709,715	14,959	-	-	226,588	1,254,153	1,680,750
Government and government agencies	703,900	-	-	126,719	103,214	-	1,289	935,122	-
Purchase of landed property	-	-	-	-	-	17,133	1,278	18,411	677
Purchase of securities	-	-	-	-	3,434	247,263	256,570	507,267	65,196
Purchase of transport vehicles	-	-	-	-	-	3,105	35	3,140	-
Consumption credit	-	-	-	-	-	20,147	11	20,158	7,177
Others	-	-	-	65,840	5,595	26,735	10,167	108,337	30,000
Total	857,948	148,843	712,724	692,194	429,997	822,086	506,946	4,170,738	2,672,226
Assets not subject to credit risk	-	-	8,333	40,941	1,223	(15,209) [^]	952	36,240	-
	857,948	148,843	721,057	733,135	431,220	806,877	507,898	4,206,978	2,672,226

[^] Excludes general allowance amounting to RM15,209,000.

* Comprises credit equivalent balances of credit related contracts and derivatives amounting to RM299,126,000 and RM4,464,000 respectively.

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

40 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

C Credit risk (continued)

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

	Bank 31.12.2005								
	Short term funds and placements with financial institutions	Securities purchased under resale agreements	Securities held-for- trading	Securities available- for-sale	Securities held-to- maturity	Loans and advances	Other financial assets	On- balance sheet total	Commitments and contingencies*
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agricultural	-	-	-	4,142	33,287	20,305	334	58,068	-
Mining and quarrying	-	-	-	-	-	33,081	-	33,081	130
Manufacturing	-	-	217,600	11,850	94,768	135,573	3,001	462,792	228,031
Electricity, gas and water	-	-	159,478	-	-	4,113	3,811	167,402	1,383,378
Construction	-	-	34,848	-	-	35,320	254	70,422	246,998
Real estate	-	-	29,577	86,719	-	118,503	2,183	236,982	47,500
General commerce	-	-	29,963	24,905	-	31,034	606	86,508	88,289
Transport, storage and communication	-	-	75,715	-	97,942	-	799	174,456	107,300
Finance, insurance and business services	163,564	-	817,993	14,956	-	-	61,543	1,058,056	3,570,359
Government and government agencies	545,300	-	78,815	-	104,907	-	886	729,908	-
Purchase of landed property	-	-	-	-	-	15,342	-	15,342	256
Purchase of securities	-	-	-	-	-	142,363	3	142,366	23,549
Purchase of transport vehicles	-	-	-	-	-	2,989	-	2,989	165
Consumption credit	-	-	-	-	-	15,911	-	15,911	887
Others	-	-	119,892	291	5,594	97,121	3,544	226,442	53,583
Total	708,864	-	1,563,881	142,863	336,498	651,655	76,964	3,480,725	5,750,425
Assets not subject to credit risk	-	-	-	10,539	1,223	(12,056) [^]	-	(294)	-
	708,864	-	1,563,881	153,402	337,721	639,599	76,964	3,480,431	5,750,425

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

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

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

40 USE OF FINANCIAL INSTRUMENTS (CONTINUED)

C Credit risk (continued)

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

	Bank 31.12.2004								
	Short term funds and placements with financial institutions	Securities purchased under resale agreements	Securities held-for- trading	Securities available- for-sale	Securities held-to- maturity	Loans and advances	Other financial assets	On- balance sheet total	Commitments and contingencies*
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agricultural	-	-	-	9,281	79,008	34,073	132	122,494	8,500
Mining and quarrying	-	-	-	-	-	31,293	-	31,293	3,000
Manufacturing	-	-	-	61,175	106,772	176,196	2,196	346,339	252,751
Electricity, gas and water	-	-	-	86,913	-	65,200	2,023	154,136	259,374
Construction	-	-	-	-	-	19,535	85	19,620	138,636
Real estate	-	-	3,009	118,099	-	129,069	2,620	252,797	41,500
General commerce	-	-	-	35,298	34,311	52,335	872	122,816	107,786
Transport, storage and communication	-	-	-	173,910	97,663	2	3,080	274,655	76,879
Finance, insurance and business services	87,420	-	709,715	14,959	-	-	56,642	868,736	1,680,750
Government and government agencies	703,900	-	-	126,719	103,214	-	1,289	935,122	-
Purchase of landed property	-	-	-	-	-	17,133	-	17,133	677
Purchase of securities	-	-	-	-	3,434	247,263	-	250,697	65,196
Purchase of transport vehicles	-	-	-	-	-	3,105	-	3,105	-
Consumption credit	-	-	-	-	-	20,147	-	20,147	7,177
Others	-	-	-	65,840	5,595	26,735	5,418	103,588	30,000
Total	791,320	-	712,724	692,194	429,997	822,086	74,357	3,522,678	2,672,226
Assets not subject to credit risk	-	-	-	26,449	1,223	(15,209) [^]	-	12,463	-
	791,320	-	712,724	718,643	431,220	806,877	74,357	3,535,141	2,672,226

[^] Excludes general allowance amounting to RM15,209,000.

* Comprises credit equivalent balances of credit related contracts and derivatives amounting to RM299,126,000 and RM4,464,000 respectively.

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 36.

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

41 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

	Group 2005		Bank 2005	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial assets				
Securities held-to-maturity	337,721	339,107	337,721	339,107
Financial liabilities				
Deposits and placements of banks and other financial institutions	1,003,680	1,003,230	1,003,680	1,003,230
Subordinated bonds	165,000	175,676	165,000	175,676
	Group 2004		Bank 2004	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial assets				
Securities held-to-maturity	431,220	426,527	431,220	426,527
Financial liabilities				
Deposits and placements of banks and other financial institutions	1,143,204	1,144,075	1,143,204	1,144,075
Subordinated bonds	165,000	178,662	165,000	178,662

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

41 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Deposits and placements with banks and other financial institutions

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

Securities portfolio

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

Loans and advances

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

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

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

Deposits from customers

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

Deposits and placements of banks and other financial institutions

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

Long term debts

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

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

41 FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

Amounts due from/to subsidiary companies and immediate holding company

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

Subordinated Bonds

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

Credit risk related contracts

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

Foreign exchange rate, interest rate and equity contracts

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

Other financial instruments

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

42 PRIOR YEAR ADJUSTMENTS AND COMPARATIVE FIGURES

(a) Change in Accounting Policies

During the financial year, the Group has adopted the revised guidelines Financial Reporting for Licensed Institution (BNM/GP8), which has resulted in the following new accounting policies:

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

42 PRIOR YEAR ADJUSTMENTS AND COMPARATIVE FIGURES (CONTINUED)

(a) Change in Accounting Policies (continued)

(1) Classification and Accounting Policies (continued)

Previously, securities held by the Group were classified as either 'Dealing' or 'Investment' securities. Under Dealing Securities classification, the securities were stated at the lower of cost and market value on portfolio basis. Under Investment Securities classification, the securities according to type, were either stated at cost adjusted for amortisation of premium or accretion of discount or at the lower of cost and market value determined on a portfolio basis with allowance made for any permanent diminution in value.

With the implementation of the revised BNM/GP8, securities held by the Group are segregated based on the following categories and valuation method:

(i) Securities held-for-trading

Securities are 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 it is part of portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Such securities are stated at fair value at initial recognition. Any gain or loss arising from a change in the fair value or arising from derecognition of such securities is recognised in the income statement.

(ii) Securities held-to-maturity

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

(iii) Securities available-for-sale

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

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

Dividends on an available-for-sale equity instrument are recognised in the income statement when the Group's right to receive payment is established.

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

42 PRIOR YEAR ADJUSTMENTS AND COMPARATIVE FIGURES (CONTINUED)

(a) Change in Accounting Policies (continued)

(2) Derivatives

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

The best evidence of the fair value of a derivative at initial recognition is the transaction price (ie. 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 (ie. without modification or repackaging) or based on valuation techniques whose variables include only data from observable markets. When such evidence exists, the Group recognises profits on day one.

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

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

a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that is 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 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.

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

42 PRIOR YEAR ADJUSTMENTS AND COMPARATIVE FIGURES (CONTINUED)

(a) Change in Accounting Policies (continued)

(2) Derivatives (continued)

b) Cash flow hedge

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

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

c) Derivatives that do not qualify for hedge accounting

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

(3) Interest income recognition

Where a loan becomes non-performing, interest accrued and recognised as income prior to the loans are classified as non-performing is reversed out of income statement and set off against the accrued interest receivable account in the balance sheet. Subsequently, the interest earned on non-performing loans is in cash basis instead of being accrued and suspended at the same time as prescribed previously.

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

42 PRIOR YEAR ADJUSTMENTS AND COMPARATIVE FIGURES (CONTINUED)

(b) Prior Year Adjustments

The change in accounting policies as described was applied retrospectively and the impact to the opening reserves and results of the Group and the Bank as follows:

	Group		Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Effects on retained profits:				
As previously reported	268,697	211,781	261,637	235,101
Effects of adopting the fair value accounting for securities held-for-trading	1,991	(489)	1,991	(489)
Effect on transfer to tax recoverable on fair value accounting	(557)	137	(557)	137
Transfer to statutory reserve	(358)	88	(358)	88
As restated	269,773	211,517	262,713	234,837
Effect on AFS reserve:				
As previously reported	–	–	–	–
Effects of adopting the fair value accounting for securities available-for-sale	5,313	43,753	5,313	43,753
Effect on deferred assets on fair value accounting	(1,488)	(12,251)	(1,488)	(12,251)
As restated	3,825	31,502	3,825	31,502
Effect on deferred taxation assets:				
As previously reported	4,382	15,304	4,258	5,151
Effects of adopting the fair value accounting for securities available-for-sale	(1,488)	(12,251)	(1,488)	(12,251)
As restated	2,894	3,053	2,770	(7,100)

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

42 PRIOR YEAR ADJUSTMENTS AND COMPARATIVE FIGURES (CONTINUED)

- (c) The following comparative figures have been restated arising from the retrospective application of the revised BNM/GP8 as follows:

	As previously reported RM'000	Group Effect of the change RM'000	As restated RM'000
2004			
Balance sheet			
Assets			
Cash and short term funds	857,948	–	857,948
Securities purchased under resale agreements	148,843	–	148,843
Dealing securities	1,360,609	(1,360,609)	–
Investment securities	517,499	(517,499)	–
Securities held-for-trading	–	721,057	721,057
Securities available-for-sale	–	733,135	733,135
Securities held-to-maturity	–	431,220	431,220
Loans and advances	806,877	–	806,877
Clients' and brokers' balances	272,079	–	272,079
Other assets	28,419	1,785	30,204
Amount due from holding company	205,615	–	205,615
Statutory deposits with BNM	89,556	–	89,556
Tax recoverable	17,678	(557)	17,121
Deferred tax assets	4,382	–	4,382
Property, plant and equipment	16,533	–	16,533
Goodwill	172,844	–	172,844
	<hr/>		
Total assets	4,498,882	8,532	4,507,414
	<hr/>		
Liabilities and shareholder's equity			
Deposits from customers	1,370,015	–	1,370,015
Deposits and placements of banks and other financial institutions	1,143,204	–	1,143,204
Obligations on securities sold under repurchase agreements	597,307	–	597,307
Client's and brokers' balances	297,533	–	297,533
Deferred tax liabilities	–	1,488	1,488
Taxation	3,729	–	3,729
Borrowing	5,001	–	5,001
Other liabilities	89,240	1,785	91,025
Subordinated debt	165,000	–	165,000
	<hr/>		
Total liabilities	3,671,029	3,273	3,674,302
	<hr/>		
Share capital	338,646	–	338,646
Reserves	489,207	5,259	494,466
	<hr/>		
Shareholder's equity	827,853	5,259	833,112
	<hr/>		
Total liabilities and shareholder's equity	4,498,882	8,532	4,507,414
	<hr/>		

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

42 PRIOR YEAR ADJUSTMENTS AND COMPARATIVE FIGURES (CONTINUED)

	As previously reported RM'000	Bank Effect of the change RM'000	As restated RM'000
2004			
Balance sheet			
Assets			
Cash and short term funds	791,320	–	791,320
Dealing securities	1,339,784	(1,339,784)	–
Investment securities	515,499	(515,499)	–
Securities held-for-trading	–	712,724	712,724
Securities available-for-sale	–	718,643	718,643
Securities held-to-maturity	–	431,220	431,220
Loans and advances	806,877	–	806,877
Clients' and brokers' balances	–	–	–
Other assets	19,419	1,785	21,204
Amount due from a subsidiary company	53,153	–	53,153
Statutory deposits with BNM	89,556	–	89,556
Investments in subsidiaries	489,574	–	489,574
Tax recoverable	17,090	(557)	16,533
Deferred tax assets	4,258	–	4,258
Property, plant and equipment	3,067	–	3,067
	<hr/>	<hr/>	<hr/>
Total assets	4,129,597	8,532	4,138,129
Liabilities and shareholder's equity			
Deposits from customers	1,370,015	–	1,370,015
Deposits and placements of banks and other financial institutions	1,143,204	–	1,143,204
Obligations on securities sold under repurchase agreements	597,307	–	597,307
Deferred tax liabilities	–	1,488	1,488
Other liabilities	33,376	1,785	35,161
Subordinated debt	165,000	–	165,000
	<hr/>	<hr/>	<hr/>
Total liabilities	3,308,902	3,273	3,312,175
Share capital	338,646	–	338,646
Reserves	482,049	5,259	487,308
	<hr/>	<hr/>	<hr/>
Shareholder's equity	820,695	5,259	825,954
	<hr/>	<hr/>	<hr/>
Total liabilities and shareholder's equity	4,129,597	8,532	4,138,129

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

42 PRIOR YEAR ADJUSTMENTS AND COMPARATIVE FIGURES (CONTINUED)

	As previously reported RM'000	Group Effect of the change RM'000	As restated RM'000
2004			
Income statement			
Interest income	236,741	1,587	238,328
Interest expense	(163,055)	–	(163,055)
Net interest income	73,686	1,587	75,273
Other operating income	223,293	31,354	254,647
Other operating expenses	296,979 (186,649)	32,941 –	329,920 (186,649)
Allowances for losses on loans and other losses	110,330	32,941	143,271
Allowances for impairment loss	23,121 –	– (30,460)	23,121 (30,460)
Profit before taxation	133,451	2,481	135,932
Taxation	(35,181)	(695)	(35,876)
Profit after taxation	98,270	1,786	100,056
2004			
Income statement			
Interest income	218,851	1,587	220,438
Interest expense	(160,798)	–	(160,798)
Net interest income	58,053	1,587	59,640
Other operating income	69,228	31,354	100,582
Other operating expenses	127,281 (56,499)	32,941 –	160,222 (56,499)
Allowances for losses on loans and other losses	70,782	32,941	103,723
Allowances for impairment loss	23,612 –	– (30,460)	23,612 (30,460)
Profit before taxation	94,394	2,481	96,875
Taxation	(26,504)	(695)	(27,199)
Profit after taxation	67,890	1,786	69,676

notes to the financial statements

for the financial year ended 31 December 2005 (continued)

43 SIGNIFICANT EVENT DURING THE FINANCIAL YEAR

On 28 January 2005, a Writ of Summons had been filed at the High Court of Malaya in Kuala Lumpur by RHB Capital Berhad ('RHB Capital'), the holding company of the Bank, RHB Securities Sdn Bhd ('RHB Securities'), a subsidiary of the Bank and a related company, RHB Equities Sdn Bhd ('RHB Equities') against the following individuals:

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

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

RHB Securities is a wholly owned subsidiary of the Bank which in turn is a wholly owned subsidiary of RHB Capital whereas RHB Equities is a wholly owned subsidiary of RHB Capital.

The suit is not expected to have any material adverse effect on the financial results of the Group and the Bank for the financial year ended 31 December 2005.

44 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 27 February 2006.

statement by directors

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

We, Dato Abdullah Mat Noh and Dato' Mohamed Khadar Merican, being two of the directors of RHB Sakura Merchant Bankers Berhad, state that, in the opinion of the directors, the financial statements set out on pages 62 to 136 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Bank as at 31 December 2005 and of the results and cash flows of the Group and the Bank for the financial year ended 31 December 2005 in accordance with the MASB accounting standards in Malaysia, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with their resolution dated 27 February 2006.

DATO ABDULLAH MAT NOH
CHAIRMAN

DATO' MOHAMED KHADAR MERICAN
DIRECTOR

statutory declaration

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

I, Rafiza Ghazali, the officer primarily responsible for the financial management of RHB Sakura Merchant Bankers Berhad, do solemnly and sincerely declare that the financial statements set out on pages 62 to 136 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true by virtue of the provisions of the Statutory Declarations Act, 1960.

RAFIZA GHAZALI

Subscribed and solemnly declared by the abovenamed Rafiza Ghazali at Kuala Lumpur on 27 February 2006, before me.

JAYAM GNANAPRAGASAM
COMMISSIONER FOR OATHS

report of the auditors

to the member of RHB Sakura Merchant Bankers Berhad

We have audited the financial statements set out on pages 62 to 136. These financial statements are the responsibility of the Bank's directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965, MASB approved accounting standards in Malaysia and Bank Negara Malaysia Guidelines so as to give a true and fair view of:
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
 - (ii) the state of affairs of the Group and Bank as at 31 December 2005 and of the results and cash flows of the Group and Bank for the financial year ended 31 December 2005; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Bank and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

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

PRICEWATERHOUSECOOPERS

(No. AF: 1146)
Chartered Accountants

UTHAYA KUMAR S/O K. VIVEKANANDA

(No. 1455/06/06(J))
Partner of the firm

Kuala Lumpur
27 February 2006

