



RHB ISLAMIC Bank  
ANNUAL REPORT 2006

# Growing with the nation

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# Corporate Information

as at 31 March 2007

## **BOARD OF DIRECTORS**

### **YBhg Dato' Vaseehar Hassan Abdul Razack**

Non-Independent Non-Executive  
Chairman

### **YBhg Dato' Mohd Salleh Hj. Harun**

Independent Non-Executive  
Director

### **YBhg Dato Abdullah Mat Noh**

Non-Independent Non-Executive  
Director

### **YBhg Dato' Othman Jusoh**

Independent Non-Executive  
Director

### **Prof. Balachandran A. Shanmugam**

Independent Non-Executive  
Director

### **Mr. Michael J Barrett**

Non-Independent Non-Executive  
Director

## **SECRETARIES**

Encik Azman Shah Md Yaman

Puan Norazzah Sulaiman

## **BOARD COMMITTEES**

### **AUDIT COMMITTEE**

YBhg Dato' Mohd Salleh  
Hj. Harun

Chairman

YBhg Dato' Othman Jusoh

Prof. Balachandran A.  
Shanmugam

### **REMUNERATION AND HUMAN RESOURCE COMMITTEE**

Prof. Balachandran A.  
Shanmugam  
Chairman

YBhg Dato' Vaseehar  
Hassan Abdul Razack

YBhg Dato Abdullah  
Mat Noh

## **RISK MANAGEMENT COMMITTEE**

YBhg Dato' Mohd Salleh  
Hj. Harun

Chairman

YBhg Dato' Othman Jusoh

YBhg Dato Abdullah  
Mat Noh

## **NOMINATING COMMITTEE**

YBhg Dato' Mohd Salleh  
Hj. Harun  
Chairman

YBhg Dato Abdullah  
Mat Noh

YBhg Dato' Othman Jusoh

YBhg Dato' Vaseehar  
Hassan Abdul Razack

Prof. Balachandran A.  
Shanmugam

## Corporate Information

as at 31 March 2007 (continued)

### RHB GROUP SHARIAH COMMITTEE

Prof. Dr. Hj. Abdul Samat  
Musa  
Chairman

Dr. Ahmed Mohieldin Ahmed

Prof. Dr. Joni Tamkin Borhan

Prof. Dr. Mohd Ma'sum Billah

Asst. Prof. Dr. Abdulazeem  
Abozaid

### MANAGEMENT

Encik Zulkefly Abdullah  
Chief Operating Officer

### BUSINESS DIVISION HEADS

Encik Abdul Talib Dewa  
(effective 14 May 2007)

Corporate Banking (Head)

Commercial Banking (Acting Head)

Encik Mohd Sofi Mat Jahaya  
Consumer Banking

Encik Yaacob Ariffin  
Transaction Banking Services (Head)  
Treasury (Acting Head)

Encik Zulkhairi Zabiri

Automobile Business

Tuan Haji Iskandar Hj. Razali

Regional Office East Malaysia

### DIVISION HEADS

Cik Rozita Abd Hafiz

(effective 14 May 2007)

Product Development

Encik Ahmad Rizal Lope

Zainal Abidin

(effective 14 May 2007)

Credit Management

Encik Haryadi Katmun

@ Katmun

Finance

Encik Saiful Bahri Ab Rashid

Branch Management

Puan Faridah Hanom Hj.

Mohammad

HR & Administration

### REGISTERED OFFICE

Level 10, Tower One

RHB Centre

Jalan Tun Razak

50400 Kuala Lumpur

Tel : 603-92878888

Fax : 603-92806507

### BUSINESS ADDRESS

Level 11, Menara Yayasan Tun

Razak

200 Jalan Bukit Bintang

55100 Kuala Lumpur

Malaysia

Or

P.O. Box 6100 Pudu

55710 Kuala Lumpur

Tel : 603-21715000

Fax : 603-21715001

SWIFT: RHBAMYKL

CHIPS UID: 417802

Call Centres : 603-92068118

/ 6082-276118

Email : enquiries@

rhbislamicbank.com.my

Website : www.share.com.my

### AUDITORS

PricewaterhouseCoopers

Chartered Accountants

11th Floor

Wisma Sime Darby

Jalan Raja Laut

50350 Kuala Lumpur

# Profile of the Board of Directors

as at 31 March 2007

## **YBHG DATO' VASEEHAR HASSAN ABDUL RAZACK**

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

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

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

YBhg Dato' Vaseehar Hassan was appointed as a Director of RHB ISLAMIC Bank on 2 February 2005, representing RHB Bank Berhad, the holding company of RHB ISLAMIC Bank. He also serves as a Member of the Nominating Committee and Remuneration and Human Resource Committee of RHB ISLAMIC Bank.

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## **YBHG DATO' MOHD SALLEH HJ. HARUN**

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

YBhg Dato' Mohd Salleh Hj. Harun (YBhg Dato' Mohd Salleh) has 32 years of experience in banking and financial sector, having held various senior positions in Aseambankers Malaysia Berhad and Malayan Banking Berhad. He was the Executive Director of Malayan Banking Berhad from 1994 to 2000 prior to joining Bank Negara Malaysia, whereat he served as Deputy Governor from 2000 to 2004. He is a Fellow of the Institute of Bankers and also a Member of the Malaysian Institute of Certified Public Accountants.

## Profile of the Board of Directors

as at 31 March 2007 (continued)

YBhg Dato' Mohd Salleh's other directorships in public companies include RHB Capital Berhad, RHB Insurance Berhad (Chairman), RHB Bank Berhad, Titan Chemical Corp Berhad and Scicom MSC Berhad.

YBhg Dato' Mohd Salleh was appointed as a Director of RHB ISLAMIC Bank on 22 February 2005. He also serves as the Chairman of the Risk Management Committee, Audit Committee and Nominating Committee of RHB ISLAMIC Bank.

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### **YBHG DATO ABDULLAH MAT NOH**

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

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

YBhg Dato Abdullah's other directorships in public companies include RHB Investment Bank Berhad (formerly known as RHB Sakura Merchant Bankers Berhad) (Chairman), RHB Bank Berhad (Deputy Chairman) and RHB Bank (L) Ltd (Chairman).

YBhg Dato Abdullah was appointed as a Director of RHB ISLAMIC Bank on 22 February 2005, representing RHB Bank Berhad, the holding company of RHB ISLAMIC Bank. YBhg Dato Abdullah also serves as a Member of the Nominating Committee, Risk Management Committee and Remuneration and Human Resource Committee of RHB ISLAMIC Bank.

## Profile of the Board of Directors

as at 31 March 2007 (continued)

### **YBHG DATO' OTHMAN JUSOH**

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

YBhg Dato' Othman Jusoh (YBhg Dato' Othman) has held various senior positions in the Ministry of Finance until his retirement in June 2004. He has also served as the Group Chief Executive of Malaysian Kuwaiti Investment Co. Sdn Bhd from 1995 to 1998 and as the Executive Director of Asian Development Bank from August 2000 to July 2003. He was also the Chief Executive Officer of Perbadanan Tabung Pendidikan Tinggi Nasional from August 2004 to August 2006. He is currently the Chairman of TH Technologies Sdn Bhd since 1 June 2005. He holds a Bachelor of Economics (Honours) in Analytical Economics from the University of Malaya and a Masters in Business Administration from the University of Oregon, USA.

YBhg Dato' Othman's other directorships in public companies include RHB Bank Berhad, Bank Pembangunan Malaysia Berhad and BI Credit & Leasing Berhad.

YBhg Dato' Othman was appointed as a Director of RHB ISLAMIC Bank on 22 February 2005, representing RHB Bank Berhad, the holding company of RHB ISLAMIC Bank. YBhg Dato' Othman Jusoh has ceased to be the representative of Khazanah Nasional Berhad on the Board of RHB Bank Berhad and was re-designated from Non-Independent Non-Executive Director to Independent Non-Executive Director on 21 July 2006. Accordingly, he was re-designated from Non-Independent Non-Executive Director to Independent Non-Executive Director of RHB ISLAMIC Bank on 19 September 2006. He also serves as a Member of the Nominating Committee, Risk Management Committee and Audit Committee of RHB ISLAMIC Bank.

## Profile of the Board of Directors

as at 31 March 2007 (continued)

### **PROF. BALACHANDRAN A. SHANMUGAM**

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

Prof. Balachandran A. Shanmugam (“Prof. Bala”) is currently the director of Banking and Finance and also holds the Chair of Accounting and Finance at Monash University, Malaysia. His prior appointment was at the University of New England in Armidale, Australia. Prof. Bala has served at various universities all over the world. He is a Senior Associate of the Australian Institute of Bankers holding a Bachelors degree majoring in Banking Insurance and Finance from the University of Wales, a Masters in Business (Banking) from the National University of Ireland and a Doctor of Philosophy in Banking and Finance from Australia. Prof. Bala has published over 100 papers and more than 20 books. He also has about 5 years of banking industry experience.

Prof. Bala was appointed as an Independent Director of RHB ISLAMIC Bank on 22 July 2005. He also serves as the Chairman of the Remuneration and Human Resource Committee and a Member of the Nominating and Audit Committee of RHB ISLAMIC Bank.

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### **MR. MICHAEL J BARRETT**

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

Mr. Michael J Barrett (“Mr Barrett”) is currently the Chief Executive Officer of RHB Bank Berhad since 3 January 2005. He has vast banking experience spanning 30 years with Chase Manhattan Bank, USA N.A where his last position was the Chief Executive Officer and President of Chase Manhattan Bank, USA N.A. He holds a Bachelor of Science in Economics and Business Administration from Alfred University, Alfred, New York and a Masters in Business Administration in Finance from Fordham University, Bronx, New York.

Mr. Barrett is also a Director of RHB Bank (L) Ltd.

Mr. Barrett was appointed as a Director of RHB ISLAMIC Bank on 20 September 2006 representing RHB Bank Berhad, the holding company of RHB ISLAMIC Bank.



# RHB Banking Group Corporate Structure

as at 26 March 2007



## RHB HUSSAIN BERHAD

### RHB Capital Berhad (64.49%)



### Others

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

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

#### Notes:

The subsidiary companies are wholly-owned unless otherwise stated.

Country of Incorporation is in Malaysia unless otherwise indicated in italics

☐ Dormant company

■ Associate company

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

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

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

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

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

# RHB Group Shariah Committee

## ("Shariah Committee")

profile of the shariah committee members

### **PROF. DR. HJ. ABDUL SAMAT MUSA**

Chairman of the Committee

Educated at University Kebangsaan Malaysia ('UKM'), he obtained a B.A in Islamic Studies (Shariah) (Second Class Upper) in 1976. He holds a Masters in Comparative Law from University of Malaya (1980) and a PhD in Law from Manchester, England.

He started his career as a tutor in 1976. He was promoted to lecturer in 1979 and was appointed Professor in 2002. He is a committee member for various organizations within and outside UKM and Universiti Sains Islam Malaysia ('USIM'). He has written various journals and articles on Islamic Constitutions, Governance and Administration for forums, seminars and published his works in newspapers.

Prof. Dr. Hj. Abdul Samat is a Dean of Shariah & Law Faculty and Acting Director of World Fatwa Management & Research Institute at USIM.

### **DR. AHMED MOHIELDIN AHMED**

Educated at Omdurman Islamic University (Sudan), he obtained a BSc Economics in 1970. He also holds a Masters Degree in Fiqh Transactions (1984) and a PhD in Islamic Economics from the Om-Alghorah University (1989).

He was a manager at the Research & Development Department for the Al-Baraka Banking Group, Adviser for Dallah Al-Baraka Group President's Office, Economic Adviser at the Islamic Fiqh Academy, Researcher & Arbitrator for Islamic Development Bank and Head of Shariah Research & Studies Section for the Research & Development department of Dallah Al-Baraka.

He is a member of several Shariah panels notably for the Al-Baraka Banking Group and former member of the Board of Directors and Executive Committees for Al-Tawfeek & Al-Amin companies.

## RHB Group Shariah Committee ("Shariah Committee")

profile of the shariah committee members (continued)

### **PROF. DR. JONI TAMKIN BORHAN**

Educated at University of Malaya, he obtained a B.Sh (Shariah) in 1990. He also received a Masters Degree in Islamic Economics from University of Malaya in 1994 and a PhD in Islamic Banking from Edinburgh, Scotland in 1997.

He was a member of the National Shariah Advisory Council on Islamic Banking and Takaful ('NSAC') (1999-2004), National Accreditation Board ('LAN'), Fellow at the Religious Department at Victoria University of Wellington, Head of Department of Shariah & Economics at University of Malaya and Head of Department of Shariah & Management at University of Malaya. He has published and written numerous books, articles and journals. He also sits as a speaker for various workshops and conferences in various fields mostly in Islamic Banking.

Prof. Dr. Joni Tamkin currently holds the position as the Deputy Director of Undergraduates, Academy of Islamic Studies and also a Professor at the Department of Shariah & Economics, Academy of Islamic Studies, University Malaya.

## RHB Group Shariah Committee ("Shariah Committee")

profile of the shariah committee members (continued)

### **PROF. DR. MOHD MA'SUM BILLAH**

Educated at International Islamic University Malaysia ('IIUM') where he obtained his LL.B (Hons); MMB; MCL (Comp. Laws) and subsequently his PhD on "Insurance vs. Takaful" with a comparative practical and regulatory analysis. He has written about 67 articles in different academic journals (internationally and locally) with comparative analysis of Modern and Shariah mainly on Law of Insurance, Banking, Economics, Finance, Business, Commerce, E-Commerce Regulations and several articles on Takaful (Islamic Insurance and Re-Insurance). He is also one of the authors in: <http://www.islamic-insurance.com> website.

Prof. Dr. Mohd Ma'sum Billah has authored about 28 books on different subjects of Modern and Shariah disciplines with comparative treatment. Most of his works are used as potential references equally by academicians, researchers and students at the higher learning Institutions and the Practitioners at the international and the local corporate environments.

Prof. Dr. Mohd Ma'sum Billah is the Director of Global Trade & Investment Cooperation (OIC- Zone) of the Islamic Chamber of Commerce and Industry ('ICCI').

### **ASST. PROF. DR. ABDULAZEEM ABOZAIID**

Asst. Prof. Dr. Abdulazeem Abozaid was educated at Damascus University, Syria where he obtained his B.A (1994); M.A (1998) and subsequently his PhD (2001) in Islamic Law.

Asst. Prof. Dr. Abdulazeem Abozaid started his career as a lecturer in 1995 at Damascus University, Syria. He is currently an assistant professor at Kulliyah of Economics, International Islamic University Malaysia. He is also a Shariah Scholar (Consultancy and Training) at Five Pillars Associate, Singapore.

Asst. Prof. Dr. Abdulazeem Abozaid has contributed extensively to several publications and conferences in contemporary Islamic banking practice since 2004.

# Report of the RHB Group Shariah Committee

In the name of Allah, The Most Gracious, The Most Merciful

We, Prof. Dr. Abdul Samat Musa, Prof. Dr. Joni Tamkin Borhan and Prof. Dr. Mohd Ma'sum Billah being three of members of Group Shariah Committee of RHB ISLAMIC Bank Berhad, do hereby confirm on behalf of the members of the Committee, that we have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank during the year ended December 31, 2006.

We have also conducted our review to form an opinion as to whether the Bank has complied with Shariah rules and the principles and also with the specific rulings and guidelines issued by us.

The Bank's management is responsible for ensuring that the financial institution conducts its business in accordance with Islamic Shariah rules and principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report to you.

We have performed our review so as to obtain all the information and explanations, which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has complied with Islamic Shariah rules and principles.

In our opinion:

- a) main sources of income of the Bank during the year ended 31 December 2006 that we have reviewed are in compliance with the Islamic Shariah rules and principles;
- b) all investments that have been disclosed to us by the Bank conform to the basis that had been approved by us in accordance with Islamic Shariah rules and principles;
- c) the contracts and legal documents of the products used by the Bank that we reviewed are in compliance with the Islamic Shariah rules and principles;
- d) the products proposals including concept used by the Bank which have been reviewed and advised by us are in compliance with the Shariah rules and principles; and

We beg Allah the Almighty to grant us success and lead us on the right path.

Wassalamu Alaikum Wa Rahmatullahi Wa Barakatuh

**Prof. Dr. Abdul Samat Musa**

Chairman of the Committee

**Prof. Dr. Joni Tamkin Borhan**

Member of the Committee

**Prof. Dr. Mohd Ma'sum Billah**

Member of the Committee

# 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 Revamped Listing Requirements require directors of listed companies to include a statement in their annual reports on the state of their internal controls. The guidelines for directors on internal control, the *Statement on Internal Control : Guidance for Directors of Public Listed Companies* ("Guidance") provides guidance for compliance with these requirements.

Although the Bank is not a listed company, the Board has endeavoured to prepare its Internal Control Statement in accordance with the Guidance.

## **RESPONSIBILITY OF THE BOARD**

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

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

## **RISK MANAGEMENT FRAMEWORK**

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

## Internal Control Statement (continued)

The Board has established a Risk Management Committee since the inception of the Bank to further strengthen the Bank's risk management process. All the members of this Committee are from the Board and it meets monthly. The Risk Management Committee 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.

The Committee is supported by the Bank's Risk Management function which assists with the establishment of policies on credit, liquidity, market and operational risk, reviews compliance with set risk limits approved by the Board and identifies emerging risk issues.

### **OTHER KEY ELEMENTS OF INTERNAL CONTROL**

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

- The management of the Bank is delegated to the Chief Executive Officer and Management Committee, whose responsibilities and authority limits are set by the Board. Appointment of such officers requires the approval of the Board and relevant regulatory authorities, where applicable;
- Specific responsibilities have been delegated to the relevant Board committees, all of which have written terms of reference. These committees have the authority to examine all matters within their scope of responsibility and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters however lies with the entire Board;
- Delegation of authority including authorisation limits at various levels of management and those requiring the Board's approval are documented and designed to ensure accountability and responsibility.
- Policies and procedures manuals for key processes are documented and regularly reviewed and updated for application across the Bank;



## Internal Control Statement (continued)

- There is clear procedure for investment appraisal, including equity investment or divestment and capital expenditure;
- There are proper guidelines for hiring and termination of staff, 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 units in the Bank to prepare budgets annually, which are discussed and approved by the Board. A reporting system on actual performance against approved budgets is in place and significant variances are followed up by management and reported at the Board;
- Ongoing reviews of the internal control system are carried out by the internal auditors. Results of such reviews are reported to the Audit Committee. The work of the internal auditors is focused on areas of priority as identified by risk analysis and in accordance with the annual internal audit plan approved by the Audit Committee. The head of internal audit function reports to the Audit Committee;
- The Audit Committee holds regular meetings to deliberate on findings and recommendations for improvement by both the internal and external auditors on the state of the internal control system. The minutes of the Audit Committee meetings are tabled to the Board;
- The Bank has in place its Management Audit Committee (MAC), comprising senior management, that meets regularly to act on the Bank Negara Malaysia (BNM), Internal and External Auditors and other regulatory bodies' findings and lapses of the RHB ISLAMIC Bank. The minutes of MAC meetings are tabled to the Audit Committee; and
- The Bank has set up Risk and Compliance Management function to centrally manage and provide assurance to the Management that the Bank's activities are in compliance with internal and external requirements and key controls.

# Audit Committee Report

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

<b>Composition Of The Committee</b>	<b>No. Of Meetings Attended Whilst In Office</b>
<b>Current Members</b>	
1. Dato' Mohd Salleh Hj. Harun (Chairman / Independent Non-Executive Director)	10 out of 10 meetings
2. Dato' Othman Jusoh (Member / Independent Non-Executive Director) * Resigned from Non-Independent Non-Executive Director to Independent Non-Executive Director with effect from 19/09/2006.	9 out of 10 meetings
3. Prof. Balachandran a/ A. Shanmugam (Member / Independent Non-Executive Director)	10 out of 10 meetings

The Committee reviewed the unaudited quarterly reports and the audited annual financial statements of the Bank prior to their approval by the Board. The Committee also reviewed the new accounting standards applicable in the preparation of the financial statements.

The Committee reviewed with the external auditors, the nature and scope of their engagement and audit plan, their fees, discussed applicable accounting and auditing standards, examined pertinent issues which had significant impact on the results of the Bank, as well as the findings emanating from the external auditor's examination of the annual financial statements. The Committee also considered the reappointment of the external auditors for recommendation to the Board and the shareholders for their approval.

## Audit Committee Report (continued)

The Committee reviewed the related party transactions (“RPTs”) and the adequacy of the Bank’s procedures for monitoring and reviewing of RPTs.

The Committee reviewed the scope and adequacy of the internal audit plans, including resource needs. It also reviewed the results of the risk-based audit work carried out by the internal auditors and the status of completion of the internal audit plans on the Bank. Where necessary, the Committee directed actions to be taken by management to rectify and improve the system of internal controls and procedures. During the 12-month period to 31 December 2006, all internal audit reports were tabled to the Committee.

The Committee reviewed the inspection and examination reports issued by the regulatory authorities and the appropriate remedial actions taken in respect of any findings. The Committee also satisfied itself that all matters highlighted in these reports have been adequately and promptly addressed by management.

The Chairman of the Committee tabled the minutes of each Committee meeting to the Board for noting, and for further action by the Board, where necessary.

### **INTERNAL AUDIT FUNCTION**

The internal audit function is outsourced to the RHB Bank Berhad’s Group Internal Audit Division. The Group Internal Audit has in place an Audit Charter that covers its independence in the organisation structure to provide objective evaluation of risks and controls in the auditable activities. Its primary role is to assist the Audit Committee to discharge its duties and responsibilities by independently reviewing and reporting on the adequacy and integrity of the Bank’s system of internal controls. The Audit Committee regularly appraises the resources and training needs of Group Internal Audit to meet the competencies and skills required for effective performance of internal auditing for the Bank.

## Audit Committee Report (continued)

At the beginning of the financial year, the Group Internal Audit presented its audit plan, audit budget and scope of work to the RHB ISLAMIC Bank Berhad's Audit Committee for approval. In accordance with the Bank Negara Malaysia guidelines (BNM/GP10), the internal auditors adopt a risk-based approach towards the planning and conduct of audits, which is also consistent with the Bank's framework in designing, implementing and monitoring its internal control system.

The scheduled audits are conducted and audit reports are duly tabled to the Audit Committee. Audit findings and recommendations in the reports are followed up for rectification and resolution and the status is duly reported to the Audit Committee. Deadlines are set for rectification or resolution of audit issues. Where the result of an audit is not satisfactory, a formal follow-up audit is conducted and reported to the Audit Committee.

In addition to audit assignments, the Group Internal Audit is also invited to be involved in an advisory capacity on information technology related initiatives, to evaluate new product development as well as in the review of operational guidelines and manuals. Such involvement is deemed important from the perspective of project management controls and setting-up of pertinent controls of the system of product prior to implementation.

The internal auditors also 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**

(Revised Terms of Reference as approved by the Board on 23 March 2007)

#### **Objectives**

1. To provide independent oversight of RHB ISLAMIC Bank Berhad's financial reporting and internal control system and ensuring checks and balances within RHB ISLAMIC Bank Berhad.
2. To review the financial condition and performance of RHB ISLAMIC Bank Berhad.

## Audit Committee Report (continued)

3. To review the adequacy and integrity of RHB ISLAMIC Bank Berhad's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.
4. To review the findings of the internal auditors and to recommend appropriate remedial actions.
5. To reinforce the independence of the external auditors and thereby help assure that they will have free rein in the audit process and to provide, by way of regular meetings, a line of communication between the Board and the external auditors.

### **Primary Responsibilities**

- (a) Ensure that the accounts are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies, and bad and doubtful debts. Review the balance sheet and profit and loss account for submission to the board of directors and ensure the prompt publication of annual accounts;
- (b) Review the effectiveness of internal controls and risk management processes, including the scope of the internal audit programme, the internal audit findings and recommend actions to be taken by management. The reports of internal auditors and the Committee should not be subject to the clearance of the chief executive or executive directors. The Committee should also evaluate the performance and decide on the remuneration package of the internal auditors;

The AC shall oversee the functions of the Internal Audit Department and ensure compliance with the requirements of Guidelines On Minimum Audit Standards For Internal Auditors Of Financial Institutions (BNM/GP10). The AC should also appoint, set compensation, evaluate performance and decide on the transfer and dismissal of the Chief Internal Auditor. The AC should also review the effectiveness of the infrastructure for ensuring Shariah compliance.

## Audit Committee Report (continued)

- (c) The AC shall also have the following responsibilities concerning external auditors:-
- (i) recommend the appointment, re-appointment and removal of the external auditors to the Board;
  - (ii) assess objectivity, performance and independence of external auditors;
  - (iii) review the external auditors' management letter and response;
  - (iv) approve the provision of non-audit service by the external auditors;
  - (v) ensure that there are proper checks and balances in place so that the provision of non-audit services does not interfere with the exercise of independent judgement of the auditors;
  - (vi) regularly review the audit findings and ensuring that issues are being managed and rectified appropriately and in a timely manner;
  - (vii) review with the external auditors, the scope of their audit plan, the system of internal accounting controls, the audit reports and the assistance given by the management and its staff to the external auditors.
- (d) Review any related party transactions that may arise within the RHB ISLAMIC Bank Berhad and keep the Board informed of such transactions.
- (e) To perform any other functions as defined 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.

## Audit Committee Report (continued)

2. The Committee shall have direct communication channels with the external and internal auditors.
3. The Committee is authorised by the Board to obtain independent professional or other advice at the RHB ISLAMIC Bank Berhad'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 once every quarter with a 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 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 or Management 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 RHB ISLAMIC Bank Berhad's 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.

## Audit Committee Report (continued)

### **Composition**

1. The Committee shall be appointed by the Board from amongst its number and shall comprise not less than three (3) members, none of whom should be full-time executives of RHB ISLAMIC Bank Berhad. The majority of the AC members should be independent non-executive directors. At least one member should have accounting expertise or experience in the field of finance.
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. The term of office and performance of the Committee and each of its members must be reviewed by the Board at least once every two (2) years.
5. 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.



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# Statutory Financial Statements

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# Directors' Report

The directors hereby present their report together with the audited financial statements of the Bank for the financial year ended 31 December 2006.

## PRINCIPAL ACTIVITIES

The Bank was incorporated under the Islamic Banking Act 1983, on 2 February 2005, and operates through its head office, located at Level 11, Menara Yayasan Tun Razak, 200 Jalan Bukit Bintang, 55100 Kuala Lumpur.

The Bank is principally engaged in the Islamic banking business and is committed to offer customers a comprehensive range of products and services in accordance with its Articles of Association and Shariah principles, such as Murabahah, Mudharabah, Wadiah, Istisna', Bai' Bithaman Ajil, Ijarah and others.

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

## RESULTS

	<b>RM'000</b>
Profit before zakat and taxation	121,762
Zakat	1,166
Taxation	(36,566)
Profit for the financial year	<u>86,362</u>

## DIVIDEND

The directors do not recommend the payment of any dividend in respect of current financial year.

## RESERVES AND PROVISIONS

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

## Directors' Report

### **NON-PERFORMING FINANCING AND ADVANCES**

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

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

### **CURRENT ASSETS**

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 Bank misleading.

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

### **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 Bank misleading or inappropriate.

## Directors' Report

### **CONTINGENT AND OTHER LIABILITIES**

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

- (a) any charge on the assets of 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 Bank which has arisen since the end of the financial year other than in the ordinary course of business.

No contingent or other liability of the 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 Bank to meet their obligations as and when they fall due.

### **CHANGE OF CIRCUMSTANCES**

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

### **ITEMS OF AN UNUSUAL NATURE**

The results of the Bank for the financial year have not been 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 Bank for the financial year in which this report is made.

## Directors' Report

### **DIRECTORS OF THE BANK**

The directors of the Bank who have held office during the year since the date of the last report are:

Dato' Vaseehar Hassan Abdul Razack  
*Non-Independent Non-Executive Chairman*

Dato Abdullah Mat Noh  
*Non-Independent Non-Executive Director*

Dato' Mohd Salleh Hj. Harun  
*Independent Non-Executive Director*

Dato' Othman Jusoh  
*Independent Non-Executive Director*

Prof. Balachandran A. Shanmugam  
*Independent Non-Executive Director*

Mr. Michael Joseph Barrett  
*Non-Independent Non-Executive Director (appointed on 20 September 2006)*

Dato Sri Sulaiman Abdul Rahman Taib  
*Non-Independent Non-Executive Director (resigned with effect from 24 April 2006)*

In accordance with Article 68 of the Bank's Articles of Association, Dato' Vaseehar Hassan Abdul Razack and Dato Abdullah Mat Noh retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 73 of the Bank's Articles of Association, Mr. Michael Joseph Barrett who is appointed during the financial year, retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

## Directors' Report

### DIRECTORS' INTERESTS IN SECURITIES

According to the register of directors' shareholding, the interests of the directors in office at 31 December 2006 in the securities of related corporations were as follows:

<b>Number of Ordinary Shares of RM1 each</b>				
	<b>As at 1.1.2006</b>	<b>Bought</b>	<b>Sold</b>	<b>As at 31.12.2006</b>
<b>Ultimate Holding Company</b>				
<b>Rashid Hussain Berhad</b>				
Dato' Vaseehar Hassan				
Abdul Razack				
– Indirect <sup>1</sup>	238,127,000	–	–	<b>238,127,000</b>
<b>Penultimate Holding Company</b>				
<b>RHB Capital Berhad</b>				
Dato' Vaseehar Hassan				
Abdul Razack				
– Indirect <sup>2</sup>	1,182,896,459	–	2,000,000	<b>1,180,896,459</b>
Dato' Mohd Salleh				
Hj. Harun				
– Direct	15,000	–	–	<b>15,000</b>
<b>Holding Company</b>				
<b>RHB Bank Berhad</b>				
Dato' Vaseehar Hassan				
Abdul Razack				
– Indirect <sup>3</sup>	2,729,980,366	–	–	<b>2,729,980,366</b>

## Directors' Report

**DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)**

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

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.

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

	As at	Converted/ Sold	As at 31.12.2006
	1.1.2006		
<b>Ultimate Holding Company</b>			
<b>Rashid Hussain Berhad</b>			
Dato' Vaseehar Hassan			
Abdul Razack			
- Indirect <sup>1</sup>	449,206,479	-	<b>449,206,479</b>



## Directors' Report

### DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)

Each RHB ICULS-A entitles the registered holder of the RHB ICULS-A to convert into one (1) new ordinary share 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 each nominal value ('RHB ICULS-B')

As at 1.1.2006	Bought	Converted/ Sold	As at 31.12.2006
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#### Ultimate Holding Company

##### Rashid Hussain Berhad

Dato' Vaseehar Hassan

Abdul Razack

– Indirect <sup>1</sup>	403,471,898	–	–	<b>403,471,898</b>
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Each RHB ICULS-B entitles the registered holder of the RHB ICULS-B to convert into one (1) new ordinary share 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 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.

## Directors' Report

### **DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)**

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'), a substantial shareholder of Rashid Hussain Berhad.
2. Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of his indirect substantial interest in Rashid Hussain Berhad.
3. Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of his indirect substantial interest in RHB Capital Berhad.

By virtue of his indirect substantial interests in the shares of Rashid Hussain Berhad ('RHB'), Dato' Vaseehar Hassan Abdul Razack is also deemed to have indirect substantial interest in the securities of the Bank and the subsidiary companies 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 shares of the Bank or its related corporations during the financial year.

### **DIRECTORS' BENEFITS**

No director has received or become entitled to receive a benefit (other than directors' remuneration as disclosed in 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, other than the contracts mentioned in Note 23 of the financial statements.

During and at the end of the financial year, no other arrangements subsisted to which the Bank is a party with the object of enabling 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.

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT**

#### **Introduction**

The Board of Directors ('Board') of RHB Islamic Bank Berhad ('The Bank') is pleased to report on the application by the Bank of the principles contained in the Malaysian Code on Corporate Governance ('Code') and the extent of compliance with the best practices of the Code. Although the Bank is not a listed company, the Board has endeavoured to apply the principles and comply with the relevant best practices of corporate governance as set out in the Code. The Bank is also required to comply with BNM's Revised Guidelines On Corporate Governance For Licensed Islamic Banks (Revised 'BNM/GP1-i').

### **BOARD OF DIRECTORS**

#### **The Board**

The Board subscribes to the principles of good corporate governance and as such, will always ensure that the Bank achieve best practice in the conduct of the Bank's business 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.

#### **Composition of the Board**

The Board currently has six (6) members, comprising the Non-Independent Non-Executive Chairman, three (3) Independent Non-Executive Directors and two (2) Non-Independent Non-Executive Directors, as follows:-

<b>Name of Director</b>	<b>Designation</b>
Dato' Vaseehar Hassan Abdul Razack	<i>Non-Independent Non-Executive Chairman</i>
Dato Abdullah Mat Noh	<i>Non-Independent Non-Executive Director</i>
Dato' Othman Jusoh	<i>Independent Non-Executive Director</i>
Dato' Mohd Salleh Hj. Harun	<i>Independent Non-Executive Director</i>
Prof. Balachandran A. Shanmugam	<i>Independent Non-Executive Director</i>
Mr. Michael Joseph Barrett	<i>Non-Independent Non-Executive Director</i>

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD OF DIRECTORS (CONTINUED)**

##### **The Board (continued)**

The Board is in compliance with the Revised BNM/GP1-i, which requires each Islamic bank to ensure that at least one-third (1/3) of their board members are independent directors.

The Board had conducted the Board Effectiveness Evaluation in 2006, to assess the effectiveness of the Board and Board Committees as a whole as well as the individual directors.

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

There are clear division of responsibilities between the Board and the Chief Executive Officer ('CEO') to ensure the balance of power and authority. The CEO's primary responsibilities are to manage the Bank's day-to-day operations and together with the Non-Executive Directors ensure that the strategies are fully discussed and examined, 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 conducts its business. The Contract of Service of the previous CEO had expired on 28 February 2007. The Board had appointed an Acting CEO, in the interim, pending the appointment of a CEO subject to BNM's endorsement.

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

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

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD OF DIRECTORS (CONTINUED)**

##### **Board Meetings**

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

The Board met 17 times during the financial year ended 31 December 2006. The attendance of each director in office at the end of the financial year at the aforesaid Board meetings are set out below:-

<b>Name of Director</b>	<b>Total Meetings Attended</b>	<b>Percentage of Attendance (%)</b>
Dato' Vaseehar Hassan Abdul Razack	17/17	100
Dato Abdullah Mat Noh	16/17	94
Dato' Mohd Salleh Hj. Harun	16/17	94
Dato' Othman Jusoh	16/17	94
Prof Balachandran A. Shanmugam	16/17	94
Mr Michael Joseph Barrett (1)*	8/8	100

Notes:-

(1) Appointed on 20 September 2006

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

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

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD OF DIRECTORS (CONTINUED)**

##### **Board Meetings (continued)**

Scheduled board meetings are structured with a pre-set agenda. The Board's principal focus amongst others is the overall strategic direction, financial and corporate developments of the Bank. Key matters such as the Bank's business and marketing strategy and budget, annual interim results, material contracts, major capital expenditure and credit policies and guidelines are reserved for the Board's decision. The directors are kept abreast of the Bank's performance via the various monthly reports tabled at the Board meetings and Board committee meetings. The reports include the financial reports, major capital expenditure reports, credit reports, risk reports and audit reports. Minutes of meetings of the various committees of the Bank are tabled to the Board for notation. Agenda and Board papers are circulated prior to the Board meetings to give directors appropriate time to consider and deliberate on the issues to be raised at the Board meetings. The directors have full access to the senior management of the Bank and the advice and services of the Company Secretary.

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**

##### **Audit Committee**

The Board has established the Audit Committee since 17 March 2005. The Committee presently comprises three (3) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2006, a total of 10 meetings were held and details of attendance of each member at the Audit Committee meetings held during the year as at 31 December 2006 are as follows:-

<b>Composition of the Audit Committee</b>	<b>Attendance at the committee meetings</b>
1. Dato' Mohd Salleh Hj. Harun <i>(Chairman / Independent Non-Executive Director)</i>	10 out of 10 meetings
2. Prof. Balachandran A. Shanmugam <i>(Member / Independent Non-Executive Director)</i>	10 out of 10 meetings
3. Dato' Othman Jusoh <i>(Member / Independent Non-Executive Director)</i>	9 out of 10 meetings

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD COMMITTEES (CONTINUED)**

##### **Audit Committee (continued)**

The Audit Committee meets regularly to review the Bank's financial reporting, the nature, scope and results of audit reviews, and the effectiveness of the system of internal controls and compliance. The Head of Finance, internal auditors as well as the external auditors are invited to these meetings as and when necessary.

The Audit Committee will meet the external auditors without the presence of executive management at least once a year.

##### **Terms of Reference of the Audit Committee**

###### ***Objectives***

- To review the financial condition and performance of RHB Islamic Bank Berhad.
- To review the adequacy and integrity of RHB Islamic Bank Berhad's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.
- To review the findings of the internal auditors and to recommend appropriate remedial actions.
- To reinforce the independence of the external auditors and thereby help assure that they will have free rein in the audit process and to provide, by way of regular meetings, a line of communication between the Board and the external auditors.

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD COMMITTEES (CONTINUED)**

##### **Audit Committee (continued)**

###### ***Primary Responsibilities***

- Ensure that the accounts are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies, and bad and doubtful debts. Review the balance sheet and profit and loss account for submission to the Board of Directors and ensure the prompt publication of annual accounts;
- Review the internal controls, including the scope of the internal audit programme, the internal audit findings, and recommend actions to be taken by management. The reports of internal auditors and the Committee should not be subject to the clearance of the Chief Executive or Executive Directors. The Committee should also evaluate the performance and decide on the remuneration package of the internal auditors;
- Review with the external auditors, the scope of their audit plan, the system of the internal accounting controls, the audit reports, the assistance given by the management and its staff to the auditors and any findings and action to be taken. The AC should also select external auditors for appointment by the board each year and recommend their fees to the Board for approval; and
- Review any related party transactions that may arise within the RHB Bank Berhad group.
- To perform any other functions as defined by the Board.

###### ***Authority***

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



## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD COMMITTEES (CONTINUED)**

##### **Audit Committee (continued)**

###### ***Meetings***

- Meetings shall be held at least four (4) times a year with a 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.
- The head of 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.
- At least once a year, the Committee shall meet with the external auditors without any executive Board member or management 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.
- The RHB Islamic Bank Berhad's Secretary shall be the Secretary of the Committee.
- The minutes of each Committee meeting shall be tabled to the Board by the Chairman of the Committee.

###### ***Composition***

- The Committee shall be appointed by the Board from amongst its number and shall comprise not less than three (3) members, none of whom should be full-time executives of RHB Islamic Bank Berhad. The majority of the Audit Committee members should be Independent Non-Executive Directors.
- The Chairman of the Committee shall be an Independent Non-Executive Director appointed by the Board.
- No alternate director shall be appointed as a member of the Committee.
- The term of office and performance of the Committee and each of its members must be reviewed by the Board at least once every two (2) years.

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD COMMITTEES (CONTINUED)**

##### **Audit Committee (continued)**

###### ***Composition (continued)***

- 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.

###### ***Relationship with the Auditors***

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

#### **Terms of Reference of the Internal Audit and Internal Control Activities**

##### ***Objectives***

- The management of the various companies in the Group is delegated to the Chief Executive Officer ('CEO'), whose role and responsibilities and authority limits are set by the respective Board. Appointment of such officer at the Bank requires the approval of the Board;
- Specific responsibilities have been delegated to the relevant Board committees, all of which have written terms of reference. These committees have the authority to examine all matters within their scope of responsibility and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters however lies with the entire Board;
- Delegation of authority including authorisation limits at various levels of management and those requiring the Board's approval are documented and designed to ensure accountability and responsibility.
- Policies and procedures manuals for key processes are documented and regularly updated for application at the Bank. These are supplemented by operating standards set by the Bank, as required for the type of business or geographical location of the Bank;
- There is clear procedure for investment appraisal, including equity investment or divestment and capital expenditure;

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD COMMITTEES (CONTINUED)**

##### **Audit Committee (continued)**

###### ***Objectives (continued)***

- 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 divisions in the Bank 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 internal auditors. Results of such reviews are reported to the Audit Committee. The work of the internal auditors is focused on areas of priority as identified by risk analysis and in accordance with the annual internal audit plan approved by the Audit Committee. The head of internal audit function reports to the Audit Committee;
- The Audit Committee holds regular meetings to deliberate on findings and recommendations for improvement by both the internal and external auditors on the state of the internal control system. The minutes of the Audit Committee meetings are tabled to the Board; and
- A Management Audit Committees ('MAC'), headed by the Chief Operating Officers ('COO') was established to track and act on all the findings and lapses highlighted by BNM, Internal and External Auditors, and other regulatory bodies in their audit reports to ensure timely resolution. The status of audit findings and actions taken are to be tabled to respective Audit Committees of Board of Directors for review.

## Directors' Report

### CORPORATE GOVERNANCE STATEMENT (CONTINUED)

#### BOARD COMMITTEES (CONTINUED)

##### Nominating Committee

The Board has established the Nominating Committee since 17 March 2005. The Committee currently comprises three (3) Independent Non-Executive Directors of whom one (1) is the Chairman, and two (2) Non-Independent Non-Executive Directors. During the financial year ended 31 December 2006, a total of 2 meetings were held and details of attendance of each member at the Nominating Committee meetings held during the year as at 31 December 2006 are as follows:-

<b>Composition of the Nominating Committee</b>	<b>Attendance at the committee meetings</b>
<i>Current Members:</i>	
1. Dato' Mohd Salleh Hj. Harun <i>(Chairman / Independent Non-Executive Director)</i>	2 out of 2 meetings
2. Dato Abdullah Mat Noh <i>(Member / Non-Independent Non-Executive Director)</i>	2 out of 2 meetings
3. Dato' Othman Jusoh <i>(Member / Independent Non-Executive Director)</i>	2 out of 2 meetings
4. Dato' Vaseehar Hassan Abdul Razack <i>(Member / Non-Independent Non-Executive Director)</i>	2 out of 2 meetings
5. Prof. Balachandran A. Shanmugam <i>(Member / Independent Non-Executive Director)</i> – Appointed on 24 April 2006	2 out of 2 meetings
<i>Previous Member:</i>	
6. Dato Sri Sulaiman Abdul Rahman Taib <i>(Member / Non-Independent Non-Executive Director)</i> – Resigned on 24 April 2006	0 out of 2 meetings

It meets at least once a year and is responsible for assessing the effectiveness of individual directors, board as a whole and performance of Chief Executive Officer and key senior management, and identifying, nominating and orientating new directors to enhance corporate governance.

The Directors bring together to the Board a wide range of business management skills and banking, financial and legal experiences required for the management of a large, diversified and expanding group.

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD COMMITTEES (CONTINUED)**

##### **Nominating Committee (continued)**

###### ***Objectives***

- To provide a formal and transparent procedure for the appointment of directors and key senior management officers (defined as Chief Executive Officer and Chief Operating Officer or equivalent) 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 RHB Islamic Bank Berhad.
- To assist the Board in ensuring that appointments are made on merit and agreed specification.
- To assist the Board in identifying and reviewing, on an annual basis, the required mix of skills, experience and other qualities, including core competencies which directors should bring to the Board and which the Board requires for it to function completely and efficiently.
- To examine the size of the Board with a view of determining the impact of the number upon its effectiveness.

###### ***Roles and Responsibilities***

The Nominating Committee is responsible for:-

- 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 key senior management officers. The requirements and criteria should be approved by the Board;
- Recommending and assessing the nominees for directorship, board committee members as well as nominees for Chief Executive Officer and key senior management officers. This includes assessing directors for reappointment, before an application for approval is submitted to Bank Negara Malaysia. The actual decision as to who shall be nominated should be the responsibility of the Board;

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD COMMITTEES (CONTINUED)**

##### **Nominating Committee (continued)**

##### ***Roles and Responsibilities (continued)***

- 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 reviews;
- Recommending to the Board the removal of a director/key senior management officer from the board/management if the director/key senior management officer is ineffective, errant and negligent in discharging his responsibilities;
- 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 key senior management officers. Annual assessment should be conducted based on an objective performance criterion. Such performance criteria should be approved by the Board;
- Ensuring that all directors receive an appropriate continuous training program in order to keep abreast with the latest developments in the industry;
- Overseeing the appointment, management succession planning and performance evaluation of key senior management officers;
- Recommending to the Board the removal of key senior management officers if they are ineffective, errant and negligent in discharging their responsibilities.
- Assessing, on an annual basis, that the directors and key senior management officers are not disqualified under section 23 of the Islamic Banking Act 1983 ('IBA'); and
- To perform any other functions as defined by the Board.

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD COMMITTEES (CONTINUED)**

##### **Nominating Committee (continued)**

###### ***Authority***

- The Committee should not be delegated with decision-making powers but should report its recommendation to the Board for decision.
- 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 fulfil its objectives.
- 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.
- The actual decision as to who shall be nominated should be the responsibility of the Board after considering the recommendations of the Committee

###### ***Meetings***

- The Committee should meet as and when required, at least once a year with a quorum of three (3) 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.
- The Committee may invite any other director or members of management and employees of the Company to be in attendance during meetings to assist in its deliberations.
- Meetings of the Committee shall be governed by the provisions of the Company's Articles of Association relating to Board meetings except in so far as the same are amended in these terms of reference.
- The Company's Secretary shall be the Secretary of the Committee.
- 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.

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD COMMITTEES (CONTINUED)**

##### **Nominating Committee (continued)**

###### ***Composition***

The Nominating Committee shall consist of a minimum of five members, of whom at least four must be non-executive directors. The Committee should be chaired by an independent director. In order to avoid conflict of interest, a member of the Committee shall abstain from participating in discussions and decisions on matters involving him.

###### ***Disclosure***

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

- Membership of the Committee
- Responsibilities of the Committee;
- Number of Committee meetings. RHB Islamic Bank Berhad is encouraged to disclose information on the number of meetings attended by each member of the Committee; and
- A statement on the Committee's assessment on the mix of skills, experience and other qualities of directors.



## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD COMMITTEES (CONTINUED)**

##### **Remuneration and Human Resource Committee**

The Board has established the Remuneration and Human Resource Committee since 17 March 2005. The Committee currently comprises one (1) Independent Non-Executive Director as the Chairman and two (2) Non-Independent Non-Executive Directors. During the financial year ended 31 December 2006, a total of 10 meetings were held and details of attendance of each member at the Remuneration and Human Resource Committee meetings held during the year as at 31 December 2006 are as follows:-

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

*Current Members:*

- |  |                       |
|--|-----------------------|
| 1. Prof. Balachandran A. Shanmugam<br><i>(Chairman / Independent Non-Executive Director)</i>                         | 10 out of 10 meetings |
| 2. Dato' Vaseehar Hassan Abdul Razack<br><i>(Member / Non-Independent Non-Executive Director)</i>                    | 10 out of 10 meetings |
| 3. Dato Abdullah Mat Noh<br><i>(Member / Non-Independent Non-Executive Director)</i><br>– Appointed on 24 April 2006 | 6 out of 6 meetings   |

*Previous Member:*

- |  |                     |
|--|---------------------|
| 4. Dato Sri Sulaiman Abdul Rahman Taib<br><i>(Member / Non-Independent Non-Executive Director)</i><br>– Resigned 24 April 2006 | 0 out of 3 meetings |
|--|---------------------|

The Committee is responsible to evaluate the performance and remuneration of the directors, Chief Executive Officer ('CEO') and key senior management and to recommend on the policies and framework in relation to rewards and benefits.

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD COMMITTEES (CONTINUED)**

##### **Remuneration and Human Resource Committee (continued)**

###### ***Objectives***

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

###### ***Roles and Responsibilities***

The Remuneration Committee is responsible for:-

- Recommending a framework of remuneration for directors, Chief Executive Officer and key senior management officers for the Board's approval. The remuneration framework should support RHB Islamic Bank Berhad's culture, objectives and strategy and should reflect the responsibilities 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 RHB Islamic Bank Berhad's funds are used to subsidise the excessive remuneration packages. The framework should cover all aspects of remuneration including directors' fees, salaries, allowances, bonuses, options and benefits-in-kind; and

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD COMMITTEES (CONTINUED)**

##### **Remuneration and Human Resource Committee (continued)**

###### ***Roles and Responsibilities (continued)***

- 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 RHB Islamic Bank Berhad'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.
- To recommend to the Board the remuneration of members of the senior management team.
- To ensure the establishment of a formal and transparent procedure for developing policies, strategies and framework for the remuneration of directors, management and staff.
- To review the succession planning programme and leadership framework.
- To perform any other functions as defined by the Board.

###### ***Authority***

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

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD COMMITTEES (CONTINUED)**

##### **Remuneration and Human Resource Committee (continued)**

###### ***Meetings***

- The Committee shall meet 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, to review the remuneration packages of the directors, chief executive officer and key senior management officers. Additional meetings are to be held as and when necessary.
- Minutes of each meeting shall be kept and distributed to all members of the Remuneration and Human Resource Committee. The Chairman of the Committee shall report on each meeting to the Board.
- The Secretary to the Committee shall be the RHB Islamic Bank Berhad's Company Secretary.

###### ***Composition***

The Remuneration Committee shall comprise only non-executive directors, with at least three members and should be chaired by an independent director. In order to avoid conflict of interest, a member of the Committee shall abstain from participating in discussions and decisions on matters involving him.

###### ***Disclosure***

The activities of the Committee should be briefly disclosed in the Directors' report of RHB Islamic Bank Berhad's annual report as follows:-

- Membership of the Committee;
- Responsibilities of the Committee; and
- Number of Committee meetings. RHB Islamic Bank Berhad is encouraged to disclose information on the number of meetings attended by each member of the Committee.

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD COMMITTEES (CONTINUED)**

##### **Risk Management Committee**

The Board has established the Risk Management Committee since 17 March 2005. Currently, the Committee comprises two (2) Independent Non-Executive Directors of whom one (1) is the Chairman and one (1) Non-Independent Non-Executive Director. During the financial year ended 31 December 2006, a total of 8 meetings were held and details of attendance of each member at the Risk Management Committee meetings held during the year as at 31 December 2006 are as follows:-

<b>Composition of the Risk Management Committee</b>	<b>Attendance at the committee meetings</b>
<i>Current Members:</i>	
1. Dato' Mohd Salleh Hj. Harun (Chairman / Independent Non-Executive Director)	8 out of 8 meetings
2. Dato' Othman Jusoh (Member / Independent Non-Executive Director)	7 out of 8 meetings
3. Dato Abdullah Mat Noh (Member / Non-Independent Non-Executive Director)	8 out of 8 meetings

The Risk Management Committee is responsible to provide oversight and management of all risks in the Bank and to ensure that there is an ongoing process to continuously manage the Bank's risks proactively.

The Committee meets monthly 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.

A Statement on the Bank's Risk Management Framework is set out in Note 28 of the financial statements for the financial year ended 31 December 2006.

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD COMMITTEES (CONTINUED)**

##### **Risk Management Committee (continued)**

###### ***Objective***

To ensure that the risk management process of RHB Islamic Bank Berhad is in place and functioning.

###### ***Roles and Responsibilities***

The Risk Management Committee is responsible for:-

- Reviewing and recommending risk management strategies, policies and risk tolerance for Board's approval;
- Reviewing and assessing adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively;
- Ensuring 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 RHB Islamic Bank Berhad's risk taking activities; and
- Reviewing management's periodic reports on risk exposure, risk portfolio composition and risk management activities.
- To review and recommend the following to the Board for approval:
  - (a) delegation of discretionary powers which represents the maximum discretion which the Board is prepared to vest to any single individual or committee.
  - (b) procedures for the delegation and monitoring of discretionary lending authority given to (a) above.

###### ***Composition***

The Risk Management Committee should comprise only non-executive directors with at least three members. The Committee should be chaired by an independent director.

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **BOARD COMMITTEES (CONTINUED)**

##### **Risk Management Committee (continued)**

###### ***Meetings***

- The Committee should hold regular meetings at least once every quarter and should report regularly to the Board with a quorum of two (2) members and at least one (1) member present shall be an independent non-executive director.
- The Secretary of the Committee shall be the RHB Islamic Bank Berhad's Company Secretary.
- Minutes of each meeting shall be kept and distributed to all members of the Risk Management Committee.

###### ***Disclosure***

The activities of the Committee should be briefly disclosed in the Directors' report of RHB Islamic Bank's annual report as follows:

- Membership of the Committee;
- Responsibilities of the Committee;
- Number of Committee meeting. RHB Islamic Bank Berhad is encouraged to disclose information on the number of meetings attended by each member of the Committee; and
- A statement on RHB Islamic Bank Berhad's risk management framework.

## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **DISCLOSURE OF SHARIAH COMMITTEE**

The Bank has engaged the services of Group Shariah Committee, which comprise of four (4) qualified local and foreign Shariah Professionals; an assortment of knowledge, experience and approach from these mixed Shariah Professionals are needed to put up the Bank's operations and products to be globally accepted. The main duties and responsibilities of the Group Shariah Committee together with the Bank's Shariah Compliance staff are:

- (i) Advising the Bank on all Shariah matters in order to ensure that the business operations of the Bank comply with Shariah Principles.
- (ii) Endorse the Shariah Meeting Minutes and resolutions to make sure that all of the resolutions are stated in clear and specific manners based on correct Shariah foundations.
- (iii) Endorse the relevant manuals, which specify the manner in which a submission or request for advice be made to the Group Shariah Committee, the conduct of the Group Shariah Committee meeting and the manner of compliance with any decision thereof.
- (iv) Endorsements and validations of the following relevant documentation:
  - (a) the terms and conditions contained in the proposal form, contract, agreement or other legal documentation used in executing the transactions;
  - (b) the product manual, marketing advertisements, sales illustrations and brochures used to describe the product; and
  - (c) providing assistance to related parties of the Bank such as its legal counsel, auditor or consultant on Shariah matters to ensure compliance with Shariah principles.
- (v) Preparations of written Shariah opinions particularly in the following circumstances:
  - (a) Where the Bank submits applications to Bank Negara Malaysia ('BNM') or the National Shariah Advisory Council ('NSAC') for new product approval in accordance with guidelines on product approval issued by BNM and NSAC.
  - (b) Explanation on the Shariah issues involved and the recommendations for a decision, which must be supported by relevant Shariah jurisprudential literature from the established sources to assist the NSAC on any matters referred by the Bank and to ensure that all Group Shariah Committee decisions are properly implemented by the Bank.



## Directors' Report

### **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

#### **DISCLOSURE OF SHARIAH COMMITTEE (CONTINUED)**

- (vi) Provide educational talks for both in-house Shariah training and external lecture session to the Bank's staff and the public (when arranged by the Bank) in order to equip them with related Shariah knowledge.

The Shariah Committee member profiles are disclosed in Notes 32 to the financial statements.

#### **HOLDING AND ULTIMATE HOLDING COMPANY**

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

#### **AUDITORS**

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

In accordance with the resolution of the Board of Directors dated 28 February 2007.

#### **DATO' VASEEHAR HASSAN ABDUL RAZACK**

*CHAIRMAN*

#### **DATO ABDULLAH MAT NOH**

*DIRECTOR*

Kuala Lumpur

# Balance Sheet

as at 31 December 2006

	Note	31.12.2006 RM'000	31.12.2005 RM'000
<b>ASSETS</b>			
Cash and short-term funds	2	<b>1,314,283</b>	1,939,598
Deposits and placements with banks and other financial institutions	3	<b>1,220,000</b>	450,000
Securities held for trading	4	<b>314,620</b>	633,284
Securities available-for-sale	5	<b>18,781</b>	147,997
Securities held-to-maturity	6	<b>809,608</b>	811,981
Financing and advances	7	<b>4,147,573</b>	3,400,411
Other assets	8	<b>68,139</b>	28,743
Deferred taxation assets	9	<b>21,587</b>	22,743
Statutory deposits	10	<b>170,429</b>	182,329
Property, plant and equipment	11	<b>7,245</b>	6,580
<b>TOTAL ASSETS</b>		<b>8,092,265</b>	7,623,666
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
Deposits from customers	12	<b>6,680,424</b>	5,511,645
Deposits and placements of banks and other financial institutions	13	<b>444,923</b>	1,094,249
Bills and acceptances payable		<b>16,542</b>	34,037
Other liabilities	14	<b>280,718</b>	415,600
Provision for taxation and zakat		<b>17,984</b>	2,981
		<b>7,440,591</b>	7,058,512
Ordinary share capital	15	<b>523,424</b>	523,424
Reserves	16	<b>128,250</b>	41,730
Shareholder's equity		<b>651,674</b>	565,154
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>8,092,265</b>	7,623,666
<b>COMMITMENTS AND CONTINGENCIES</b>			
	27	<b>2,536,550</b>	1,664,446

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

# Income Statement

for the financial year ended 31 December 2006

		<b>12 months year ended 31.12.2006 RM'000</b>	<b>11 months period ended 31.12.2005 RM'000</b>
Income derived from investment of depositor's funds	17	<b>330,642</b>	211,193
Income derived from investment of shareholder's funds	18	<b>88,259</b>	34,036
Allowance for losses on financing and advances	19	<b>(22,177)</b>	(3,622)
Profit equalisation reserve	14	<b>(1,563)</b>	(8,002)
Total distributable income		<b>395,161</b>	233,605
Income attributable to depositors	20	<b>(181,239)</b>	(113,455)
		<b>213,922</b>	120,150
Personnel expenses	21	<b>(28,420)</b>	(14,642)
Other overheads and expenditures	22	<b>(63,740)</b>	(45,354)
Profit before zakat and taxation		<b>121,762</b>	60,154
Zakat		<b>1,166</b>	(920)
Taxation	24	<b>(36,566)</b>	(17,750)
Profit for the financial year/period		<b>86,362</b>	41,484
Basic earnings per share (sen)	25	<b>16.50</b>	7.93

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

# Statement of Changes in Shareholder's Equity

for the financial year ended 31 December 2006

	Share Capital RM'000	Statutory Reserve RM'000	AFS Reserves RM'000	Retained Profits RM'000	Total RM'000
<b>31.12.2006</b>					
At beginning of year	<b>523,424</b>	<b>20,742</b>	<b>246</b>	<b>20,742</b>	<b>565,154</b>
Unrealised net gain on revaluation of securities available-for-sale	-	-	<b>563</b>	-	<b>563</b>
AFS reserve realised on disposal of AFS securities	-	-	<b>(343)</b>	-	<b>(343)</b>
Deferred taxation	-	-	<b>(62)</b>	-	<b>(62)</b>
Income and expenses recognised directly in equity	-	-	<b>158</b>	-	<b>158</b>
Profit for the financial year	-	-	-	<b>86,362</b>	<b>86,362</b>
Total recognised income and expenses for the financial year	-	-	<b>158</b>	<b>86,362</b>	<b>86,520</b>
Transfer to statutory reserves	-	<b>43,181</b>	-	<b>(43,181)</b>	-
At end of year	<b>523,424</b>	<b>63,923</b>	<b>404</b>	<b>63,923</b>	<b>651,674</b>
<b>31.12.2005</b>					
At date of incorporation*	-	-	-	-	-
Unrealised net gain on revaluation of securities available-for-sale	-	-	342	-	342
Deferred taxation	-	-	(96)	-	(96)
Income and expenses recognised directly in equity	-	-	246	-	246
Profit for the financial period	-	-	-	41,484	41,484
Total recognised income and expenses for the financial period	-	-	246	41,484	41,730
Transfer to statutory reserves	-	20,742	-	(20,742)	-
Issue of shares during the period	523,424	-	-	-	523,424
At end of period	<b>523,424</b>	<b>20,742</b>	<b>246</b>	<b>20,742</b>	<b>565,154</b>

\* Share capital at date of incorporation was RM2.

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

# Cash Flow Statement

for the financial year ended 31 December 2006

	12 months year ended 31.12.2006 RM'000	11 months period ended 31.12.2005 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation and zakat for the financial year/period	<b>121,762</b>	60,154
Adjustments for:		
Depreciation of property, plant and equipment	<b>782</b>	499
Income from:		
– Investment on securities available-for-sale	<b>(3,844)</b>	(344)
– Investment on securities held-to-maturity	<b>(9,699)</b>	(6,939)
Net loss/(gain) on sale of securities available-for-sale	<b>937</b>	(3,895)
Accretion of discount less amortisation of premium	<b>(22,855)</b>	(16,764)
Unrealised gain from securities held for trading	<b>(6,219)</b>	(1,971)
Allowance for losses on financing and advances	<b>22,177</b>	3,622
Allowance for profit equalisation reserve	<b>1,563</b>	8,002
Operating profit before working capital changes	<b>104,604</b>	42,364
(Increase)/Decrease in operating assets:		
Deposits and placements with financial institutions	<b>(770,000)</b>	(251,000)
Financing and advances	<b>(769,339)</b>	139,694
Investment on securities held for trading	<b>324,883</b>	24,375
Other assets	<b>(39,474)</b>	(16,592)
Statutory deposit with Bank Negara Malaysia	<b>11,900</b>	(61,155)
	<b>(1,137,426)</b>	(122,314)
Increase/(Decrease) in operating liabilities:		
Deposits from customers	<b>1,168,779</b>	833,436
Deposits and placements of banks and other financial institutions	<b>(649,326)</b>	85,677
Bills and acceptances payable	<b>(17,495)</b>	(310,092)
Other liabilities	<b>(136,445)</b>	350,618
Cash (used in)/generated from operating activities	<b>(771,913)</b>	837,325
Taxation paid	<b>(19,250)</b>	(17,250)
Zakat paid	<b>(53)</b>	(97)
Net cash (used in)/generated from operating activities	<b>(791,216)</b>	819,978

## Cash Flow Statement

for the financial year ended 31 December 2006

	<b>12 months year ended 31.12.2006 RM'000</b>	<b>11 months period ended 31.12.2005 RM'000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	<b>(1,447)</b>	(6,471)
Income received from disposal of:		
– Investment on securities available-for-sale	<b>3,858</b>	118
– Investment on securities held-to-maturity	<b>9,764</b>	7,360
Net proceeds from:		
– Disposal/(purchase) of securities available-for-sale	<b>128,498</b>	(142,905)
– Maturity/(purchase) of securities held-to-maturity	<b>25,228</b>	(11,859)
Net cash generated from/(used in) investing activities	<b>165,901</b>	(153,757)
<b>ANALYSIS OF CASH AND CASH EQUIVALENT</b>		
Net (decrease)/increase in cash and cash equivalents	<b>(625,315)</b>	666,221
Cash and cash equivalent brought forward/vested over from RHB Bank	<b>1,939,598</b>	1,273,377
Cash and cash equivalent at end of the year/period	<b>2</b> <b>1,314,283</b>	<b>1,939,598</b>

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

# Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006

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

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

### **1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The financial statements of the 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'), Financial Reporting Standards, the Malaysian Accounting Standard Board ('MASB') Approved Accounting Standards in Malaysia for entities other than private entities, the provisions of the Companies Act, 1965 and Shariah requirements.

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

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

# Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006

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

### **1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)**

During the financial year, the Bank adopted the following new and revised Financial Reporting Standards ('FRS') issued by MASB that are relevant and effective for financial statements commencing 1 January 2006:

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

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

- FRS 5 Prospectively to non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and to operations that meet the criteria to be classified as discontinued on/after 1 January 2006;
- FRS 116 The exchange of property, plant and equipment is accounted at fair value prospectively



# Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006

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

### **1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)**

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

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

- FRS 117 Leases (effective for accounting periods beginning on or after 1 October 2006). This standard requires the classification of leasehold land as prepaid lease payments. The Bank will apply this standard from financial periods beginning on 1 January 2007.
- FRS 124 Related party disclosures (effective for accounting periods beginning on or after 1 October 2006). This standard will effect the identification of related parties and some other related party disclosures. The Bank will apply this standard from financial periods beginning 1 January 2007.
- FRS 139 Financial Instruments: Recognition and Measurement (effective date yet to be determined by Malaysian Accounting Standards Board). This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Bank will apply this standard when effective. Nevertheless, the accounting policies of the Bank incorporated revised BNM/GP8 which includes selected principles of FRS 139.

## Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006

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

#### **2 INCOME RECOGNITION**

- (i) Finance income is recognised on an accruals basis. Income earned on cashline, house and term financing, and hire purchase/Al-Ijarah Thumma Al-Bai' ('AITAB') is recognised on a daily basis over the period of the financing as stipulated in the financing agreement.

Where a financing becomes non-performing, profit accrued and recognised as income prior to the date the financing are classified as non-performing, are reversed out of income statement and set off against the accrued income receivable account in the balance sheet. Subsequently, the incomes earned on non-performing financings are only recognised on cash basis.

- (ii) Financing arrangement, management and participation fees, underwriting commissions and brokerage fees are recognised as income based on contractual arrangements and when all conditions precedent are fulfilled.
- (iii) Guarantee fees are recognised as income upon issuance of the guarantees.
- (iv) Fees from advisory and corporate finance activities are recognised net of service taxes and discounts upon completions of each stage of the assignment.

#### **3 ALLOWANCE FOR NON-PERFORMING FINANCING AND ADVANCES**

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

A general allowance based on a percentage of the financing portfolio is also made to cover possible losses which are not specifically identified. 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 and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006

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

#### 3 ALLOWANCE FOR NON-PERFORMING FINANCING AND ADVANCES (CONTINUED)

An uncollectible financing or portion of financing 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 year, the Bank has changed its basis for specific allowance on non-performing financing and advances based on period of default for non-performing financing and advances from 6 months to 3 months. In line with the classification of non-performing financing and advances during the year, the Group's basis for specific allowance has changed from default period of 6 months to 3 months.

The Bank's allowance for non-performing financing and advances is in conformity with the minimum requirements of BNM's 'Guidelines on the Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts (GP3)', which is deemed as in conformity with the requirement on the allowance for financing impairment under the BNM/GP8-i.

#### 4 OTHER PROVISIONS

Provision are recognised when all of the following conditions have been met:

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

#### 5 SECURITIES

The Bank classifies its securities portfolio into the following categories: held for trading securities, available-for-sale securities and held-to-maturity securities. Management determines the classification of its securities at initial recognition.

## Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006

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

#### **5 SECURITIES (CONTINUED)**

##### **(i) HELD FOR TRADING SECURITIES**

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 a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. Held for trading securities are stated at fair value at initial recognition. Any gain or loss arising from a change in the fair value is recognised in the income statements.

##### **(ii) HELD-TO-MATURITY SECURITIES**

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

##### **(iii) AVAILABLE-FOR SALE SECURITIES**

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

Profit income calculated using the effective profit method is recognised in the income statement.

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

# Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006

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

### 5 SECURITIES (CONTINUED)

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

### 6 PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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

Renovations in progress and computer software in progress are not depreciated. Depreciation of other property, plant and equipment is calculated to write off the cost of the property, plant and equipment on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates of depreciation are as follows:

Renovations	7.5% to 10%
Office equipment and furniture	7.5% to 20%
Computer equipment and software	20% to 33 $\frac{1}{3}$ %
Motor vehicles	20%

Residual value and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit/(loss) from operations.

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 asset is assessed and written down immediately to its recoverable amount. See accounting policy Note 7 on impairment of non-financial assets.

## Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006

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

#### **7 IMPAIRMENT OF NON-FINANCIAL ASSETS**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there is separately identifiable cash flow (cash-generating units). Non-financial assets that suffered an impairment is reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognised in the income statement.

#### **8 IMPAIRMENT OF SECURITIES PORTFOLIO**

The Bank assesses at each balance sheet date whether there is objective evidence that a securities 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 initial recognition of the asset (a 'loss event') and that loss event (or event) has an impact on the estimated future cash flows of the securities that can be reliably estimated.

# Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006

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

### **8 IMPAIRMENT OF SECURITIES PORTFOLIO (CONTINUED)**

#### **(i) Securities carried at amortised cost**

If there is objective evidence that an impairment loss on held-to-maturity investments 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 profit 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 held-to-maturity investment has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

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

#### **(ii) Securities carried at fair value**

In the case of equity investments 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 available-for-sale securities, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that securities 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 period, the fair value of a financing 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.

## Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006

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

#### **9 BILLS AND ACCEPTANCES PAYABLE**

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

#### **10 RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS BHD ('CAGAMAS')**

The sale of Islamic financing to Cagamas is deemed as a sale and purchase transaction from Shariah point of view. Such financing transactions are net-off with the assets sold on the balance sheet and the obligations to buy back the financings are reflected as assets sold with recourse in the commitment and contingencies.

#### **11 CURRENCY CONVERSION AND TRANSLATION**

##### **(a) Functional and presentation currency**

The financial statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation currency.

##### **(b) Transactions and balances**

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

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.



# Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006

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

### **11 CURRENCY CONVERSION AND TRANSLATION (CONTINUED)**

#### **(b) Transactions and balances (continued)**

Translation differences on non-monetary financial assets and liabilities are reported as part of the value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in AFS reserve in equity.

### **12 INCOME TAXES**

Current tax expense is determined according to the tax laws of Malaysia and includes all taxes based upon the taxable profits for the financial year.

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

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

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

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

## Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006

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

#### **13 CASH AND CASH EQUIVALENTS**

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

#### **14 DIVIDENDS**

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

#### **15 EMPLOYEE BENEFITS**

##### **Short-term employee benefits**

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

##### **Defined contribution plans**

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

##### **Termination benefits**

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

# Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006

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

### **16 PROFIT EQUALISATION RESERVE ('PER')**

PER refers to the amount appropriated out of the total gross income to mitigate the undesirable fluctuation of income and to maintain a certain level of return to depositors. The amount is provided based on BNM's circular on 'The Framework of The Rate of Return'. PER is shared by both the depositors and the Bank and hence can be appropriated from and written back to the total gross income in deriving the distributable income. PER is reflected under other liabilities on the balance sheet.

### **17 CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

The Bank does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Bank or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

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

### **18 SEGMENT REPORTING**

Segment reporting is presented for enhanced assessment of the Bank's risks and returns. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those components.

## Summary of Significant Accounting Policies and Critical Accounting Estimates and Assumptions

for the financial year ended 31 December 2006

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

#### **18 SEGMENT REPORTING (CONTINUED)**

Segment revenue, expense, assets and liabilities are those amounts resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment. Segment revenue, expense, assets and segment liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

### **(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

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

#### **Allowance for losses on financing and advances**

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

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 1 GENERAL INFORMATION

RHB Islamic Bank Berhad ('the Bank'), is a licensed Islamic Bank under the Islamic Banking Act 1983, a limited liability company domiciled in Malaysia, and is principally engaged in Islamic banking business and the provision of related services.

The Bank was incorporated on 2 February 2005 and commenced its business operations on 16 March 2005, upon vesting of the assets and liabilities of Islamic banking business of RHB Bank Berhad existing on 15 March 2005.

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

The directors regard RHB Bank Berhad ('RHBB'), RHB Capital Berhad ('RHBC') and Rashid Hussain Berhad ('RHB'), companies incorporated in Malaysia as the holding company, immediate parent of holding company and parent of immediate parent of holding company respectively. The registered office of RHBB, RHBC and RHB is similar to the Bank.

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

## 2 CASH AND SHORT-TERM FUNDS

	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Cash and balances with banks and other financial institutions	<b>21,283</b>	69,598
Money at call and deposit placements maturing within one month	<b>1,293,000</b>	1,870,000
	<b><u>1,314,283</u></b>	<u>1,939,598</u>

## Notes to the Financial Statements

for the financial year ended 31 December 2006

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

	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Licensed banks and other financial institutions	<b>120,000</b>	50,000
Bank Negara Malaysia	<b>1,100,000</b>	400,000
	<b>1,220,000</b>	450,000

**4 SECURITIES HELD FOR TRADING**

	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>At fair value</b>		
<b>Money market instruments:</b>		
<b>Quoted</b>		
Khazanah bonds	–	29,073
Government investment issues	–	18,577
<b>Unquoted</b>		
Malaysian government treasury bills	–	19,808
Bank Negara Malaysia negotiable notes	<b>74,727</b>	426,837
Islamic accepted bills	<b>69,212</b>	20,437
Private debt securities	<b>170,681</b>	118,552
Total securities held for trading	<b>314,620</b>	633,284

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 5 SECURITIES AVAILABLE-FOR-SALE

	31.12.2006 RM'000	31.12.2005 RM'000
<b>At fair value</b>		
<b>Money market instruments:</b>		
<b>Quoted</b>		
Cagamas mudharabah bonds	–	14,990
Khazanah bonds	<b>5,058</b>	–
Government investment issues	<b>9,405</b>	–
<b>Unquoted</b>		
Malaysian government treasury bills	<b>3,743</b>	32,857
Bank Negara Malaysia negotiable notes	–	99,575
	<b>18,206</b>	147,422
<b>At cost</b>		
<b>Unquoted securities in Malaysia</b>		
Shares	<b>575</b>	575
Total securities available-for-sale	<b>18,781</b>	147,997

### 6 SECURITIES HELD-TO-MATURITY

	31.12.2006 RM'000	31.12.2005 RM'000
<b>At amortised cost</b>		
<b>Money market instruments:</b>		
<b>Quoted</b>		
Cagamas mudharabah bonds	<b>60,442</b>	80,599
Khazanah bonds	<b>521,752</b>	585,764
Government Investment Issuance	<b>80,964</b>	–
<b>Unquoted</b>		
Private debt securities	<b>146,450</b>	145,618
Total securities held-to-maturity	<b>809,608</b>	811,981

## Notes to the Financial Statements

for the financial year ended 31 December 2006

**7 FINANCING AND ADVANCES****(i) By type**

	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Cashline	<b>64,229</b>	58,430
Term financing		
– housing financing	<b>1,572,428</b>	1,199,672
– syndicated term financing	<b>521,264</b>	519,453
– hire purchase receivables	<b>296,126</b>	72,250
– other term financing	<b>979,774</b>	721,521
Bills receivable	<b>421,263</b>	498,346
Trust receipts	<b>20,776</b>	15,237
Staff financing	<b>5,305</b>	1,740
Revolving financing	<b>436,360</b>	445,064
	<b>4,317,525</b>	3,531,713
Less: Unearned income	<b>(44,071)</b>	(7,340)
Gross financing and advances	<b>4,273,454</b>	3,524,373
Less: Allowance for bad and doubtful financing:		
– general	<b>(77,059)</b>	(73,692)
– specific	<b>(48,822)</b>	(50,270)
Net financing and advances	<b>4,147,573</b>	3,400,411

**(ii) By type of customer**

Domestic non-bank financial institutions		
– Others	<b>32,773</b>	34,826
Domestic business enterprises		
– Small medium enterprises	<b>548,509</b>	208,876
– Others	<b>1,948,256</b>	2,012,196
Government and statutory bodies	<b>101,153</b>	7
Individuals	<b>1,623,648</b>	1,251,623
Other domestic entities	<b>15,905</b>	16,124
Foreign entities	<b>3,210</b>	721
	<b>4,273,454</b>	3,524,373



## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 7 FINANCING AND ADVANCES (CONTINUED)

#### (iii) Financing and advances analysed by contract are as follows:

	31.12.2006 RM'000	31.12.2005 RM'000
Bai' Bithaman Ajil	<b>3,143,001</b>	2,500,884
Al-Ijarah Muntahia Bittamlik / Al-Ijarah Thumma Al-Bai' ('AITAB')	<b>252,055</b>	64,842
Murabahah	<b>878,398</b>	958,647
	<b>4,273,454</b>	3,524,373

#### (iv) By profit rate sensitivity

Fixed rate		
– Housing financing	<b>1,491,077</b>	1,199,155
– Hire purchase receivables	<b>252,055</b>	64,842
– Other fixed rate financing	<b>1,587,694</b>	1,243,299
Variable rate		
– Others	<b>942,628</b>	1,017,077
	<b>4,273,454</b>	3,524,373

#### (v) By purpose

Purchase of securities	<b>366,627</b>	343,173
Purchase of transport vehicles	<b>140,519</b>	23,225
Purchase of landed property:		
– Residential	<b>1,461,866</b>	1,199,980
– Non-residential	<b>81,351</b>	41,323
Purchase of property, plant and equipment other than land and building	<b>139,877</b>	64,789
Personal use	<b>36,612</b>	26,315
Purchase of consumer durables	<b>377</b>	457
Construction	<b>130,836</b>	56,830
Working capital	<b>1,813,327</b>	1,767,780
Other purposes	<b>102,062</b>	501
	<b>4,273,454</b>	3,524,373

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 7 FINANCING AND ADVANCES (CONTINUED)

#### (vi) Movement in non-performing financing and advances

	31.12.2006 RM'000	31.12.2005 RM'000
At beginning of year	210,657	–
Amount vested over from RHB Bank	–	258,040
Amount vested over from RHB Delta Finance	661	–
Classified as non-performing during the year/period	359,651	215,710
Reclassified as performing during the year/period	(278,858)	(219,582)
Amount recovered	(26,918)	(9,955)
Amount written off	(23,407)	(33,556)
At end of year/period	<b>241,786</b>	210,657
Specific allowance	(48,822)	(50,270)
Net non-performing financing and advances	<b>192,964</b>	160,387
Ratio of net non-performing financing and advances to net financing and advances	<b>4.6%</b>	4.7%

#### (vii) Movement in allowance for bad and doubtful financing and advances

<u>General allowance</u>		
At beginning of year	73,692	–
Amount vested over from RHB Bank	–	77,059
Amount vested over from RHB Delta Finance	13	–
Net allowance made/(written back) during the year/period	3,354	(3,367)
At end of year/period	<b>77,059</b>	73,692
As % of gross financing and advances less specific allowance	<b>1.8%</b>	2.1%

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 7 FINANCING AND ADVANCES (CONTINUED)

#### (vii) Movement in allowance for bad and doubtful financing and advances (continued)

	31.12.2006 RM'000	31.12.2005 RM'000
<u>Specific allowance</u>		
At beginning of year	50,270	–
Amount vested over from RHB Bank	–	75,661
Amount vested over from RHB Delta Finance	194	–
Allowance made during the year/period	22,086	8,724
Amount recovered	(3,142)	(1,706)
Amount written off	(20,586)	(32,409)
At end of year/period	<b>48,822</b>	50,270

#### (viii) Non-performing financing and advances analysed by purpose:

Purchase of securities	51	73
Purchase of transport vehicles	38	37
Purchase of landed property:		
– Residential	179,335	143,266
– Non-residential	2,807	1,171
Purchase of property, plant and equipment other than land and building	26,383	27,343
Personal use	7,705	6,081
Purchase of consumer durables	–	34
Construction	3,585	1,186
Working capital	21,882	31,466
	<b>241,786</b>	210,657

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 8 OTHER ASSETS

	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Other debtors, deposits and prepayments	<b>62,584</b>	23,370
Income receivable	<b>5,555</b>	5,373
	<b>68,139</b>	28,743

### 9 DEFERRED TAXATION

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

	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Deferred tax assets	<b>22,522</b>	23,652
Deferred tax liabilities	<b>(935)</b>	(909)
	<b>21,587</b>	22,743

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 9 DEFERRED TAXATION (CONTINUED)

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

<b>Deferred tax assets/ (liabilities)</b>	<b>General allowance on</b>				
<b>31.12.2006</b>	<b>Property, plant &amp; equipment RM'000</b>	<b>Securities available- for-sale RM'000</b>	<b>financing and advances RM'000</b>	<b>Others temporary differences RM'000</b>	<b>Total RM'000</b>
At beginning of year	(813)	(96)	20,634	3,018	22,743
(Charged)/credited to income statement	36	–	(599)	(531)	(1,094)
Charged to equity	–	(62)	–	–	(62)
At end of year	<b>(777)</b>	<b>(158)</b>	<b>20,035</b>	<b>2,487</b>	<b>21,587</b>
<b>31.12.2005</b>					
Amount vested over from RHB Bank as at 15.3.2005	–	–	21,577	–	21,577
(Charged)/credited to income statement	(813)	–	(943)	3,018	1,262
Charged to equity	–	(96)	–	–	(96)
At end of period	<b>(813)</b>	<b>(96)</b>	<b>20,634</b>	<b>3,018</b>	<b>22,743</b>

### 10 STATUTORY DEPOSITS

	<b>31.12.2006 RM'000</b>	<b>31.12.2005 RM'000</b>
Statutory deposits with Bank Negara Malaysia	<b>170,429</b>	182,329

The statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1) (c) of the Central Bank of Malaysia Act, 1958 (revised-1994), the amount which are determined at 4% of total eligible liabilities.

## Notes to the Financial Statements

for the financial year ended 31 December 2006

**11 PROPERTY, PLANT AND EQUIPMENT**

31.12.2006	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
<b>Cost</b>					
At beginning of year	2,789	595	4,594	650	8,628
Additions	1,086	138	222	1	1,447
Disposals/written off	-	-	-	(54)	(54)
At end of year	<b>3,875</b>	<b>733</b>	<b>4,816</b>	<b>597</b>	<b>10,021</b>
<b>Less: Accumulated depreciation</b>					
At beginning of year	226	451	1,272	99	2,048
Charge for the year	30	47	587	118	782
Disposals/written off	-	-	-	(54)	(54)
At end of year	<b>256</b>	<b>498</b>	<b>1,859</b>	<b>163</b>	<b>2,776</b>
<b>Net book value as at end of year</b>	<b>3,619</b>	<b>235</b>	<b>2,957</b>	<b>434</b>	<b>7,245</b>
<b>31.12.2005</b>					
<b>Cost</b>					
Amount vested over from RHB Bank	264	450	1,393	232	2,339
Additions	2,525	145	3,211	591	6,472
Transfers	-	-	(5)	(173)	(178)
Disposals/written off	-	-	(5)	-	(5)
At end of period	<b>2,789</b>	<b>595</b>	<b>4,594</b>	<b>650</b>	<b>8,628</b>
<b>Less: Accumulated depreciation</b>					
Amount vested over from RHB Bank	204	429	873	225	1,731
Charge for the period	22	22	408	47	499
Transfers	-	-	(4)	(173)	(177)
Disposals/written off	-	-	(5)	-	(5)
At end of period	<b>226</b>	<b>451</b>	<b>1,272</b>	<b>99</b>	<b>2,048</b>
<b>Net book value as at end of period</b>	<b>2,563</b>	<b>144</b>	<b>3,322</b>	<b>551</b>	<b>6,580</b>

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 12 DEPOSITS FROM CUSTOMERS

	31.12.2006 RM'000	31.12.2005 RM'000
<b>Non-Mudharabah Funds:</b>		
Demand deposits	<b>2,299,718</b>	1,124,827
Savings deposits	<b>486,224</b>	466,709
Negotiable certificates of deposit	<b>142,411</b>	141,924
	<b>2,928,353</b>	1,733,460
<b>Mudharabah Funds:</b>		
Demand deposits	<b>291,261</b>	302,721
General investment deposits	<b>1,208,792</b>	1,026,773
Special investment deposits	<b>2,252,018</b>	2,448,691
Total deposits	<b>6,680,424</b>	5,511,645
The deposits are sourced from the following classes of customers:		
Government and statutory bodies	<b>1,664,822</b>	945,290
Business enterprises	<b>4,149,826</b>	3,864,254
Individuals	<b>723,189</b>	702,101
Others	<b>142,587</b>	–
	<b>6,680,424</b>	5,511,645

## Notes to the Financial Statements

for the financial year ended 31 December 2006

**13 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	31.12.2006	31.12.2005
	RM'000	RM'000
<b>Non-Mudharabah Fund:</b>		
Licensed Islamic banks	34,537	9,754
Licensed banks	52,280	264,542
Licensed merchant banks	68,786	228,149
Other financial institutions	149,320	293,794
	<b>304,923</b>	796,239
<b>Mudharabah Fund:</b>		
Licensed Islamic banks	-	59,000
Licensed banks	140,000	73,000
Licensed merchant banks	-	30,880
Other financial institutions	-	135,130
	<b>444,923</b>	1,094,249

**14 OTHER LIABILITIES**

	31.12.2006	31.12.2005
	RM'000	RM'000
Sundry creditors	17,960	16,243
Profit equalisation reserve (see below)	18,842	17,279
Amount due to related companies	132,551	297,708
Other accruals and payables	111,365	84,370
	<b>280,718</b>	415,600



## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 14 OTHER LIABILITIES (CONTINUED)

Profit equalisation reserve:

	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>
At beginning of year	<b>17,279</b>	–
Amount vested over from RHB Bank	–	9,277
Net amount transferred	<b>1,563</b>	8,002
At end of year/period	<b>18,842</b>	17,279

### 15 ORDINARY SHARE CAPITAL

	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Authorised:		
<b>Ordinary shares of RM1.00 each</b>		
As at beginning/end of financial year/period	<b>1,000,000</b>	1,000,000
Issued and fully paid:		
<b>Ordinary shares of RM1.00 each</b>		
As at beginning/end of financial year/period	<b>523,424</b>	523,424

### 16 RESERVES

The statutory reserves are maintained in compliance with Section 15 of the Islamic Banking Act 1983 and are not distributable as cash dividends.

The AFS revaluation reserve recognises unrealised gains or losses arising from a change in the fair value of investments classified as available-for-sale securities. The gains or losses are transferred to the income statement upon de-recognition or impairment of the investment.

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

## Notes to the Financial Statements

for the financial year ended 31 December 2006

**17 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS**

Income derived from investment of depositors' funds are as follows:

	<b>12 months year ended 31.12.2006 RM'000</b>	<b>11 months period ended 31.12.2005 RM'000</b>
Income derived from investment of:		
(i) General investment deposit	<b>63,454</b>	58,555
(ii) Other deposits	<b>267,188</b>	152,638
	<b>330,642</b>	211,193
<b>(i) Income derived from investment of general investment deposits</b>		
<i>Finance income and hibah:</i>		
Financing and advances	<b>39,418</b>	38,447
Securities held for trading	<b>2,631</b>	2,437
Securities available-for-sale	<b>680</b>	87
Securities held-to-maturity	<b>1,716</b>	1,864
Money at call and deposit with financial institutions	<b>13,254</b>	8,686
	<b>57,699</b>	51,521
Amortisation of premium less accretion of discount	<b>4,043</b>	4,347
Total finance income and hibah	<b>61,742</b>	55,868
Other operating income (note a-c)	<b>1,712</b>	2,687
	<b>63,454</b>	58,555
(a) Fee income:		
Commission	<b>368</b>	315
Guarantee fees	<b>417</b>	20
	<b>785</b>	335
(b) Net (loss)/gain from sale of:		
– Securities held for trading	<b>(98)</b>	812
– Securities available-for-sale	<b>(166)</b>	1,016
	<b>(264)</b>	1,828
(c) Net unrealised gain on revaluation of securities held for trading	<b>1,191</b>	524
Total other operating income	<b>1,712</b>	2,687

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 17 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS (CONTINUED)

	12 months year ended 31.12.2006 RM'000	11 months period ended 31.12.2005 RM'000
(ii) <b>Income derived from investment of other deposits</b>		
<u>Finance income and hibah:</u>		
Financing and advances	<b>165,979</b>	100,882
Securities held for trading	<b>11,076</b>	7,450
Securities available-for-sale	<b>2,863</b>	228
Securities held-to-maturity	<b>7,225</b>	4,816
Money at call and deposit with financial institutions	<b>55,809</b>	21,761
	<b>242,952</b>	135,137
Amortisation of premium less accretion of discount	<b>17,024</b>	11,023
Total finance income and hibah	<b>259,976</b>	146,160
Other operating income (note a-c)	<b>7,212</b>	6,478
	<b>267,188</b>	152,638
(a) Fee income:		
Commission	<b>1,548</b>	810
Guarantee fees	<b>1,757</b>	52
	<b>3,305</b>	862
(b) Net (loss)/gain from sale of:		
– Securities held for trading	<b>(412)</b>	1,780
– Securities available-for-sale	<b>(698)</b>	2,554
	<b>(1,110)</b>	4,334
(c) Net unrealised gain on revaluation of securities held for trading	<b>5,017</b>	1,282
Total other operating income	<b>7,212</b>	6,478

## Notes to the Financial Statements

for the financial year ended 31 December 2006

**18 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS**

	12 months year ended 31.12.2006 RM'000	11 months period ended 31.12.2005 RM'000
<b>Finance income and hibah:</b>		
Financing and advances	17,436	12,562
Securities held for trading	1,164	868
Securities available-for-sale	301	29
Securities held-to-maturity	759	604
Money at call and deposit with financial institutions	1,164	2,768
	<b>25,523</b>	16,831
Amortisation of premium less accretion of discount	1,788	1,394
Total finance income and hibah	<b>27,311</b>	18,225
Other operating income (note a-c)	<b>60,948</b>	15,811
	<b>88,259</b>	34,036
<b>(a) Fee income:</b>		
Commission	3,164	102
Service charges and fees	29,972	13,141
Guarantee and underwriting fees	967	1,022
Placement fees	25,936	–
Other fee income	498	815
	<b>60,537</b>	15,080
<b>(b) Net (loss)/gain from sale of:</b>		
– Securities held for trading	(43)	241
– Securities available-for-sale	(73)	325
	<b>(116)</b>	566
<b>(c) Net unrealised gain on revaluation of securities held for trading</b>		
	<b>527</b>	165
Total other operating income	<b>60,948</b>	15,811

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 19 ALLOWANCES FOR LOSSES ON FINANCING AND ADVANCES

	12 months year ended 31.12.2006 RM'000	11 months period ended 31.12.2005 RM'000
Allowance for losses on financing and advances		
Specific allowance:		
– Made during the financial year/period	22,086	8,724
– Written back	(3,142)	(1,706)
General allowance:		
– Made/(written back) during the financial year/period	3,354	(3,367)
Bad financing recovered	(121)	(29)
	<b>22,177</b>	<b>3,622</b>

During the year, the Bank's basis for specific allowance has changed from default period of 6 months to 3 months in line with its non-performing classification of financing and advances. The additional allowance due to this change amounted to RM1,063,710.

### 20 INCOME ATTRIBUTABLE TO DEPOSITORS

	12 months year ended 31.12.2006 RM'000	11 months period ended 31.12.2005 RM'000
Deposits from customers:		
– Mudharabah funds	129,446	70,491
– Non-mudharabah funds	18,460	14,609
Deposits and placements of banks and other financial institutions:		
– Mudharabah funds	14,464	1,457
– Non-mudharabah funds	18,869	26,898
	<b>181,239</b>	<b>113,455</b>

## Notes to the Financial Statements

for the financial year ended 31 December 2006

**21 PERSONNEL EXPENSES**

	<b>12 months year ended 31.12.2006 RM'000</b>	<b>11 months period ended 31.12.2005 RM'000</b>
<b>Personnel cost</b>		
– Salaries, allowances and bonuses	<b>23,767</b>	11,915
– Contributions to Employee Provident Fund	<b>3,072</b>	1,573
– Other staff related cost	<b>1,581</b>	1,154
	<b>28,420</b>	14,642

The number of employees as at the end of the financial year is 256 (31.12.2005: 223)

**22 OTHER OVERHEADS AND EXPENDITURES**

	<b>12 months year ended 31.12.2006 RM'000</b>	<b>11 months period ended 31.12.2005 RM'000</b>
<b>Establishment cost</b>		
– Depreciation	<b>782</b>	499
– Rental of premises	<b>1,192</b>	743
– Rental equipment	<b>148</b>	34
– Deposit insurance	<b>303</b>	200
– Other business related insurance	<b>250</b>	74
– Water and electricity	<b>278</b>	82
– Repair and maintenance	<b>146</b>	86
– Information technology expenses	<b>1,176</b>	160
– Security and escort expenses	<b>1,184</b>	790
– Others	<b>65</b>	186
	<b>5,524</b>	2,854

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 22 OTHER OVERHEADS AND EXPENDITURES (CONTINUED)

	12 months year ended 31.12.2006 RM'000	11 months period ended 31.12.2005 RM'000
<b>Marketing expenses</b>		
- Advertisement and publicity	1,495	3,518
- Travelling expenses	637	538
- Motor vehicle expenses	475	197
- Others	186	33
	<u>2,793</u>	<u>4,286</u>
<b>Administration and general expenses</b>		
- Cost sharing fees	50,982	33,783
- Auditors' remuneration	116	116
- Other professional fees	677	1,226
- Printing, stationery and postages	1,605	1,455
- Telecommunication expenses	884	329
- Others	1,159	1,305
	<u>55,423</u>	<u>38,214</u>
	<u>63,740</u>	<u>45,354</u>

Included in the administration and general expenses of the Bank are director's remuneration totalling RM720,000 (31.12.2005: RM305,000) as disclosed in Note 23.

## Notes to the Financial Statements

for the financial year ended 31 December 2006

**23 REMUNERATION OF CHIEF EXECUTIVE OFFICER ('CEO') AND DIRECTORS**

	<b>12 months year ended 31.12.2006 RM'000</b>	<b>11 months period ended 31.12.2005 RM'000</b>
Non-Executive Directors		
– Fees	<b>352</b>	94
– Others	<b>368</b>	211
	<b>720</b>	305
Chief Executive Officer ('CEO')		
– Salary and other remuneration, including meeting allowance	<b>1,829</b>	1,000
– Benefit-in-kind	<b>76</b>	–
Shariah Committee members fees	<b>148</b>	141
	<b>2,773</b>	1,446

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

**CEO**

Khalid Mahmood Bhaimia

**Non-Executive Directors**

Dato' Vaseehar Hassan Abdul Razack (Chairman)

Dato Abdullah Mat Noh

Dato' Mohd Salleh Haji Harun

Dato' Othman Jusoh

Prof. Balachandran A. Shanmugam

Michael J Barrett

*(Appointed on 20 September 2006)*

Dato Sri Sulaiman Abdul Rahman Taib

*(Resigned with effect from 24 April 2006)*



## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 23 REMUNERATION OF CHIEF EXECUTIVE OFFICER ('CEO') AND DIRECTORS (CONTINUED)

The remuneration of Directors is within the following bands:

Non-Executive RM	2006 Number of Directors	2005 Number of Directors
0-50,000	1	2
50,000-100,000	5	3

### 24 TAXATION

	12 months year ended 31.12.2006 RM'000	11 months period ended 31.12.2005 RM'000
Malaysian income tax:		
– Current year/period	35,472	19,012
Deferred taxation:		
– Relating to originating and reversal of temporary differences (Note 9)	1,094	(1,262)
	<b>36,566</b>	<b>17,750</b>

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 24 TAXATION (CONTINUED)

The numerical reconciliation between the average effective tax rate and the applicable tax rate are as follows:-

	<b>12 months year ended 31.12.2006</b>	<b>11 months period ended 31.12.2005</b>
	%	%
Malaysian tax rate of 28%	<b>28.0</b>	28.0
<b>Tax effect of:</b>		
Expenses not deductible for tax purposes	<b>0.7</b>	1.5
Effect of change in tax rate from 28% to 26%	<b>1.3</b>	–
Average effective tax rate	<b>30.0</b>	29.5

### 25 EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share is calculated by dividing the net profit for the financial year by the weighted average number of ordinary shares in issue during the financial year.

	<b>31.12.2006</b>	<b>31.12.2005</b>
Earnings per ordinary share are calculated as follows:		
Basic:		
Net profit for the financial year/period (RM'000)	<b>86,363</b>	41,484
Weighted average number of ordinary shares in issue ('000)	<b>523,424</b>	523,424
Basic earnings per share (sen)	<b>16.50</b>	7.93

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 26 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

#### (a) Related parties and relationships

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

<b>Related parties</b>	<b>Relationship</b>
Rashid Hussain Berhad ('RHB')	Parent of immediate parent of holding company
RHB Capital Berhad	Immediate parent of holding company
RHB Bank Berhad	Holding company
Subsidiaries and associates of RHB as disclosed in its financial statements	Subsidiary and associated companies of the parent of immediate parent of holding company
Subsidiaries and associates of RHB Capital Berhad as disclosed in its financial statements	Subsidiary and associated companies of immediate parent of holding company
Subsidiaries and associates of RHB Bank Berhad as disclosed in its financial statements	Subsidiary and associated companies of holding company

As at 31 December 2006, Utama Banking Group Berhad ('UBG') held 32.6% of the ordinary shares of RM1.00 each in RHB and 449,206,479 of ICULS-A and 403,471,898 of ICULS-B that are presently convertible into ordinary shares of RHB. Pursuant to FRS 127<sub>2005</sub> which requires the consideration of these potential ordinary shares, UBG's interest in RHB would amount to 61.2%. The related parties of UBG are disclosed in UBG's financial statements.

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 26 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances. The significant related party transactions and balances described below were carried out on terms and conditions obtainable on transactions with unrelated parties. Profit rates on all related party transactions are at normal commercial rates.

Other related companies comprise the other companies in the RHB Group.

	<b>Holding company RM'000</b>	<b>Other related companies RM'000</b>
<b>For the financial year ended 31.12.2006</b>		
<u>Expenditure</u>		
Rental of premises	–	148
Reimbursement of operating expenses to holding company	50,967	–
Other	–	84
	<b>50,967</b>	<b>232</b>
<u>Amount due to</u>		
Current account and investment deposits	–	5,322
Deposits and placements of banks and other financial institutions	–	2,006
Other liabilities	132,551	59
	<b>132,551</b>	<b>7,387</b>

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 26 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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

	Holding company RM'000	Other related companies RM'000
For the financial year ended 31.12.2005		
<u>Expenditure</u>		
Profit on deposits and placements of banks and other financial institutions	–	39
Rental of premises	–	262
Reimbursement of operating expenses to holding company	33,761	–
Other	–	433
	<u>33,761</u>	<u>734</u>
<u>Amount due to</u>		
Current account and investment deposits	–	5,086
Deposits and placements of banks and other financial institutions	3,000	–
Other liabilities	297,706	2
	<u>300,706</u>	<u>5,088</u>

### 27 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to customers. No material losses are anticipated as a result of this transaction, which needs to be adjusted.

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 27 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Risk weighted exposures of the Bank are as follows:

	31.12.2006		
	Principal Amount RM'000	Credit Equivalent Amount * RM'000	Risk Weighted Amount RM'000
Transaction-related contingent items	94,141	47,071	46,259
Short-term self-liquidating trade-related contingencies	205,560	41,112	40,790
Obligations under underwriting agreements	50,000	25,000	25,000
Housing financing sold to Cagamas with recourse	41,064	41,064	20,532
Irrevocable commitments to extend credit:			
– maturity more than one year	335,794	167,897	147,109
– maturity less than one year	1,792,447	–	–
Miscellaneous	17,544	–	–
<b>Total</b>	<b>2,536,550</b>	<b>322,144</b>	<b>279,690</b>
	31.12.2005		
Transaction-related contingent items	50,374	25,187	23,619
Short-term self-liquidating trade-related contingencies	109,130	21,826	21,826
Obligations under underwriting agreements	50,000	25,000	25,000
Housing financing sold to Cagamas with recourse	44,062	44,062	22,031
Irrevocable commitments to extend credit:			
– maturity more than one year	168,319	84,160	64,231
– maturity less than one year	1,224,395	–	–
Miscellaneous	18,166	–	–
<b>Total</b>	<b>1,664,446</b>	<b>200,235</b>	<b>156,707</b>

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

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### **28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

#### **OVERVIEW**

Risk is inherent in banking business and sound risk management is cornerstone of prudent and successful banking. In compliance with best practices under the Malaysian Code of Corporate Governance, the Board of Directors ('Board') through the Risk Management Committee of the Board and RHB Bank Berhad's Risk Management Division ('RMD') is responsible for identifying principal risk and ensuring that there is an ongoing process to continuously manage the Bank's risks proactively.

The Risk Management Committee of the Board provides oversight and management of all risks in an integrated way. Risk & Compliance Management Team ('RCM') of the Bank through collaboration with, guidance and supervision of RMD of RHB Bank Berhad and direct reporting line to the Chief Operating Officer ('COO') serves as an independent monitoring, identification, assessment and reporting on areas and extent of credit, market and operational risk. RCM through RMD and COO assists the Risk Management Committee and Board to formulate risk related policies, advises the Board on the risk impact of business strategies, and reviews compliance by the management to the risk policy framework that is approved by the Board.

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

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### **28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

#### **MARKET RISK MANAGEMENT**

Market risk is the risk of potential loss resulting from adverse movements in the level of market prices or rates, the two key components being profit rate risk and liquidity risks. It is incurred as a result of trading and non-trading activities.

The primary objective of market risk management is to ensure that losses from market risk can be promptly addressed, such that losses are contained within acceptable levels.

A framework of approved risk policies, measurement methodologies and limits as approved by the Board, controls financial market activities. The Asset Liability Committee ('ALCO') comprising key officers of the Bank, plays a fundamental role in the asset/liability management of the bank, and establishes strategies which assist in controlling and reducing potential exposures to market risk. RCM through RMD, plays an independent role in the monitoring and assessing of risk exposures arising from these, and reports independently to the Risk Management Committee of the Board.

Apart from monitoring compliance with risk policies, methodologies and limits, a number of techniques are used to measure and control market risks. Value at Risk ('VAR') method is used for estimation of potential loss arising from positions held for a specified period of time. Scenario analysis and stress testing examine the impact of unusual market forces on the existing portfolios.

#### **PROFIT RATE RISK**

Profit rate risk is the risk to earnings and the value of financial instruments held by the Bank caused by fluctuation in the profit rates. Profit rate risks arise from differences in maturities and repricing dates of assets, liabilities and off-balance sheet items.

The ALCO monitors the balance sheet position and assesses it for profit and loss impacts arising from sensitivity to profit rate movements. There are set limits on the level of mismatch of profit rate repricing that may be undertaken, which are monitored monthly. Stress test analysis are undertaken to provide guidance towards limiting profit rate risks.



## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED) PROFIT RATE RISK (CONTINUED)

The table below summarises the Bank's exposure to profit rate risk. The assets and liabilities at carrying amount are categorised by the earlier of contractual repricing or maturity dates.

31.12.2006	← Non-trading book →							Total RM'000	Effective profit rate %
	Up to 1 month	>1-3 months	>3-12 months	>1-5 years	Over 5 years	Non-profit sensitive	Trading book		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000		
<b>Assets</b>									
Cash and short term funds	1,293,000	-	-	-	-	21,283	-	1,314,283	3.49
Deposits and placements with financial institutions	-	1,220,000	-	-	-	-	-	1,220,000	3.61
Securities held for trading	92,595	166,745	19,427	-	35,853	-	314,620	314,620	3.94
Securities available-for-sale	3,743	-	-	14,463	-	575	-	18,781	3.59
Securities held-to-maturity	-	24,832	20,055	702,411	62,310	-	-	809,608	3.97
Financing and advances									
- performing	418,003	436,596	658,305	743,898	1,774,866	-	-	4,031,668	5.73
- non-performing	-	-	-	-	-	115,905 *	-	115,905	-
Other assets	-	-	-	-	-	68,139	-	68,139	-
Deferred taxation assets	-	-	-	-	-	21,587	-	21,587	-
Statutory deposits	-	-	-	-	-	170,429	-	170,429	-
Property, plant and equipment	-	-	-	-	-	7,245	-	7,245	-
<b>Total assets</b>	<b>1,807,341</b>	<b>1,848,173</b>	<b>697,787</b>	<b>1,460,772</b>	<b>1,873,029</b>	<b>405,164</b>	<b>-</b>	<b>8,092,265</b>	

\* This represents outstanding non-performing financing after deducting specific allowance and general allowance.

## Notes to the Financial Statements

for the financial year ended 31 December 2006

**28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)****PROFIT RATE RISK (CONTINUED)**

31.12.2006	← Non-trading book →						Trading book	Total RM'000	Effective profit 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-profit sensitive RM'000			
<b>Liabilities</b>									
Deposits from customers	3,409,145	1,063,863	870,685	97,034	200	1,239,497	-	6,680,424	2.40
Deposits and placements of banks and other financial institutions	240,134	79,484	78,370	46,935	-	-	-	444,923	3.71
Bills and acceptances payable	-	-	-	-	-	16,542	-	16,542	3.63
Taxation	-	-	-	-	-	17,984	-	17,984	-
Other liabilities	-	-	-	-	-	280,718	-	280,718	-
<b>Total liabilities</b>	<b>3,649,279</b>	<b>1,143,347</b>	<b>949,055</b>	<b>143,969</b>	<b>200</b>	<b>1,554,743</b>	<b>-</b>	<b>7,440,591</b>	
Total shareholders equity	-	-	-	-	-	651,674	-	651,674	
	<b>3,649,279</b>	<b>1,143,347</b>	<b>949,055</b>	<b>143,969</b>	<b>200</b>	<b>2,206,417</b>	<b>-</b>	<b>8,092,265</b>	
<b>Total profit-sensitivity gap</b>	<b>(1,841,788)</b>	<b>905,760</b>	<b>(122,326)</b>	<b>1,316,803</b>	<b>1,872,831</b>				

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED) PROFIT RATE RISK (CONTINUED)

31.12.2005	← Non-trading book →						Trading book	Total RM'000	Effective profit 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-profit sensitive RM'000			
<b>Assets</b>									
Cash and short term funds	1,870,000	-	-	-	-	69,598	-	1,939,598	2.90
Deposits and placements with financial institutions	250,000	200,000	-	-	-	-	-	450,000	2.92
Securities held for trading	-	-	-	-	-	-	633,284	633,284	2.98
Securities available-for-sale	-	99,575	47,847	-	-	575	-	147,997	2.93
Securities held-to-maturity	-	59,743	43,700	637,350	71,188	-	-	811,981	3.90
Financing and advances									
- performing	507,576	361,637	376,035	1,055,805	1,012,663	-	-	3,313,716	5.34
- non-performing	-	-	-	-	-	86,695 *	-	86,695	-
Other assets	-	-	-	-	-	28,743	-	28,743	-
Deferred taxation assets	-	-	-	-	-	22,743	-	22,743	-
Statutory deposits	-	-	-	-	-	182,329	-	182,329	-
Property, plant and equipment	-	-	-	-	-	6,580	-	6,580	-
<b>Total assets</b>	<b>2,627,576</b>	<b>720,955</b>	<b>467,582</b>	<b>1,693,155</b>	<b>1,083,851</b>	<b>397,263</b>	<b>633,284</b>	<b>7,623,666</b>	

\* This represents outstanding non-performing financing after deducting specific allowance and general allowance.

## Notes to the Financial Statements

for the financial year ended 31 December 2006

**28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**  
**PROFIT RATE RISK (CONTINUED)**

31.12.2005	← Non-trading book →							Total	Effective profit 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-profit sensitive RM'000	Trading book RM'000		
<b>Liabilities</b>									
Deposits from customers	3,543,556	533,524	606,266	146,122	3,865	678,312	-	5,511,645	2.12
Deposits and placements of banks and other financial institutions	427,751	124,566	248,197	293,735	-	-	-	1,094,249	3.77
Bills and acceptances payable	18,614	10,061	5,362	-	-	-	-	34,037	2.76
Taxation and zakat	-	-	-	-	-	2,981	-	2,981	-
Other liabilities	-	-	-	-	-	415,600	-	415,600	-
<b>Total liabilities</b>	<b>3,989,921</b>	<b>668,151</b>	<b>859,825</b>	<b>439,857</b>	<b>3,865</b>	<b>1,096,893</b>	<b>-</b>	<b>7,058,512</b>	
Total shareholders equity	-	-	-	-	-	565,154	-	565,154	
	<b>3,989,921</b>	<b>668,151</b>	<b>859,825</b>	<b>439,857</b>	<b>3,865</b>	<b>1,662,047</b>	<b>-</b>	<b>7,623,666</b>	
Total profit- sensitivity gap	(1,362,345)	52,804	(392,243)	1,253,298	1,079,986				

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### **28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

#### **LIQUIDITY RISK**

The primary objective of liquidity risk management is to ensure that the Bank maintains sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost.

Liquidity is assessed based on the contractual and behavioural cash flow of assets, liabilities and off-balance sheet commitments, taking into account consideration of realisable cash value of eligible liquefiable securities. The Bank sets limits on the minimum portion of maturing funds available to meet obligations and the minimum level of inter-bank and other borrowing facilities, to ensure adequate cover for withdrawals at unexpected level of demand. Defined ratios of positive Net Cash Inflow are maintained and monitored. The Bank constantly ensures compliance with Bank Negara Malaysia's Liquidity Framework. The Bank's liquidity framework is subject to stress test and its results are constantly reviewed.

#### **CREDIT RISK MANAGEMENT**

Credit risk represents the possibility of loss due to changes in the quality of counterparties and the market price for credit risk assets (collateral).

The primary objective of credit risk management is to keep the Bank's exposure to credit risk within its capability and financial capacity to withstand potential financial losses.

The credit policy is to develop a strong credit culture with the objective of maintaining a well diversified, evaluated and current portfolio, fully satisfied for credit risk, giving no concern for unexpected losses and which ensures a reliable and satisfactory risk weighted return. This policy, the bedrock of credit risk management, is in the form of a written statement of credit standards, principles and guidelines, which is distributed bank-wide and used as a common source of reference.

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### **28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

#### **CREDIT RISK MANAGEMENT (CONTINUED)**

Stringent measures and processes are in place before credit proposals are approved. All credit proposals are first processed and evaluated by the originating business units before being independently evaluated by the Credit Management Division ('CMD'). The Board sanctions credits beyond the approved discretionary limit. The strict adherence to the discretionary powers sanctioned by the Board is monitored by the Compliance Division.

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

Together with RHB Bank Bhd, the Bank is committed to its Basel II journey as well as implementation of IFSB exposure.

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED) CREDIT RISK MANAGEMENT (CONTINUED)

Credit risk exposure analysed by industry in respect of the Bank's financial assets, including off-balance sheet financial instruments, are set out below:

31.12.2006	Short-term funds and deposits & placements with financial institutions							On balance sheet total	Commitments and contingencies
	Securities held for trading	Securities available-for-sale	Securities held-to-maturity	Financing and advances #	Other financial assets *	RM'000	RM'000		
Agriculture	-	-	-	-	361,036	-	361,036	174,815	
Mining and quarrying	-	-	-	-	2,004	-	2,004	192	
Manufacturing	-	120,403	-	-	624,028	-	744,431	1,035,746	
Electricity, gas and water	-	40,844	-	-	127,896	-	168,740	182,943	
Construction	-	-	-	119,538	179,419	-	298,957	168,544	
Real estate	-	48,736	-	16,857	-	-	65,593	315	
Purchase of landed property	-	-	-	-	1,577,796	-	1,577,796	158,519	
General commerce	-	-	-	-	308,376	-	308,376	551,553	
Transport, storage and communication	-	24,936	-	-	84,940	-	109,876	726	
Finance, insurance and business service	2,513,000	4,973	-	-	711,751	-	3,229,724	111,145	
Government and government agencies	-	74,728	18,781	673,213	134,917	-	901,639	79,015	
Others	-	-	-	-	112,469	-	112,469	73,037	
	2,513,000	314,620	18,781	809,608	4,224,632	-	7,880,641	2,536,550	
Assets not subject to credit risk	21,283	-	-	-	-	68,139	89,422	-	
	2,534,283	314,620	18,781	809,608	4,224,632	68,139	7,970,063	2,536,550	

# Excludes general allowance amounting to RM77,059,269

\* Excludes statutory deposit with BNM of RM170,428,732, deferred taxation assets of RM21,587,824 and property, plant and equipment of RM7,245,325.

## Notes to the Financial Statements

for the financial year ended 31 December 2006

**28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)****CREDIT RISK MANAGEMENT (CONTINUED)**

31.12.2006	Short-term funds and deposits & placements with financial institutions RM'000	Securities held for trading RM'000	Securities available- for-sale RM'000	Securities held-to- maturity RM'000	Financing and advances # RM'000	Other financial assets * RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	-	-	274,188	-	274,188	110,080
Mining and quarrying	-	-	-	-	2,222	-	2,222	192
Manufacturing	-	85,714	-	-	588,990	-	673,136	543,277
Electricity, gas and water	-	49,930	-	-	183,898	-	233,828	30,350
Construction	-	4,912	-	-	70,005	-	74,917	62,303
Real estate	-	-	-	17,094	204,621	-	221,715	3,522
Purchase of landed property	-	-	-	-	1,245,619	3,350	1,248,969	129,068
General commerce	-	-	-	-	224,059	-	224,059	405,295
Transport, storage and communication	-	-	-	-	53,873	-	53,873	637
Finance, insurance and business service	2,320,000	29,073	14,989	666,381	214,832	12,965	3,258,240	73,323
Government and government agencies	-	463,655	132,433	-	-	1,705	599,361	-
Purchase of securities	-	-	-	-	343,174	-	343,174	14
Purchase of transport vehicles	-	-	-	-	4	-	4	-
Consumption credit	-	-	-	-	25,443	-	25,443	-
Others	-	-	-	128,506	93,445	956	222,907	306,385
	2,320,000	633,284	147,422	811,981	3,524,373	18,976	7,456,036	1,664,446
Assets not subject to credit risk	69,598	-	575	-	-	9,767	79,940	-
	2,389,598	633,284	147,997	811,981	3,524,373	28,743	7,535,976	1,664,446

# Excludes general allowance amounting to RM73,692,389 and specific allowance amounting to RM50,270,252.

\* Excludes statutory deposit with BNM of RM182,328,732, deferred taxation assets of RM22,742,945 and property, plant and equipment of RM6,579,887.



## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

The management of operational risk is an important feature of sound risk management practice in today's banking operations. Policies and procedures, internal controls and internal reviews or compliance monitoring and audit processes are primary means to control operational risk. The operational risk function is responsible for development of bank-wide operational risk policies, frameworks and methodologies, and providing inputs to the business units on the operational risk areas. The respective business units are primarily responsible for managing operational risk on a day-to-day basis. Operating processes and policies are continually being refined and strengthened to prevent or minimise unexpected losses.

As the Bank implements its Basel II initiatives, Operational Risk Management Department is putting in place the key risk indicators ('KRI') and operational risk self assessment ('ORSA') to support various business units and support group to manage and monitor their operational risk more effectively.

The Bank has its ongoing business continuity planning ('BCP') programme for its major critical business operations and activities at the Head Office, Datacentre, and branches locations. The BCP programme is subject to regular testings to ensure efficacy, reliability and functionality. In addition, the Bank has the following policies and framework in place, which are relevant to all business/operations/support divisions:

- Know-Your-Customer ('KYC') policy in relation to Anti Money Laundering & Counter Financing of Terrorism ('AML & CFT'); and
- Internal policies on compliance with legal and statutory requirements such as Companies Act 1965, Islamic Banking Act 1983, Bank Negara Malaysia ('BNM') guidelines and circulars, Association of Islamic Banking & Financial Institutions ('AIBIM') rules and circulars, international rules e.g. International Chamber of Commerce ('ICC'), Uniform Customs and Practice for Documentary Credits ('UCP'), Uniform Rules for Collections ('URC'), and the Bank's operating policies and procedure manuals.

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### **28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

#### **OPERATIONAL RISK (CONTINUED)**

The Human Resource Division ('HR') has in place an established policy and procedures in ensuring quality people with integrity are recruited, trained and retained. Operational risk awareness training is also part of the Bank's Learning Centre/HR initiatives for targeted staff.

The Bank observes BNM's standard procedures for all new products/services introduced.

#### **INFORMATION TECHNOLOGY ('IT') RISK**

As for IT risk, there is a continuous process of risk assessment and risk mitigation on the existing hardware, software and the processes.

IT risk management is the process that balances the operational and economic costs of protective measures of IT systems and data against the goal of the organisation.

Dedicated disaster recovery planning ('DRP') hot site is established for the mainframe system, as well as for the other specific software systems that Bank has.

The Bank allocates substantial time and dedicated staff to constantly review, revamp and develop new policy and procedures to cater for the constant change of the financial industry.

### **29 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

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

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 29 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Quoted and observable market prices, where available, are used as the measure of fair values. However, for a significant portion of the financial instruments, including financing and advances to customers, such market prices do not exist as there is currently no ready market wherein exchanges between willing parties occur.

Accordingly, various methodologies have been used to estimate what the approximate fair values of such instruments might be. These methodologies involve uncertainties and are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of futures cash flows, future expected loss experience and other factors. Changes in the uncertainties and assumptions could significantly affect these estimates and the resulting fair value estimates. Where these methodologies are not able to estimate the approximate fair values, such instruments are stated at carrying amount.

Fair value information is not provided for non-financial instruments and financial instruments that are excluded from the scope of FRS 132 which requires fair value information to be disclosed. These include property, plant and equipment. In addition, the previous FRS 132<sub>2004</sub> (formerly known as MASB 24) excluded transactions and events conducted on the basis of Islamic Principles.

Therefore, for a significant portion of the Bank's financial instruments, including financing and advances to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amount that the Bank could have realised in a sales transaction at the balance sheet date. The fair value information presented herein should also in no way be construed as representative of and the Bank's underlying value as a going concern.

Furthermore, it is the Bank's intention to hold most of its financial instruments to maturity and, therefore, it is not probable that the fair value estimates shown will be realised.

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 29 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The following table summarises the carrying amounts and the estimated fair values of those financial assets not presented on the Bank's balance sheet at their fair value:

31.12.2006

	<b>Carrying value RM'000</b>	<b>Estimated fair value RM'000</b>
<b>Financial assets</b>		
Securities held-to-maturity	<b>809,608</b>	817,815
Financing and advances	<b><u>4,147,573</u></b>	<u>3,797,696*</u>

\* Financing and advances are stated at cost and are not fair value but are subject to impairment with BNM/GP3. The Bank is of the view that there are no further impairment other than that already provided for.

The comparative figures are not presented since the previous FRS 132<sub>2004</sub> (formerly known as MASB 24) excluded transactions and events conducted on the basis of Islamic Principles.

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

#### **Securities held-to-maturity**

The estimated fair value is generally based on quoted and observable market prices at the balance sheet date. Where such quoted or observable market prices are not available on certain securities, the fair value is estimated by reference to market indicative yields or net tangible asset backing of the investee. Where discounted cash flow technique is used, the estimated future cash flows are discounted using the prevailing market rates for a similar instrument at the balance sheet date.

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 29 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

#### Financing and advances

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

The fair values of impaired fixed rates financing and advances are represented by their carrying value, net of specific allowance being the expected recoverable amount.

### 30 CAPITAL ADEQUACY

	31.12.2006	31.12.2005
	RM'000	RM'000
<b>Tier I Capital</b>		
Paid-up ordinary share capital	<b>523,424</b>	523,424
Retained profits	<b>63,923</b>	20,742
Statutory reserve	<b>63,923</b>	20,742
	<b>651,270</b>	564,908
Less:		
Deferred tax assets	<b>(21,587)</b>	(22,743)
Total Tier I capital	<b>629,683</b>	542,165
<b>Tier II Capital</b>		
General allowance for bad and doubtful financing	<b>77,059</b>	73,692
Total Tier II capital	<b>77,059</b>	73,692
Total capital base	<b>706,742</b>	615,857
<b>Capital ratios</b>		
Inclusive of market risk:		
Core capital ratio (inclusive of market risk)	<b>15.84%</b>	16.49%
Risk-weighted capital ratio (inclusive of market risk)	<b>17.78%</b>	18.73%

## Notes to the Financial Statements

for the financial year ended 31 December 2006

**30 CAPITAL ADEQUACY (CONTINUED)**

31.12.2006

	Principal RM'000	Risk Weighted RM'000
The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:		
(i) Credit Risk		
0%	3,364,968	–
10%	60,442	6,044
20%	230,397	46,079
50%	1,310,241	655,121
100%	3,216,935	3,216,935
	<u>8,182,983</u>	<u>3,924,179</u>
(ii) Market Risk Capital Adequacy Framework #	–	51,458
	<u>8,182,983</u>	<u>3,975,637</u>

31.12.2005

	Principal RM'000	Risk Weighted RM'000
The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:		
(i) Credit Risk		
0%	3,282,205	–
10%	95,589	9,559
20%	109,440	21,888
50%	1,093,138	546,569
100%	2,675,107	2,675,107
	<u>7,255,479</u>	<u>3,253,123</u>
(ii) Market Risk Capital Adequacy Framework #	–	36,007
	<u>7,255,479</u>	<u>3,289,130</u>

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

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 31 SEGMENT INFORMATION

Segment information is presented in respect of the Bank's business segment.

All inter-segment transactions are conducted on an arms length basis and on normal commercial terms not more favourable than those generally available to the public.

#### **Primary reporting format – by business segment**

The Bank's business segment can be organised into the following main segments reflecting the Bank's internal reporting structure:

#### **Corporate banking**

Corporate banking caters to financing and managing relationship of corporate customers including public listed corporations and its related entities, multinational corporations, financial institutions, government and state owned entities as well as high net worth individual related to the above.

#### **Commercial banking**

Commercial banking caters to funding or lending needs of small and medium enterprises. The products and services offered to customers include term financing, revolving financing and hire purchase financing.

#### **Consumer banking**

Consumer banking focuses on providing products and services to individual customers. The products and services offered to customers include term financing (house and shop house financing), deposit portfolios (savings and current account), remittance services and investment products (term deposit/investment accounts).

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### **31 SEGMENT INFORMATION (CONTINUED)**

#### **Treasury**

Treasury operation is involved in money market operation and securities trading on behalf of the Bank and also for the Banks' customers. The division also provides solutions to serve investment needs of the Bank and the Bank's customers.

#### **Transaction banking**

Transaction banking establishes, retains and grows relationship with Federal and State Governments including their respective agencies and business corporations in order to retain sources of deposits and earn fee-based income. The division also provides cash management, collection and payment services to customers.

#### **Corporate Finance**

Corporate finance division generates fee-based income from private debt securities issuances (PDS), financings restructuring and syndication as well as general and project advisory services.

#### **Automobile**

Automobile division focuses on providing Islamic automobile financing business with concentration on the financing of high demand and popular passenger motor vehicles.



## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 31 SEGMENT INFORMATION (CONTINUED)

31.12.2006

	Corporate Banking RM'000	Commercial Banking RM'000	Consumer Banking RM'000	Treasury & Money Market RM'000	Transaction Banking RM'000	Others*	Elimination RM'000	Total RM'000
External revenue	101,450	26,440	89,690	134,283	10,312	34,549	-	396,724
Inter-segment revenue	(40,175)	(10,220)	(16,036)	15,830	52,548	(1,947)	-	-
Total revenue	61,275	16,220	73,654	150,113	62,860	32,602	-	396,724
Depositors' payout	(10,907)	(1,677)	(13,812)	(127,892)	(26,951)	-	-	(181,239)
Net income	50,368	14,543	59,842	22,221	35,909	32,602	-	215,485
Operating overheads	(7,797)	(11,129)	(47,171)	(8,660)	(14,117)	(3,286)	-	(92,160)
Segmental results	42,571	3,414	12,671	13,561	21,792	29,316	-	123,325
Segmental results								123,325
Profit equalisation reserve								(1,563)
Profit before taxation and zakat								121,762
Taxation and zakat								(35,400)
Profit for the financial year								86,362

	Corporate Banking RM'000	Commercial Banking RM'000	Consumer Banking RM'000	Treasury & Money Market RM'000	Transaction Banking RM'000	Others*	Elimination RM'000	Total RM'000
Other information								
Segment assets	1,823,392	670,004	1,624,046	3,738,588	2,304,622	116,304	(2,213,293)	8,063,663
Deferred taxation assets	-	-	-	-	-	-	-	21,587
Unallocated assets	-	-	-	-	-	-	-	7,015
Total assets	1,823,392	670,004	1,624,046	3,738,588	2,304,622	116,304	(2,213,293)	8,092,265
Segment liabilities	1,599,214	579,478	1,531,870	3,578,818	2,249,162	97,358	(2,213,293)	7,422,607
Taxation and zakat	-	-	-	-	-	-	-	17,984
	1,599,214	579,478	1,531,870	3,578,818	2,249,162	97,358	(2,213,293)	7,440,591
Other segment items								
Capital expenditure	145	217	695	203	187	-	-	1,447
Depreciation	79	117	375	109	102	-	-	782
Financing loss provision	(5,413)	(8,977)	(7,687)	-	-	(100)	-	(22,177)
Net accretion of discount	-	-	-	(22,855)	-	-	-	(22,855)

\* Others comprise of Corporate Finance and Automobile

## Notes to the Financial Statements

for the financial year ended 31 December 2006

**31 SEGMENT INFORMATION (CONTINUED)**

31.12.2005

	Corporate Banking RM'000	Commercial Banking RM'000	Consumer Banking RM'000	Treasury		Others* RM'000	Elimination RM'000	Total RM'000
				& Money Market RM'000	Transaction Banking RM'000			
External revenue	65,712	22,780	67,722	77,170	7,348	875	-	241,607
Inter-segment revenue	(23,933)	(6,962)	(9,488)	2,445	37,938	-	-	-
Total revenue	41,779	15,818	58,234	79,615	45,286	875	-	241,607
Depositors' payout	(12,695)	(2,526)	(11,326)	(62,037)	(24,871)	-	-	(113,455)
Net income	29,084	13,292	46,908	17,578	20,415	875	-	128,152
Operating overheads	(5,442)	(12,033)	(28,594)	(4,624)	(8,693)	(610)	-	(59,996)
Segmental results	23,642	1,259	18,314	12,954	11,722	265	-	68,156
Segmental results								68,156
Profit equalisation reserve								(8,002)
Profit before taxation and zakat								60,154
Taxation and zakat								(18,670)
Net profit for the financial period								41,484

	Corporate Banking RM'000	Commercial Banking RM'000	Consumer Banking RM'000	Treasury		Others* RM'000	Elimination RM'000	Total RM'000
				& Money Market RM'000	Transaction Banking RM'000			
Other information								
Segment assets	1,633,156	549,771	1,274,929	4,294,774	1,416,911	-	(1,649,525)	7,520,016
Deferred taxation assets	-	-	-	-	-	-	-	22,743
Unallocated assets	-	-	-	-	-	-	-	80,907
Total assets	1,633,156	549,771	1,274,929	4,294,774	1,416,911	-	(1,649,525)	7,623,666
Segment liabilities	1,505,681	497,947	1,228,871	4,068,697	1,403,860	-	(1,649,525)	7,055,531
Taxation and zakat	-	-	-	-	-	-	-	2,981
	1,505,681	497,947	1,228,871	4,068,697	1,403,860	-	(1,649,525)	7,058,512
Other segment items								
Capital expenditure	10	2	169	173	-	-	-	354
Allocated capex	623	934	2,988	872	809	-	-	6,226
Depreciation	48	71	239	79	62	-	-	499
Financing loss provision	(613)	629	3,607	-	-	-	-	3,622
Net accretion of discount	-	-	-	(16,795)	-	-	-	(16,795)

\* Others comprise of Corporate Finance and Automobile

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### **32 DISCLOSURE OF SHARIAH ADVISOR**

#### **The Shariah Committee Member Profiles**

##### **Prof. Dr. Hj. Abdul Samat Musa (Chairman Of The Committee)**

Educated at University Kebangsaan Malaysia (UKM), he obtained a B.A in Islamic Studies (Shariah) (Second Class Upper) in 1976. He holds a Masters in Comparative Law from University of Malaya (1980) and a PhD in Law from Manchester, England. He started his career as a tutor in 1976. He was promoted to Lecturer in 1979 and was appointed Professor in 2002. He is a committee member for various organizations within and outside UKM and Universiti Sains Islam Malaysia ('USIM'). He has written various journals and articles on Islamic Constitutions, Governance and Administration for forums, seminars and published his works in newspapers. Prof. Dr. Hj Abdul Samat is a Dean of Shariah & Law Faculty and Acting Director of World Fatwa Management & Research Institute at USIM.

##### **Dr. Ahmed Mohieldin Ahmed**

Educated at Omdurman Islamic University (Sudan), he obtained a BSc Economics in 1970. He also holds a Masters Degree in Fiqh Transactions (1984) and a PhD in Islamic Economics from the Om-Alghorah University (1989). He was a manager at the Research & Development Department for the Al-Baraka Banking Group, Adviser for Dallah Al-Baraka Group President's Office, Economic Adviser at the Islamic Fiqh Academy, Researcher & Arbitrator for Islamic Development Bank and Head of Shariah Research & Studies Section for the Research & Development department of Dallah Al-Baraka. He is a member of several Shariah panels notably for the Al-Baraka Banking Group and former member of the Board of Directors and Executive Committees for Al-Tawfeek & Al-Amin companies.

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### 32 DISCLOSURE OF SHARIAH ADVISOR (CONTINUED)

#### **Prof. Dr. Joni Tamkin Borhan**

Educated at University of Malaya, he obtained a B.Sh (Shariah) in 1990. He also received a Masters Degree in Islamic Economics from University of Malaya in 1994 and a PhD in Islamic Banking from Edinburgh, Scotland in 1997. He was a member of the National Shariah Advisory Council on Islamic Banking and Takaful (NSAC) (1999-2004), National Accreditation Board (LAN), Fellow at the Religious Department at Victoria University of Wellington, Head of Department of Shariah & Economics at University of Malaya and Head of Department of Shariah & Management at University of Malaya. He has published and written numerous books, articles and journals. He also sits as a speaker for various workshops and conferences in various fields mostly in Islamic Banking. Dr. Joni Tamkin currently holds the position as the Deputy Director for Undergraduates, Academy of Islamic Studies and also a Professor at the Department of Shariah & Economics, Academy of Islamic Studies, University Malaya.

#### **Prof. Dr. Mohd Ma'sum Billah**

Educated at International Islamic University Malaysia (IIUM) where he obtained his LL.B (Hons); MMB; MCL (Comp.Laws) and subsequently his PhD on "Insurance vs. Takaful" with a comparative practical and regulatory analysis. He has written about 67 articles in different academic journals (internationally and locally) with comparative analysis of Modern and Shariah mainly on Law of Insurance, Banking, Economics, Finance, Business, Commerce, E-Commerce Regulations and several articles on Takaful (Islamic Insurance and Re-Insurance). He is also one of the authors in: <http://www.islamic-insurance.com> website. Prof. Dr. Mohd Ma'sum Billah has authored about 28 books on different subjects of Modern and Shariah disciplines with comparative treatment. Most of his works are used as potential references equally by the academicians, researchers and students at the higher learning institutions and the practitioners at the international and the local corporate environments. Prof. Dr. Mohd Ma'sum Billah is the Director of Global Trade and Investment Cooperation ('OIC Zone') of the Islamic Chamber of Commerce and Industry ('ICCI').

### 33 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 28 February 2007.

# Statement by Directors

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

We, Dato' Vaseehar Hassan Abdul Razack and Dato Abdullah Mat Noh, being two of the directors of RHB Islamic Bank Berhad state that, in the opinion of the directors, the financial statements set out on pages 57 to 123 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2006 and of the results and cash flows of the Bank for the financial year ended on that date in accordance with the MASB approved accounting standards in Malaysia for entities other than private entities, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

On behalf of the Board in accordance with a resolution of the Board of directors dated 28 February 2007.

**DATO' VASEEHAR HASSAN ABDUL RAZACK**

*CHAIRMAN*

**DATO ABDULLAH MAT NOH**

*DIRECTOR*

Kuala Lumpur

# Statutory Declaration

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

I, Haryadi Katmun @ Katmon, the officer primarily responsible for the financial management of RHB Islamic Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 57 to 123 are, in my opinion correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declaration Act, 1960.

## **HARYADI KATMUN @ KATMON**

Subscribed and solemnly declared by the abovenamed Haryadi Katmun @ Katmon at Kuala Lumpur in Wilayah Persekutuan on 28 February 2007.

Before me:

*COMMISSIONER FOR OATHS*

Kuala Lumpur

# Report of the Auditors

to the Member of RHB Islamic Bank Berhad

We have audited the financial statements set out on pages 57 to 123. These financial statements are the responsibility of the Bank's directors. It is our responsibilities 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 the 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 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, the MASB approved accounting standards in Malaysia for entities other than private entities and Bank Negara Malaysia Guidelines so as to give a true and fair view of:
  - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
  - (ii) the state of affairs of the Bank as at 31 December 2006 and of the results and cash flows of the Bank for the financial year ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

**PRICEWATERHOUSECOOPERS**

(No.AF:1146)

*Chartered Accountants*

**SOO HOO KHOON YEAN**

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

*Partner of the firm*

Kuala Lumpur

28 February 2007

# RHB ISLAMIC Bank Branch Network

As At 31 March 2007

**1) Corporate Office**

Level 11, Menara Yayasan Tun Razak  
200, Jalan Bukit Bintang  
55100 Kuala Lumpur  
Tel : (03) 2171 5000

**2) Main Branch**

Level One, Tower Three  
RHB Centre, 50400 Kuala Lumpur  
Tel : (03) 9280 6078

**3) Regional Office East Malaysia**

Lot 371, Jalan Kulas  
93400 Kuching, Sarawak  
Tel : (082) 274 952

**4) Kota Bharu Marketing Centre**

1185, Jalan Kebun Sultan  
15350 Kota Bharu  
Kelantan  
Tel : (09) 747 2525

**5) Kuala Terengganu Marketing Centre**

1st Floor  
59, Jalan Sultan Ismail  
20200 Kuala Terengganu  
Terengganu  
Tel : (09) 626 2627

**6) Jalan Masjid India Marketing Centre**

No. 137, Ground Floor  
Jalan Bunus  
Off Jalan Masjid India  
50100 Kuala Lumpur  
Tel : (03) 2693 6300

**7) Jalan Satok Marketing Centre**

192-E & 192-F  
Jalan Satok  
93400 Kuching, Sarawak  
Tel : (082) 258 800

**8) Jalan Gaya Marketing Centre**

No. 104, Jalan Gaya  
88000 Kota Kinabalu  
Sabah  
Tel : (088) 266 600

**9) Kelana Jaya Marketing Centre**

No. A-G-03, Jalan SS6/5 A,  
Dataran Glomac, Pusat Bandar Kelana Jaya  
Kelana Jaya, 47301 Petaling Jaya  
Selangor  
Tel : (03) 7805 7500

**10) Taman Indah Automobile Business Centre**

2nd Floor, No. 7 & 9, Jalan SS2/1  
Off Jalan Balakong, Taman Indah  
Batu 11, 43200 Cheras, Kuala Lumpur  
Tel : (03) 9075 5959

\*Note: RHB ISLAMIC Bank products and services are also available at all the RHB Bank branches nationwide. For more info, please visit our website at [www.share.com.my](http://www.share.com.my)



