RHB Islamic Bank Berhad

Marching to a New Beat

ANNUAL REPORT 2010

Cover Rationale

With Islamic finance representing one of the fastest-growing segments in the financial sector, RHB Islamic Bank is uniquely positioned to avail itself of a host of marketplace opportunities. Already a key growth driver for the Group, this entity is all set to increase the tempo of its performance through a new brand identity, enhanced delivery channels and strong strategic alliances.

◆ Driven to Perform

RHB Bank Berhad

◆ Delivering an Outstanding Performance

RHB Investment Bank Berhad

◆ Playing to a New Tune

RHB Insurance Berhad

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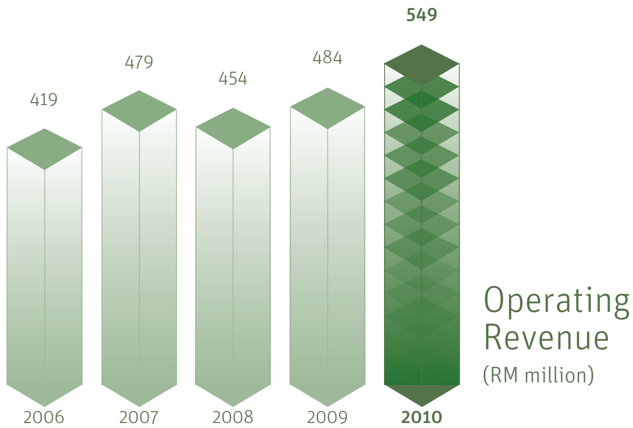
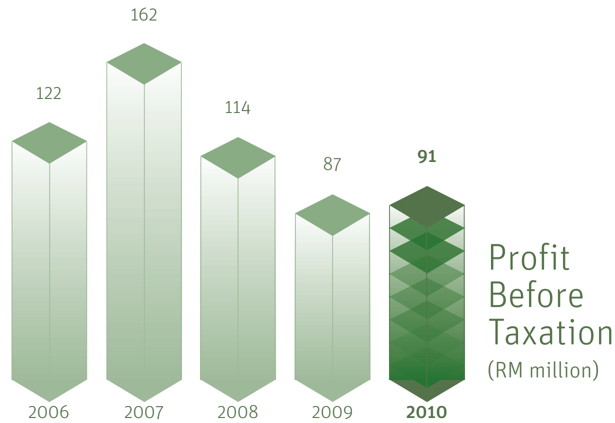
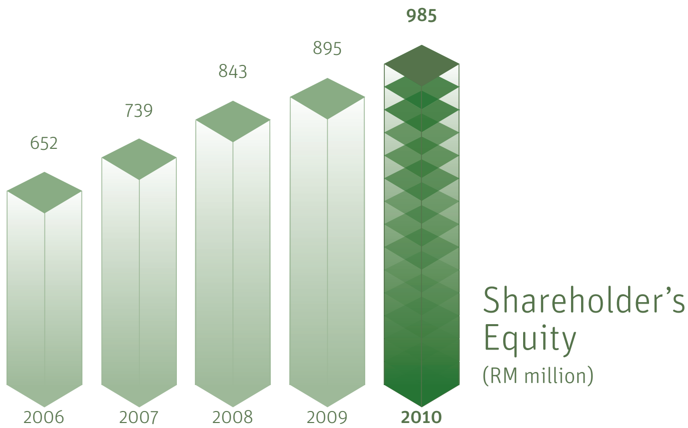
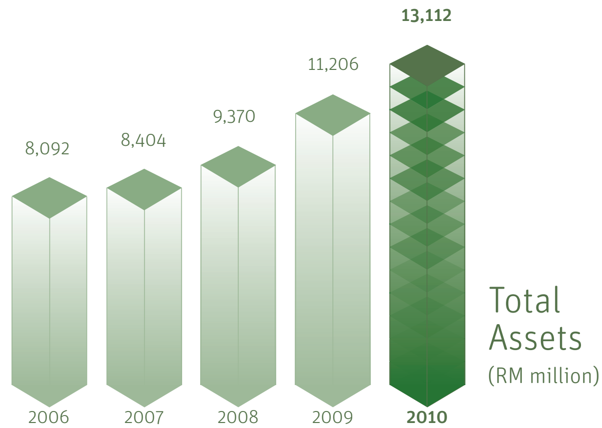
Financial Highlights

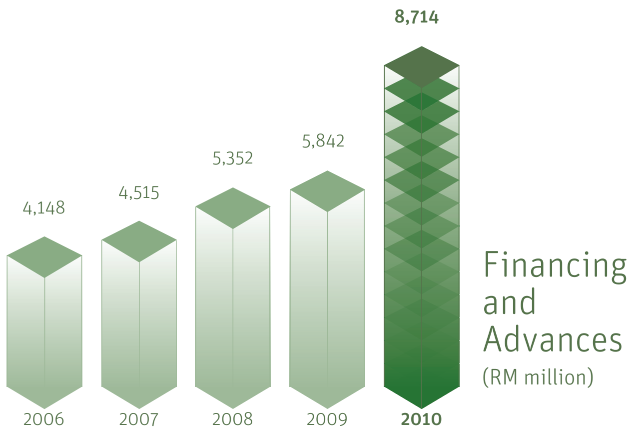
	2010	2009	2008	2007	2006
RESULTS (RM '000)					
Operating revenue	**548,746**	483,741	454,203	479,466	418,901
Net income	**236,055**	237,010	239,138	271,506	213,922
Profit before taxation	**90,625**	86,594	114,421	162,146	121,762
STATEMENT OF FINANCIAL POSITION (RM '000)					
Shareholder's equity	**984,665**	895,462	843,396	739,434	651,675
Total assets	**13,111,820**	11,205,509	9,369,580	8,404,436	8,092,265
Financing and advances	**8,713,761**	5,842,302	5,351,744	4,514,812	4,147,573
Total deposits	**9,946,582**	9,958,802	8,229,041	7,227,727	7,125,347
RATIOS (%)					
Return on average equity - (%)	**9.64**	9.96	14.46	23.31	20.01
Return on average assets - (%)	**0.75**	0.84	1.29	1.97	1.55
Risk Weighted Capital Ratio - (%)	**13.56**	13.78	13.54	17.89	17.78
Core Capital Ratio - (%)	**12.23**	12.50	12.07	16.03	15.84

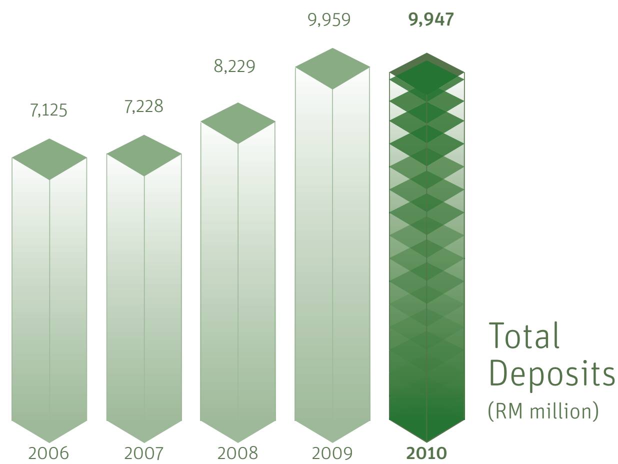

549
479
454
484
419
Operating Revenue
(RM million)
2006
2007
2008
2009
2010


162
122
114
87
91
Profit Before Taxation
(RM million)
2006
2007
2008
2009
2010


985
895
843
739
652
Shareholder's Equity
(RM million)
2006
2007
2008
2009
2010


13,112
11,206
9,370
8,404
8,092
Total Assets
(RM million)
2006
2007
2008
2009
2010


8,714
5,842
5,352
4,515
4,148
Financing and Advances
(RM million)
2006
2007
2008
2009
2010


9,959
9,947
8,229
7,228
7,125
Total Deposits
(RM million)
2006
2007
2008
2009
2010

Corporate Information

As At 10 February 2011

BOARD OF DIRECTORS

Datuk Haji Faisal Siraj
Chairman
Independent Non-Executive Director

Haji Md Ja'far Abdul Carrim
Senior Independent Non-Executive Director

Arul Kanda Kandasamy
Non-Independent Non-Executive Director

Johari Abdul Muid
Non-Independent Non-Executive Director

Dato Abdullah Mat Noh
Independent Non-Executive Director

Charles Lew Foon Keong
Independent Non-Executive Director

Choong Tuck Oon
Independent Non-Executive Director

Dato' Mohd Ali Mohd Tahir
Independent Non-Executive Director

Haji Abd Rani Lebai Jaafar ^
Chief Executive Officer/Managing Director

BOARD COMMITTEES

Risk Management Committee

Haji Md Ja'far Abdul Carrim
Chairman

Dato Abdullah Mat Noh

Datuk Haji Faisal Siraj

Johari Abdul Muid

Dato' Mohd Ali Mohd Tahir

Group Audit Committee*

Ong Seng Pheow
Chairman

Dato' Othman Jusoh

Patrick Chin Yoke Chung

Haji Md Ja'far Abdul Carrim

Dato' Saw Choo Boon

Group Credit Committee*

Dato Abdullah Mat Noh
Chairman

Johari Abdul Muid

Dato' Mohamed Khadar Merican

Haji Khairuddin Ahmad

Group Recovery Committee*

Haji Khairuddin Ahmad
Chairman

Dato' Mohamed Khadar Merican

Dato Abdullah Mat Noh

Dato' Teo Chiang Liang

Group Risk Management Committee#

Haji Khairuddin Ahmad
Chairman

Patrick Chin Yoke Chung

Johari Abdul Muid

Haji Md Ja'far Abdul Carrim

Choong Tuck Oon

Group Nominating Committee#

Datuk Haji Faisal Siraj
Chairman

Johari Abdul Muid

Dato' Mohamed Khadar Merican

Dato' Saw Choo Boon

Dato' Teo Chiang Liang

Group Remuneration And Human Resource Committee#

Datuk Haji Faisal Siraj
Chairman

Johari Abdul Muid

Dato' Mohamed Khadar Merican

Dato' Saw Choo Boon

Dato' Teo Chiang Liang

Group IT & Transformation Strategy Committee*

Choong Tuck Oon
Chairman

Ong Seng Pheow

Johari Abdul Muid

Dato' Mohd Ali Mohd Tahir

Dato' Tajuddin Atan

SECRETARY

Azman Shah Md Yaman

Senior Management

Dato' Tajuddin Atan
Group Managing Director, RHB Capital Berhad/Managing Director, RHB Bank Berhad

Renzo Christopher Viegas
Director, Retail Banking

Chay Wai Leong
Director, Corporate & Investment Banking

Kellee Kam Chee Khiong
Director, Group Finance

Norazzah Sulaiman
Director, Group Corporate Services

Amy Ooi Swee Lian
Director, Business Banking

Michael Lim Kheng Boon
Director, Group Transaction Banking

Wan Mohd Fadzmi Wan Othman
Director, Global Financial Banking

Haji Abd Rani Lebai Jaafar ^
Director, Islamic Banking

Koh Heng Kong
Head, Insurance

Sharifatul Hanizah Said Ali
Head, Investment Management

Datin Zaimah Zakaria
Director, Group Treasury (Acting)

Azaharin Abd Latiff
Director, Group Human Resource (Acting)

REGISTERED OFFICE

Level 10, Tower One
RHB Centre
Jalan Tun Razak
50400 Kuala Lumpur
Tel : 603 - 9287 8888
Fax : 603 - 9280 6507

BUSINESS ADDRESS

Level 11, Menara Yayasan Tun Razak
200, Jalan Bukit Bintang
55100 Kuala Lumpur
Malaysia

Or

P.O. Box No. 10145
50907 Kuala Lumpur
Tel : 603 - 2171 5000
Fax : 603 - 2171 5001
Swift : RHBAMYKL
Call Centre : 603 - 92068118
(Peninsular Malaysia – 24 hours)
082 - 276118
(Sabah & Sarawak – 7 a.m. to 7 p.m.)

AUDITORS

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

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

Profile Of The Board Of Directors

DATUK HAJI FAISAL SIRAJ
(65 years of age – Malaysian)
Independent Non-Executive Chairman

Datuk Haji Faisal Siraj ("Datuk Faisal") was appointed as an Independent Non-Executive Director of RHB Islamic Bank on 3 December 2007, and thereafter appointed as the Chairman on 15 January 2008. Datuk Faisal also serves as the Chairman of the Group Nominating Committee, Chairman of Group Remuneration and Human Resource Committee, a Member of the Risk Management Committee of RHB Islamic Bank and Audit Committee of RHB Capital.

Datuk Faisal is a Fellow of the Institute of Chartered Accountants in England & Wales, Member of the Malaysian Institute of Accountants and Member of the Malaysian Institute of Certified Public Accountants.

Datuk Faisal started his career in 1968 with KPMG, London. On his transfer from KPMG, London to KPMG, Kuala Lumpur, he was posted to KPMG Kota Kinabalu until 1976. Datuk Faisal joined the Malaysia Mining Corporation ("MMC") Group in 1976. He was the Group Executive Director and a Member of the MMC Board from 1981 to 1994. In 1995, he joined DRB-HICOM Berhad ("DRB-HICOM") as the Group Chief Financial Officer in the capacity of Senior Group Director, Financial Services and Treasury Division and was a member of DRB-HICOM Board, before his retirement in 2005.

Datuk Faisal's other directorships in public companies include RHB Capital Berhad and RHB Insurance Berhad.

JOHARI ABDUL MUID
(53 years of age - Malaysian)
Non-Independent Non-Executive Director

Johari Abdul Muid ("Encik Johari") was appointed as a Non-Independent Non-Executive Director of RHB Islamic Bank on 3 January 2008, representing RHB Bank Berhad, the holding company of RHB Islamic Bank. He also serves as a Member of the Risk Management Committee of RHB Islamic Bank, Group Nominating Committee, Group Remuneration and Human Resource Committee, Group Risk Management Committee, Group Credit Committee and Group IT and Transformation Strategy Committee.

Encik Johari is an Associate Member of the Chartered Institute of Management Accountants, United Kingdom.

Encik Johari has more than 30 years of experience in the financial sector. He started his career as a Money Market Dealer with Asian International Merchant Bankers Berhad in 1981. From 1983 to 1994, he was with Commerce International Merchant Bankers Berhad, working in the Treasury Division and was made the Head of Treasury in 1988. He became the Senior Vice President of Institutional Sales in 1995, within a year of joining CIMB Securities Sdn Bhd ("CIMB Securities"), where he was responsible in setting up the Institutional Sales Team of CIMB Securities. Prior to joining Employees Provident Fund Board ("EPF") in August 2004, he was the Chief Investment Officer of ValueCap Sdn Bhd which he joined in February 2003. Encik Johari joined EPF as the Chief Investment Officer heading the Equity Investment and Equity Research Departments. In 2007, he was promoted to Deputy Chief Executive Officer in charge of the Investment Division. He is currently the Deputy Chief Executive Officer of EPF in charge of Policy & Corporate Planning and Training. In addition, Encik Johari is overseeing Human Resource on behalf of the Chief Executive Officer.

Encik Johari's other directorships in public companies include RHB Capital Berhad, RHB Bank Berhad and Rashid Hussain Berhad (In Member's Voluntary Liquidation).

ARUL KANDA KANDASAMY
(34 years of age – Malaysian)
Non-Independent Non-Executive Director

Arul Kanda Kandasamy ("Mr Arul") was appointed as a Non-Independent Non-Executive Director of RHB Islamic Bank on 20 July 2009.

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

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

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

DATO ABDULLAH MAT NOH
(69 years of age – Malaysian)
Independent Non-Executive Director

Dato Abdullah Mat Noh ("Dato Abdullah") was appointed as a Non-Independent Non-Executive Director of RHB Islamic Bank on 22 February 2005, representing RHB Bank Berhad, the holding company of RHB Islamic Bank. Dato Abdullah was re-designated as Independent Non-Executive Director on 6 September 2007 after Utama Banking Group Berhad ceased to be a substantial shareholder of Rashid Hussain Berhad on 22 May 2007. Dato Abdullah also serves as the Chairman of the Group Credit Committee, a Member of Group Recovery Committee and the Risk Management Committee of RHB Islamic Bank.

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

Dato Abdullah's other directorships in public companies include RHB Bank Berhad and RHB Investment Bank Berhad (Chairman).

CHARLES LEW FOON KEONG
(53 years of age – Malaysian)
Independent Non-Executive Director

Charles Lew Foon Keong ("Mr Lew") was appointed as an Independent Non-Executive Director of RHB Islamic Bank on 14 October 2008.

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

Mr Lew has more than 25 years of investment banking experience. He started his career in 1983 in London with Wardley James Capel (then the merchant banking and stockbroking operations of the HongKong Bank Group) and subsequently worked for British merchant bank, Robert Fleming prior to joining Credit Commercial de France in 1989. In 1990, he returned to Asia to join Hoare Govett Asia in Singapore, where he was responsible for the regional corporate finance business. In 1997, following the sale of Hoare Govett Asia to ABN AMRO Bank, Mr Lew was appointed as the Managing Director of ABN AMRO's investment banking operations in Singapore. In late 1999, Mr Lew founded Equator Capital, an investment management and advisory company primarily active in trading of US equities options and managed futures. He has also participated in a number of private equity and pre-Initial Public Offerings (IPOs) investments in the region. Over the years, he has been involved in a wide range of investment banking work, including global IPOs, equities placements, corporate takeovers and mergers, debt/equity restructuring and venture capital financing.

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

Profile Of The Board Of Directors

HAJI MD JA'FAR ABDUL CARRIM
(55 years of age – Malaysian)
Senior Independent Non-Executive Director

Haji Md Ja'far Abdul Carrim ("Haji Ja'far") was appointed as an Independent Non-Executive Director of RHB Islamic Bank on 10 August 2009. He was re-designated to Senior Independent Non-Executive Director on 25 November 2009. He also serves as the Chairman of the Risk Management Committee of RHB Islamic Bank, a Member of the Group Audit Committee as well as the Group Risk Management Committee.

A civil engineer by training, Haji Ja'far's career of some 32 years includes a stint in the public sector as well as a broad range of activities in the corporate sector as Chief Executive Officer and at the board of directors level. His extensive experience covers inter alia, the areas of manufacturing, property development and construction. During the period under review, Haji Ja'far also served on the Curriculum Development Board for Polytechnics at the Ministry of Higher Education, Malaysia and was Chairman of the Human Resources Consultative Panel at the Malaysian Productivity Corporation. He is also a Council Member for the Chair on Financial Planning for Old Age at University Malaya.

Haji Ja'far's other directorship in a public company is at RHB Insurance Berhad.

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

Choong Tuck Oon ("Mr Choong") was appointed as an Independent Non-Executive Director of RHB Islamic Bank on 9 August 2010. He also serves as the Chairman of Group IT and Transformation Strategy Committee as well as a Member of the Group Risk Management Committee.

Mr Choong holds a Bachelor of Science (First Class) from University of Malaya, a Masters of Science from the Asian Institute of Technology and an Executive Certification in Directorship from Singapore Institute of Directors and Singapore Management University.

Mr Choong was with Accenture for 23 years until his retirement in 2010 as Senior Partner in the Financial Services Asia-Pacific practice. Mr Choong has extensive experiences leading business transformation, organisation change, high performance strategy, process excellence, IT transformation and risk management for more than 20 large domestic, regional/global financial institutions across ASEAN and North Asia; including various national multi-banks collaborative initiatives. He has deep expertise in regional/global expansion including both in-country and cross-border Mergers and Acquisitions. He has also experiences with Oil & Gas, Telecommunication and Utilities industries. Mr Choong was also involved in voluntary non-governmental organization (NGO) activities, such as directing a core banking initiative to launch a bank-of-banks for micro-finance institutions across Indonesia for a consortium of international aid agencies and developing a new growth strategy across eleven countries in Asia Pacific for an international conservation fund. Prior to Accenture, Mr Choong was with Petronas for 7 years as a Management Executive.

Mr Choong's other directorship in public companies include RHB Bank Berhad.

DATO' MOHD ALI MOHD TAHIR
(58 years of age – Malaysian)
Independent Non-Executive Director

Dato' Mohd Ali Mohd Tahir ("Dato' Ali") was appointed as an Independent Non-Executive Director of RHB Islamic Bank on 1 January 2011. Dato' Ali was then appointed as a Member of the Risk Management Committee of RHB Islamic Bank and Group IT and Transformation Strategy Committee on 1 February 2011.

Dato' Ali acquired his professional banking qualification from Institute of Bankers of United Kingdom and holds a Diploma in Investment Analysis from Malaysian Association of Productivity of Malaysia. He also attended the ICLIF Global Leadership Development Program under the auspices of Bank Negara Malaysia, held in Harvard University, Boston and Stanford School of Management, San Francisco.

Dato' Ali was with HSBC Bank Malaysia Berhad ("HSBC Bank") for 36 years until his retirement in 2008 as Chief Operating Officer. He was responsible for the entire banking operations that included processes for core banking products and services, property management, operational risk management, process design and development with six sigma discipline foundation, bank security and procurement. As a career banker, Dato' Ali has extensive experience in regional and branch management and has developed a core competency in Corporate banking. During his tenure of service, he led the strategic bank-wide banking system conversion involving the change of the entire core operating system and hardware from mainframe to server technology.

Dato' Ali's other directorship in public companies include RHB Bank Berhad.

HAJI ABD RANI LEBAI JAAFAR
(53 years of age – Malaysian)
Chief Executive Officer/Managing Director

Haji Abd Rani Lebai Jaafar ("Haji Abd Rani") was appointed as the Chief Executive Officer/Managing Director ("CEO/MD") of RHB Islamic Bank on 14 February 2011.

Haji Abd Rani holds an MBA from University of New Haven, Connecticut, United States of America ("USA") and is a Charter Member of Certified Risk Professional, Operation & Credit (CRP), BAI Centre for Certification, USA. He also attended the Global Leadership Development Summer Programme (GLDP) in Boston, USA in 2010.

Haji Abd Rani was previously the Deputy CEO of Affin Islamic Bank Berhad ("Affin Islamic Bank"). Prior to being appointed as the Deputy CEO of Affin Islamic Bank, Haji Abd Rani held various management positions at Affin Bank Berhad.

Haji Abd Rani started his career in 1979 with Hanafiah, Raslan Mohammad & Associates as an Auditor. He ventured into banking in 1985, when he joined Standard Chartered Bank Malaysia Berhad as an Account Relationship Manager in the Corporate Banking Division. He joined Affin Bank Berhad as Branch Manager in 1989.

RHB Banking Group Corporate Structure

As at 10 February 2011

RHB CAPITAL BERHAD

COMMERCIAL BANKING GROUP

RHB BANK BERHAD

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

INVESTMENT BANKING GROUP

RHB INVESTMENT BANK BERHAD

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

OTHERS

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

Notes:

The subsidiary companies are wholly-owned unless otherwise stated.

Dormant Company

Jointly Controlled Entity

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

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

Country of incorporation is in Malaysia unless otherwise indicated in italics

RHB Group Shariah Committee ("Shariah Committee")

PROFESSOR DR. HAJI ABDUL SAMAT MUSA
(Chairman Of The Committee)

Educated at National University of Malaysia ('UKM'), he obtained a B.A in Islamic Studies (Shariah) (Second Class Upper) in 1976. He holds a Masters in Law from University of Malaya (1980) and a PhD in Law from University of Manchester, United Kingdom. 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 organisations 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. Haji Abdul Samat is a Dean of Shariah & Law Faculty and Acting Director of World Fatwa Management & Research Institute at USIM.

PROFESSOR 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 previously holds the position as the Deputy Director for Undergraduates, Academy of Islamic Studies and currently a Professor at the Department of Shariah & Economics, Academy of Islamic Studies at University of Malaya.

DR. ABDULAZEEM ABOZAID

Educated at Damascus University (Syria), he obtained a B.A in Islamic Law in 1994. He also received a Higher Studies Diploma and a Masters Degree in Islamic Law in 1995 and 1998. He later further his study in Islamic Law in Damascus University and received a Ph.D. in 2001. He also obtained a B.A. in English Literature from the same university in 2004. He started his career as a Lecturer at Damascus University in 1995. He was then appointed as an Assistant Professor at International Islamic University Malaysia ('IIUM') in 2006. Dr. Abdulazeem Abozaid is currently working as a Consultant and Shariah Trainer at the Emirates Islamic Bank in Dubai.

ASSISTANT PROFESSOR DR. AZNAN HASAN

Educated at University of al-Azhar, Egypt where he obtained a Bachelor in Shariah (Hons.) in 1994. He holds a Master in Shariah (First Class) from Cairo University, Egypt and a Ph.D from University of Wales, Lampeter, United Kingdom. Asst. Prof. Dr. Aznan Hasan is an Assistant Professor in Islamic law and the former Head of Islamic Law Department, Ahmad Ibrahim Kulliyyah of Laws, International Islamic University Malaysia. He teaches subjects such as Islamic Legal Theory, Islamic Commercial Law and Islamic Banking and Finance at both undergraduate and postgraduate levels. He has served as a Shariah advisor to various financial institutions, legal firms and corporate bodies, at both local and international levels. He was a member of Shariah Advisory Council of Bank Negara Malaysia. Asst. Prof. Dr. Aznan is a licensed Shariah Advisor for the issuance of Islamic securities and Islamic Unit Trust Schemes, Securities Commission of Malaysia. He is a Shariah Advisor for Bursa Malaysia, Dar al-Istithmar, London and the Chairman of Shariah Committee ACR Retakaful Bahrain and ACR Retakaful Malaysia. He is also Shariah Consultant, Maybank Investment Bank Berhad. He is also a Bursa Malaysia's FBM Index Advisory Committee Member and a member of Shariah Council of International Shari'ah Research Academy for Islamic Finance (ISRA).

Corporate Governance Statement

OUR COMMITMENT TO GOOD CORPORATE GOVERNANCE

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

Our corporate governance structure is principally based on the Malaysian Code on Corporate Governance ("the Code"), the Guidelines on Corporate Governance for Licensed Islamic Banks ("Revised BNM/GP1-i") issued by Bank Negara Malaysia ("BNM") and international best practices. While stringent corporate governance practices and internal controls are already in place, we believe there is always room for improvement and are always exploring new avenues and measures to enhance the Bank's system of governance. In doing so, the Board not only pays attention to ethical conduct, value enrichment and the implementation of best practices, but also makes a significant effort to understand and manage stakeholders' expectations. Such understanding is essential to ensure that our position and reputation as a Bank is held in good stead. Moreover, this understanding enables us to fulfil the evolving needs of our stakeholders and supports the Group's efforts to compete at the global level.

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

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

Corporate Governance Statement

THE BASIC PRINCIPLES OF CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Board Composition and Balance

The Board currently comprises an (1) Independent Non-Executive Chairman, five (5) Independent Non-Executive Directors ("NEDs"), two (2) Non-Independent Non-Executive Directors and the Chief Executive Officer/Managing Director. The structure and composition of the Board comply with the Code as well as the Revised BNM/GP1-i. The presence of the six (6) Independent NEDs ensures there is an effective check and balance in the functioning of the Board. These Independent NEDs are not involved in the day-to-day management of the Bank, nor do they participate in any business dealings of the Bank. This ascertains that they remain free of any conflict of interest and can undertake their roles and responsibilities as Independent NEDs in an effective manner.

Directors' Qualifications and Experience

As a major financial services group, the Board recognises that its Members must have the appropriate mix of skills as well as the necessary knowledge, experience and commitment to effectively contribute towards the growth and expansion of the Group as a whole. Furthermore, being on the Board of a bank, Board Members are required to be responsive to the constantly changing global financial landscape. The Board regularly reviews the composition of its own Board and the Group's Board Committees to ensure that appropriate balance is maintained and that there is an adequate mix of skills and experience.

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

Duties and Responsibilities of the Board

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

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

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

Chairman

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

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

In furtherance thereto, the Chairman is also responsible to:

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

Managing Director

The day-to-day management of the Bank was previously delegated to the Group MD of RHB Capital Berhad ("RHB Capital") who was assisted by the Chief Operating Officer ("COO") of the Bank, in view of the resignation of the previous MD on 9 February 2010. The new Chief Executive Officer/Managing Director ("CEO/MD") assumed office on 14 February 2011.

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

Corporate Governance Statement

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

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

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

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

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

Non-Executive Directors

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

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

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

BOARD CHARTER

The Board has developed a charter that sets out the key corporate governance principles adopted by the Board ("Charter"). In adhering to the responsibilities set out in the Charter, the Members of the Board are expected to perform their duties with integrity, honesty and professionalism within the ambit of the law to serve the interest of the Bank's shareholder and stakeholders.

CODE OF ETHICS AND BUSINESS CONDUCT

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

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

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

COMPANY SECRETARY

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

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

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

BOARD MEETINGS AND ACCESS TO INFORMATION

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

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

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

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

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

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

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

Corporate Governance Statement

The Board convened thirteen (13) meetings for the financial year ended 31 December 2010. The attendance of each Director in office at the end of the financial year at the aforesaid Board meetings is set out below:

Name of Director	No. of Meetings Attended	Total Percentage of Attendance (%)
Datuk Haji Faisal Siraj	13/13	100
Johari Abdul Muid	12/13	92
Arul Kanda Kandasamy	13/13	100
Dato Abdullah Mat Noh	12/13	92
Charles Lew Foon Keong	12/13	92
Haji Md Ja'far Abdul Carrim	13/13	100
Choong Tuck Oon [1]	5/5	100*

Notes:

1 Appointed as a Director on 9 August 2010.

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

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.

APPOINTMENTS AND RE-ELECTION TO THE BOARD

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

The Group Nominating Committee reviews and assesses the appointments/re-appointments of Directors. During such assessment, the Group Nominating Committee also refers to the results of the individual assessments conducted via the Board Effectiveness Evaluation. The recommendation of the Group Nominating Committee will thereafter be presented to the Board.

Upon the approval by the Board, the application for the appointment/re-appointment of Directors will be submitted to BNM for approval.

The Group has in place an internal guideline on the Tenure of Appointment and Re-appointment of Independent Directors with the main objective of preserving the independence of Independent Directors. Independent Directors over seventy (70) years of age will not be eligible for appointment or re-appointment on the Board of any of the companies within the RHB Capital Group and shall retire at the next Annual General Meeting of the company concerned.

Article 68 of the Bank's Articles of Association provides that at least one-third of the Board is subject to retirement by rotation at each Annual General Meeting. Retiring Directors can offer themselves for re-election. Directors who are appointed during the financial year are subject to re-election by shareholders at the next Annual General Meeting held following their appointment.

TRAINING & DEVELOPMENT

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

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

- ◆ to ensure consistency throughout the RHB Banking Group in developing an in-house orientation and continuing education programme for its Directors to familiarise themselves with the industry and the Bank/Group; and
- ◆ to provide Directors with a better understanding of the nature of business, corporate strategy, risks of the business, financial overview, risk management strategy, legal requirements, duties, responsibilities and rights from the legal viewpoint, moral and ethical obligations as well as good corporate governance in the ever-changing economic climate.

The NEDs of the Bank and the Group also attend local and/or overseas training programmes organised by credible training organisations under the Board High Performance Programme ("BHPP"). This programme is intended to equip the Directors with the necessary knowledge and tools to effectively discharge their duties and responsibilities as well as provide the Directors with global business perspectives and skills that would engender organisational excellence.

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

Board & Corporate Governance	• Directors' Duties & Governance Conference 2010: Towards Boardroom Excellence & Corporate Governance Best Practices • BNM Financial Institutions Director Education Programme (FIDE): Performance Pays - The Report On Non-Executive Directors Remuneration • Executive Duties, Compliance & Conscious Governance 2010 • Performance Management Workshop
Banking & Finance	• BNM FIDE Programme: Banking Insights: Everything You Wanted To Know About Banking But Didn't Dare Ask • Islamic Banking & Finance Fundamentals: Shariah Framework & Governance • BNM FIDE Programme: Financial Industry Conference 2010 • Updates on Malaysia Financial Reporting Standards • Briefing by PwC On Goods & Services Tax • Understanding FRS 139 and Revised BNM GP3 • Finance For Directors & Executive Management • Forum On The Challenges Of Implementing FRS 139
Management & Leadership	• Leadership Best Practices • ICLIF's Global Leadership Development Programme • MINDA's Chairman's Forum 2010: Leading Championship Strategies • 16th Senior Management Leadership Programme
Risk Management	• BNM FIDE Programme: Managing Risks in Financial Institutions • Composite Risk Rating Issues • Managing Risk At Board Level
Others	• Invest Malaysia 2010 • Global Exchanges Trend and Development • Advance Negotiations: Street Smart Tactics • IBM CEO Study Talk: Capitalising On Complexity • Oliver Wyman's Presentation On Annual State Of The Financial Services Industry 2010

Corporate Governance Statement

BOARD PERFORMANCE EVALUATION

The Board has since 2006 undertaken the Board Effectiveness Evaluation ("BEE") exercise on the Board and Board Committees with the objective of assessing the effectiveness of the Board and Board Committees as a whole, as well as the individual Directors. The BEE is based on a combination of self and peer assessment methodologies performed via a customised questionnaire. The results of the BEE are presented to the Group Nominating Committee as well as the Board of the Bank for consideration. The BEE exercise conducted in 2010 produced very useful information to enhance the governance of the Board, among others.

GROUP BOARD COMMITTEES

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

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

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

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

Notwithstanding the Group Risk Management Committee at RHB Capital, BNM still requires a dedicated Risk Management Committee at RHB Islamic Bank to deal specifically with the risks and intricacies associated with Islamic Finance.

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

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

Below are the Group Board Committees that reside at RHB Capital level

Group Nominating Committee

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

Meetings of the Group Nominating Committee are held as and when required and at least once a year. The Group Nominating Committee met six (6) times during the financial year 2010. The composition of the Group Nominating Committee and the attendance of the members at meetings held in 2010 are as follows:

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

Notes:

1 Appointed as a Member on 20 May 2010.
2 Appointed as a Member on 2 August 2010.
3 Retired on 19 May 2010.
4 Relinquished membership on 1 August 2010.
Based on the number of meetings attended since his appointment as a Member in 2010.
* Based on the number of meetings attended during his tenure of appointment in 2010.

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

- to provide a documented, formal and transparent procedure for the appointment of Directors, Board Committee Members, Group Shariah Committee Members, Chief Executive Officers and key Senior Management Officers, as well as the assessment of effectiveness of individual Directors, the Board as a whole and the various Committees of the Board, the Chief Executive Officers and key Senior Management Officers of the Group;
- to assist the Board in ensuring that appointments are made on merit against agreed upon criteria;
- to assist the Board in identifying and reviewing, on an annual basis, the required mix of skills, experience and other qualities, including core competencies which Directors should bring to the Board and which the Board requires for it to function completely and efficiently; and
- to examine the size of the Board with a view to determining the impact the number of Members has upon its effectiveness.

Group Remuneration and Human Resource Committee

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

Meetings of the Group Remuneration and Human Resource Committee are held as and when required and at least once a year. The Committee met ten (10) times during the financial year 2010.

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

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

Notes:

1 Appointed as the Chairman on 20 May 2010.
2 Appointed as a Member on 20 May 2010.
3 Appointed as a Member on 2 August 2010.
4 Retired on 19 May 2010.
5 Relinquished membership on 1 August 2010.
Based on the number of meetings attended since his appointment as a Member in 2010.
* Based on the number of meetings attended during his tenure of appointment in 2010.

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

- to provide a formal and transparent procedure for developing the remuneration policy for Directors, Board Committee Members, Chief Executive Officers, Group Shariah Committee Members and key Senior Management Officers of the Group and ensuring that their compensation is competitive and consistent with the Group's culture, objectives and strategy;
- to recommend to the Board the best policies, strategies and framework to be implemented for the RHB Capital Group in relation to staff remuneration, rewards and benefits;
- to oversee and review the scope and quality of human resource projects/programmes of the Group; and
- to oversee the disciplinary procedures, regulations and preventive measures as well as to ensure implementation and adherence to the disciplinary procedures.

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Group Risk Management Committee

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

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

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

	Attendance at Meetings
Haji Khairuddin Ahmad (Independent Non-Executive Director/Chairman)	15/15 (100%)
Patrick Chin Yoke Chung (Independent Non-Executive Director)	15/15 (100%)
Johari Abdul Muid (Non-Independent Non-Executive Director)	12/15 (80%)
Haji Md Ja'far Abdul Carrim (Independent Non-Executive Director)	15/15 (100%)
Choong Tuck Oon[1] (Independent Non-Executive Director)	10/10[#] (100%)
Datuk Tan Kim Leong[2] (Independent Non-Executive Director)	4/5* (80%)

Notes:

1 Appointed as a Member on 20 May 2010.
2 Retired on 19 May 2010.
Based on the number of meetings attended since his appointment as a Member in 2010.
* Based on the number of meetings attended during his tenure of appointment in 2010.

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

- to provide oversight and governance of risks at the Group;
- to oversee Senior Management's activities in managing credit, market, liquidity, operational, legal and other risk and to ensure that the risk management process of each entity in the Group is in place and functioning;
- to promote the management of the Group's risk in accordance with a risk-return performance management framework; and
- to deliberate and make recommendations to the Board of Directors of each relevant entity within the Group in respect of risk management matters of the respective entities.

Islamic Risk Management Committee of RHBIB

The Islamic Risk Management Committee comprises NEDs, the majority of whom are Independent.

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

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

	Attendance at Meetings
Haji Md Ja'far Abdul Carrim (Independent Non-Executive Director/Chairman)	15/15 (100%)
Dato Abdullah Mat Noh (Independent Non-Executive Director)	12/15 (80%)
Datuk Haji Faisal Siraj (Independent Non-Executive Director)	15/15 (100%)
Johari Abdul Muid (Non-Independent Non-Executive Director)	13/15 (87%)
Dato' Mohd Ali Mohd Tahir[1] (Independent Non-Executive Director)	–

Notes:

1 Appointed as a Member on 1 February 2011.

The Risk Management Committee is responsible to provide oversight over the management of risks unique to Islamic finance.

BNM has approved the consolidation of the existing Risk Management Committees within RHB Capital Group, which includes RHB Islamic Bank. However, BNM still requires a dedicated Risk Management Committee at the Bank to deal specifically with the risks and intricacies associated with Islamic finance.

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

- to ensure that the management of risk exposures in the bank are aligned to the principles of Islamic Banking – absence of interest based transactions (Riba'), avoidance of economic activities involving speculation (Gharar), introduction of Islamic taxation (Zakat) & discouragement of production of goods and services which contradicts the value pattern of Islam (Haram);
- to ensure core risk policies are consistent with the RHB Group by setting tolerance level within prudent limits, facilitate the implementation of BNM's The New Capital Adequacy Framework for Islamic Banks, Basel II Accord and Islamic Financial Services Board (IFSB) Standards;
- to oversee execution of risk policies and related decisions of the Board of Directors (BOD), as is appropriate;
- to provide oversight for major risk categories which are unique to Islamic finance such as
  - a) Displaced Commercial Risk;
  - b) Withdrawal Risk;
  - c) Rate of Return Risk;
  - d) Fiduciary Risk and Reputational Risk; and
- to ensure that prior to the launching of product, that risks unique to Islamic finance are identified and risk mitigation measures are in place.

Below are the Group Board Committees that reside at RHB Bank level.

Group Audit Committee

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

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

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

The composition of the Group Audit Committee and the attendance of the Members thereof together with the terms of reference and activities of the Group Audit Committee during the financial year are set out in the Group Audit Committee Report at page 32 to page 37 of this Annual Report.

Group Credit Committee

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

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

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

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

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

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

Corporate Governance Statement

Group Recovery Committee

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

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

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

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

Notes:-

1 Appointed as a member on 20 May 2010.
2 Relinquished membership on 1 August 2010.
* Based on the number of meetings attended since his appointment as a Member in 2010.
\# Based on the number of meetings attended during his tenure of appointment in 2010.

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

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

Group IT & Transformation Strategy Committee

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

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

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

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

Notes:

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

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

Group Shariah Committee

Apart from the above Board Committees, the Group has also established its Group Shariah Committee, which is housed at RHB Islamic Bank. The Group Shariah Committee comprises qualified local and foreign Shariah scholars who act as Shariah advisors to the Group.

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

	Attendance at Meetings
Professor Dr. Abdul Samat Musa (Chairman)	6/6 (100%)
Professor Dr. Joni Tamkin Borhan (Member)	5/6 (83%)
Asst. Prof. Dr. Aznan Hasan[1] (Member)	5/6 (83%)
Dr Abdulazeem Abolzaid (Member)	6/6 (100%)

Notes:-

[1] Appointed as member of Bank Negara Malaysia Shariah Council on 1 November 2010.

The main duties and responsibilities of the Group Shariah Committee as supplemented by the Bank's Shariah Unit staff are as follows:

- Advise the Group on Shariah matters in order to ensure that the Islamic business and operations of the Group comply with Shariah principles;

- Endorse the Group's Shariah Compliance Manuals which must specify the manner in which a submission or request for advice be made to GSC, the conduct of GSC's meeting and the manner of compliance with any decision thereof;

- Endorse and validate the following documentation:-
  a. The terms and conditions contained in the proposal forms, contract, agreement or other legal documentation used in executing the transactions; and
  b. The product manual, marketing advertisement, sales illustration and brochures used to describe the product.

- Provide Shariah advice to the Group's legal counsel, auditor or consultant on Shariah matters as and when required to ensure compliance with Shariah principles;

- Advise on matters to be referred to Shariah Advisory Council ("SAC") of BNM, particularly matters which have not be resolved or endorsed by SAC;

- Prepare written Shariah opinions particularly in the following circumstances:-
  a. Where the Group makes reference to the SAC of BNM for advice; or
  b. Where the Group submits applications to BNM or SC for new product approval in accordance with guidelines on product approval issued by BNM and SC.

- To articulate the Shariah issues involved and to ensure that all advice and/or opinion be supported by relevant Shariah jurisprudential literature from established sources. Group Shariah Committee is also expected to assist the SAC of BNM on any matters referred by the Group. To ensure that decisions/opinion/advice of SAC of BNM are properly implemented/adhered to by the Group;

- Where the issues involved relate directly to or falls under the purview of the Securities Commission ("SC"), the Group Shariah Committee's responsibilities include the following:-
  a. To ensure that the formulation on policies of the Group relating to matters concerning the securities industry comply with the Shariah principles at all times;

- In respect of matters concerning Islamic unit trust funds (Fund), the Group Shariah Committee is responsible to:-
  a. Ensure that the Fund is managed and administered in accordance with Shariah principles;
  b. Provide expertise and guidance in all matters relating to Shariah principles, including on the Fund's deed and prospectus, its structure and investment process and other operational and administrative matters;
  c. Consult the SC where there is ambiguity or uncertainty as to an investment, instrument, system, procedure and/or process;

Corporate Governance Statement

d. Act with due care, skill and diligence in carrying out its duties and responsibilities;
e. Scrutinise of the Fund's compliance report as provided by the compliance officer, and investment transaction reports provided by, or duly approved by, the trustee to ensure that the Fund's investment are in line with Shariah principles; and
f. Prepare a report to be included in the Fund's interim and annual reports certifying whether the Fund had been managed and administered with Shariah principles for the period concerned.

DIRECTORS' REMUNERATION

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

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

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

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

iii) Benefits-in-kind
Benefits accorded to the Chairmen of the Group, consisting of the provision of a company car, driver and petrol allowance.

The remuneration strategy for the MDs within the Group dictates that they be paid in a competitive manner through an integrated pay and benefits structure which rewards corporate and individual performance in line with contributions to the organisation. The CEO/MD is not paid a Director's fee nor is he entitled to receive any meeting attendance allowance for any of the Board and Board Committee meetings that he attends. His remuneration, which includes among others salary, bonus and benefits-in-kind, is solely derived from RHB Islamic Bank.

Further details on Directors' remuneration are disclosed under Note 25 of the Notes to the Financial Statements in this Annual Report.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Stakeholder Communications

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

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

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

Investor Relations

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

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

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

Participation in both foreign and local investment conferences and road shows was stepped up in 2010, with the aim of expanding investors' coverage. In 2010, the Group completed four (4) investment conference and/or non-deal road shows covering Singapore, Hong Kong and the United Kingdom. During these conferences and road shows, senior management representatives communicated details of the Group's strategy and operations as well as provided updates on various initiatives undertaken by RHB. Other investor relations activities carried out during the year included tours to "Easy by RHB" outlets to showcase the operations of the Group's simple, fast and paperless community banking services.

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

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

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

Internal Control

An overview of the Bank's systems of internal control is contained in the Statement on Internal Control set out on pages 28 to 31 of this Annual Report.

RELATIONSHIP WITH EXTERNAL AUDITORS

The Board maintains a formal and transparent professional relationship with the External Auditors via the Group Audit Committee. The role of the Group Audit Committee in relation to the External Auditors is disclosed in the Group Audit Committee Report set out on pages 32 to 37 of this Annual Report.

COMPLIANCE WITH THE CODE

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

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

Statement On Internal Control

INTRODUCTION

Pursuant to paragraph 15.26(b) of the Bursa Malaysia Securities Berhad's Listing Requirements, a listed issuer must ensure that its Board of Directors ("Board") includes in its annual report a statement about the state of its internal control. The revised Malaysian Code on Corporate Governance requires listed companies to maintain a sound system of internal controls to safeguard shareholders' investments and the Group's assets.

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

RESPONSIBILITY

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

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

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

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

KEY INTERNAL CONTROL PROCESSES

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

- **Risk Management Framework**

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

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

  The Board has since inception of the Islamic Bank established its own Risk Management Committee, which meets regularly with the objective of assisting the Board in carrying out its responsibilities in relation to managing the Islamic Bank's range of inter-related risks in an integrated manner.

  In discharging its overall duties and responsibilities, the Risk Management Committee is supported by the Islamic Bank's risk management function set up within the RHB Banking Group Risk Management Division, which monitors and evaluates the effectiveness of the Islamic Bank's risk management system on an ongoing basis.

  In promoting synergies within the Group, the Islamic Bank's risk management function also reports to the Group Risk Management Committee.

In terms of Shariah risk governance, a Group Shariah Committee, which resides at the Islamic Bank, has been set-up and established to handle matters relating to Shariah principles and rulings.

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

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

To support and promote the achievement of accountability and ownership of risk management, a Risk and Control Self-Assessment framework has been implemented at all key operating entities in the Group as part of the risk management process. These entities are required to identify as well as document the controls and processes for managing the risks arising from their business activities as well as assess their effectiveness thereof.

◆ Internal Audit Function

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

The results of the audits conducted by Group Internal Audit are reported to the Group AC while follow-up and review of status of actions taken on the auditors' recommendations are carried out by the Management via the Management Audit Committee ("MAC") whose members comprise senior management. The minutes of meetings of the MAC are tabled to the Group AC for notation.

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

With regard to Shariah audit, Group Internal Audit has established its own Shariah Audit Program, with the assistance of the Shariah Committee, for guidance to the Group Internal Auditors in terms of auditing Shariah matters.

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

◆ Group Compliance Framework

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

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

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

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

Statement On Internal Control

In addition, an Islamic compliance function has been established in the Group in order to assist the Group compliance function in monitoring the Islamic banking activities of the Islamic Bank.

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

◆ **Shariah Compliant**

In line with the Guidelines on the Governance of Shariah Committee for the Islamic Financial Institutions issued by Bank Negara Malaysia, a Group Shariah Committee has been established, which resides at the Islamic Bank and its principal objective is to ensure Islamic-based business and operations comply with the Shariah principles at all times.

The Group Shariah Committee has endorsed the Shariah Framework for the Group, which encompasses the concept of Shariah, Islamic banking business, governance and reporting structure, roles and responsibilities, Shariah compliance strategy, and Shariah approval procedures.

◆ **Board Committees**

Specific responsibilities have been delegated to the relevant Board committees, all of which have written terms of references. These committees have the authority to examine and / or consider all matters within their scope of responsibilities and make recommendations to the Board for approval, if such is required.

◆ **Central Management Committee**

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

◆ **Authority Limits**

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

◆ **Internal Policies and Procedures**

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

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

◆ **Budgeting Process**

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

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

Performance Review

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

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

Human Resource

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

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

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

Group Code of Ethics And Conduct

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

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

Suspicious Transaction Reporting and Whistle Blowing

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

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

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

Incident Management Framework

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

Group Audit Committee Report

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

Group Audit Committee ("Group AC") - Composition And Attendance Of Meetings

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

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

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

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

- Reviewed the unaudited quarterly and half-year financial results and the annual audited financial statements of RHB Islamic Bank Berhad prior to its approval by the Board. It also considered the accounting standards applicable in the preparation of the financial statements;

- Reviewed the related party transactions entered into by RHB Islamic Bank Berhad and its related parties;

- Reviewed the audit plan of the external auditors, the audit strategy and scope of work for the year, as well as the results of their annual audit;

- Met twice with the external auditors for discussion without the presence of the management;

- Reviewed the non-audit services rendered by the external auditors and the related fees;

- Evaluated the performance of the external auditors and made recommendations to the Board for their appointment and audit fees;

- Reviewed and approved the annual internal audit plan to ensure adequacy of scope and coverage of the identified auditable areas including staffing requirements;

- Reviewed the status of completion of the internal audit plan, the internal audit reports, audit recommendations made and management's response to these recommendations as well as actions taken to improve the system of internal controls and procedures;

- Reviewed the inspection and examination reports issued by the regulatory authorities and the appropriate remedial actions taken in respect of any findings to satisfy itself that all matters highlighted in these reports have been adequately and promptly addressed by management;

- Tabled the minutes of each Group AC meeting to the Board for notation, and for further direction by the Board, where necessary;

- Reviewed the appointment of an external Quality Assurance Review ("QAR") service provider to perform an independent QAR on the Internal Audit function of the Group; and

- Reviewed the results of the external QAR on the Internal Audit function of the Group conducted by the appointed service provider.

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

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

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

Group Audit Committee Report

Internal Audit Function

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

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

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

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

TERMS OF REFERENCE OF THE GROUP AUDIT COMMITTEE

Objectives

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

2. To review the financial condition and performance of the Group.

3. To assist the Boards ("the Boards") of the respective entities in the discharge of their responsibilities by reviewing the effectiveness, adequacy and integrity of the Group's internal control systems and management information systems, including systems for risk management, governance processes and compliance with applicable laws, regulations, rules, directives and guidelines.

4. To reinforce the independence of the external auditors and thereby help assure that they will have free rein in the audit activities.

5. To provide, by way of regular meetings, a line of communication between the respective Boards and the external auditors.

6. To provide emphasis on the internal audit function by ensuring the objectivity and independence of the internal auditors and provide a forum for discussion that is among others independent of the management.

7. To review the quality of the audits conducted by the internal and external auditors.

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

Duties And Responsibilities

1. The Group Audit Committee ("the Committee") is directly accountable to the Boards of the respective entities and the Boards will continue to be accountable for all matters relating to their respective entities.

2. To ensure that the internal audit department is distinct and has the appropriate status within the overall organisational structure for the internal auditors to effectively accomplish their audit objectives.

3. To review the effectiveness of internal controls and risk management processes, including the scope of the internal audit programme and the appropriateness of the risk assessment methodology employed to determine the frequency and scope of audits.

4. To ensure that the reporting relationships of the internal audit staff do not impede the exercise of independent judgement by the internal auditors. In particular, the reports of internal auditors should not be subject to the clearance of the managing director / chief executive officer or any executive directors.

5. To ensure that all findings and recommendations are resolved effectively and in a timely manner.

6. To make appropriate public disclosure of the terms of reference and the activities of the Committee in the respective licensed entities' financial statements.

7. To review the respective entities' quarterly results and year-end financial statements and to recommend the same to the respective Boards for approval whilst ensuring that they are prepared in a timely and accurate manner complying with all applicable accounting and regulatory requirements and are promptly published.

8. To review regularly the adequacy of provisions made and to recommend the same to the respective Boards for approval.

9. To review any related party transaction and conflict of interest situation that may arise within the Group, including any transaction, procedure or course of conduct that raises questions of management integrity.

10. To review with the external and internal auditors whether the employees of the Group have given them appropriate assistance in discharging their duties.

11. To review the adequacy of the scope, functions and resources of the internal audit function and that it has the necessary authority to carry out its work.

12. To review and approve the internal audit plan, audit charter and the budget for the audit plan.

13. To ensure that internal audit staff receives necessary training to perform audit work. There shall be a programme of continuing education and training to enable the internal auditors to keep abreast of business trends and latest developments at both the institution and industry levels, as well as to enhance technical skills required to effectively support the audit function.

14. To appraise the performance of the head of internal audit and to review the appraisals of senior staff members of the internal audit function.

15. To approve any appointment or termination of the head of internal audit and senior staff members of the internal audit function and to review any resignations of internal audit staff members and provide resigning staff members an opportunity to submit reasons for resigning, where necessary.

16. To review with the external auditors, the nature and scope of their audit plan, their evaluation of the system of internal controls and their management letter and discuss any matter that the external auditors may wish to raise in the absence of management, where necessary.

17. To recommend to the respective Boards on the appointment and the annual reappointment of the external auditors and assessing their audit fee, after taking into consideration the independence and objectivity of the external auditors and the cost effectiveness of their audit.

18. To discuss and review with the external auditors any proposal from them to resign as auditors.

19. To investigate reasons for any request made by management to dismiss the external auditors, or any resignation by the external auditors. The results of the investigation shall be disclosed to the respective full Board together with the recommendations on proposed actions to be taken.

20. To review the non-audit services rendered by the external auditors together with the related fees and thereafter approving or recommending the same to the respective Boards for approval (whichever relevant), in accordance with the Group Policy on Non-Audit Fees payable to the external auditors.

Group Audit Committee Report

21. To review the co-ordination of audit activities between the external and internal auditors.

22. To review the effectiveness of the infrastructure for ensuring Shariah compliance.

23. To review inspection and examination reports issued by any regulatory authority and to ensure prompt and appropriate actions are taken in respect of any findings.

24. To review the following pertaining to RHB Insurance Berhad:-

    (i) The Chairman's statement, interim financial reports and preliminary announcements;

    (ii) Corporate governance disclosures made in the Directors' Report pursuant to the requirement in JPI/GPI 25: Prudential Framework of Corporate Governance for Insurers; and

    (iii) All representation letters signed by management, and be satisfied that the information provided is complete and appropriate.

25. To ensure that RHB Insurance Berhad complies with Section 95 of the Insurance Act which requires the Company to publish its accounts within fourteen (14) days of the laying of its accounts at its annual general meeting.

26. To perform any other functions as authorised by the respective Boards.

Authority

1. The Chairman of the Committee should engage on a continuous basis with senior management, such as the managing director / chief executive officer, the chief operating officer, the chief financial officer, the head of internal audit and the external auditors in order to be kept informed of matters affecting the Group.

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

3. The Committee shall have direct communication channels with the external and internal auditors.

4. The Committee is authorised by the respective Boards to obtain independent professional or other advice and to invite outsiders with relevant experience and expertise to attend meetings, if it considers this necessary.

Meetings

1. Meetings shall be held at least four (4) times a year and the frequency of meetings shall reflect the wider and increased responsibilities assumed. Meetings shall convene with a minimum quorum of two-thirds of the members and the majority of members present shall be independent non-executive directors.

2. The Committee should not convene any meeting to discuss specific issues of a particular entity without the presence of the representative of the said entity.

3. The head of internal audit shall be in attendance at meetings of the Committee. The Committee may invite the external auditors, the managing director / chief executive officer, the chief operating officer, the chief financial officer, any other directors or members of the management and employees of the Group to be in attendance during meetings to assist in its deliberations.

4. At least twice a year, the Committee shall meet with the external auditors without the presence of the Management or any executive Board members and upon the request of the external auditors, the Chairman of the Committee shall convene a meeting to consider any matter which the external auditors believe should be brought to the attention of the respective Boards or shareholders.

5. The Company Secretary shall act as Secretary of the Committee and shall be responsible for drawing up the agenda with the concurrence of the Chairman and circulating it, supported by explanatory documentation, to Committee members within a reasonable timeframe prior to each meeting.

6. The Company Secretary shall also be responsible for keeping the minutes of meetings of the Committee, their timely circulation to Committee members and other members of the Boards, and following up on outstanding matters in relation to the meetings.

7. The Chairman of the Committee shall provide reports to the respective Boards on the deliberations of the Committee on a regular basis. In addition, the Chairman shall also present summary of all significant matters (highlighting the risks and implications) and resolutions made by the Committee at the Board meetings.

8. The minutes of each Committee meeting shall be tabled to the respective Boards. Thereafter, a copy of the minutes of the Committee meeting pertaining to RHB Investment Bank Berhad shall be submitted to Bursa Malaysia Securities Berhad within thirty (30) days from the date of the minutes having been adopted by the Board.

Membership

1. The membership of the Committee, including the position of Chairman shall be approved by the respective Boards based on the recommendation made by the Group Nominating Committee.

2. The Committee shall comprise at least three (3) members and there should be a fair representative on the Committee, from each entity within the Group. All members of the Committee should be non-executive directors with majority of whom are independent.

3. The Chairman of the Committee shall be an independent non-executive director.

4. No Committee member shall be employed in an executive position in the Group, or otherwise have a relationship which in the opinion of the respective Boards will interfere with the exercise of independent judgement in carrying out the functions of the Committee. In addition, members of the Committee shall not be directly responsible for, or part of any committee involved in, the management functions within the Group.

5. No alternate director shall be appointed as a member of the Committee.

6. Disclosure of customers' information to the members of the Committee to be strictly on need to know basis and the members are to provide undertaking to preserve the confidentiality of the customers' information.

7. Collectively, the Committee shall have a wide range of necessary skills to undertake its duties and responsibilities and are expected to be familiar with the areas included in the scope of internal audit, including the area of risk management.

8. All members of the Committee shall be financially literate and at least one member shall be a member of an accounting association or body.

9. Details of the activities of Committee, the number of audit meetings held in a year, details of attendance of each member in respect of meetings, and the details of relevant training attended by each member should be documented in an informative way.

10. The term of office and performance of the Committee and each of its members must be reviewed by the respective Boards at least once every two (2) years.

11. If a member of the Committee resigns or for any other reason ceases to be a member with the result that the number of members is reduced to below three (3), the respective Board shall within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.

Responsibility Statement by the Board of Directors

In the course of preparing the annual financial statements of the Bank, the Directors are collectively responsible in ensuring that these financial statements are drawn up in accordance with Malaysian Accounting Standards Board approved accounting standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

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

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

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

The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out in page 131 of the financial statements.

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Directors' Report

The directors submit herewith their report together with the audited financial statements of the Bank for the financial year ended 31 December 2010.

PRINCIPAL ACTIVITIES

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.

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

FINANCIAL RESULTS

	RM'000
Profit before taxation	90,625
Taxation	(23,136)
Net profit for the financial year	67,489

DIVIDENDS

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

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

RESERVES AND PROVISIONS

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

ISSUE OF SHARES

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

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 have been taken in relation to the writing off of bad financing and advances and the making of allowance for non-performing financing and advances, and satisfied themselves that all known bad financing and advances have been written off and adequate allowance had been made for non-performing financing and advances.

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

Directors' Report (continued)

CURRENT ASSETS

Before the financial statements of the Bank were made out, the directors took reasonable steps to ensure that any current assets, other than financing and advances, 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.

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.

VALUATION METHOD

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

CONTINGENT AND OTHER LIABILITIES

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

(a) any charge on the assets of the 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 its 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 or inappropriate.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Bank for the financial year were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature other than the changes in accounting policies as disclosed in Note 37 to the financial statements.

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

Directors' Report (continued)

DIRECTORS OF THE BANK

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

Datuk Haji Faisal Siraj	
Johari Abdul Muid	
Arul Kanda a/l Kandasamy	
Dato Abdullah Mat Noh	
Charles Lew Foon Keong	
Haji Md Ja'far Abdul Carrim	
Choong Tuck Oon	(Appointed on 9 August 2010)
Dato' Mohd Ali Mohd Tahir	(Appointed on 1 January 2011)
Haji Abd Rani Lebai Jaafar	(Appointed on 14 February 2011)

Pursuant to Article 68 of the Bank's Articles of Association, Datuk Haji Faisal Siraj and Charles Lew Foon Keong retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Pursuant to Article 73 of the Bank's Articles of Association, Choong Tuck Oon , Dato' Mohd Ali Mohd Tahir and Haji Abd Rani Lebai Jaafar who were appointed during the financial year, retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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

DIRECTORS' INTERESTS IN SECURITIES

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

	Number of Ordinary Shares of RM1.00 each			
	As at 1.1.2010/date of appointment	**Bought**	**Sold**	**As at 31.12.2010**
Ultimate Holding Company				
RHB Capital Berhad				
Arul Kanda a/l Kandasamy – direct	12,000	–	–	12,000
Choong Tuck Oon – direct	1,000	–	–	1,000

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

Directors' Report (continued)

DIRECTORS' BENEFITS

Since the end of the previous financial year, no director has received or become entitled to receive any benefit (other than directors' remuneration and benefits-in-kind as disclosed in Note 25 to the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

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

RESPONSIBILITY STATEMENT BY THE BOARD OF DIRECTORS

In the course of preparing the annual financial statements of the Bank, the Directors are collectively responsible in ensuring that these financial statements are drawn up in accordance with Malaysian Accounting Standards Board approved accounting standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

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

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

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

The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out in page 131 of the financial statements.

CORPORATE GOVERNANCE STATEMENT

Introduction

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

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

Directors' Report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS

Composition of the Board

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

Name of Director	Designation
Datuk Haji Faisal Siraj	Independent Non-Executive Chairman
Johari Abdul Muid	Non-Independent Non-Executive Director
Arul Kanda a/l Kandasamy	Non-Independent Non-Executive Director
Dato Abdullah Mat Noh	Independent Non-Executive Director
Charles Lew Foon Keong	Independent Non-Executive Director
Haji Md Ja'far Abdul Carrim	Senior Independent Non-Executive Director
Choong Tuck Oon	Independent Non-Executive Director
Dato' Mohd Ali Mohd Tahir	Independent Non-Executive Director
Haji Abd Rani Lebai Jaafar	Chief Executive Officer/Managing Director

Choong Tuck Oon was appointed as an Independent Non-Executive Director on 9 August 2010.

Dato' Mohd Ali Mohd Tahir was appointed as an Independent Non-Executive Director on 1 January 2011.

Haji Abd Rani Lebai Jaafar was appointed as Chief Executive Officer/Managing Director on 14 February 2011.

Duties And Responsibilities Of The Board

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

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

Directors' Report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Duties And Responsibilities Of The Board (continued)

The day-to-day management of the Bank was previously undertaken by the Group Managing Director ('MD') of RHB Capital Berhad ('RHB Capital') who was assisted by the Chief Operating Officer ('COO') of the Bank, in view of the resignation of the previous MD on 9 February 2010. The new Chief Executive Officer/Managing Director ('CEO/MD') assumed office on 14 February 2011.

The CEO/MD is responsible in managing the business and operations of the Group and in ensuring the successful implementation of policies and directions as formulated by the Board. The distinct and separate duties and responsibilities of the MD and the Chairman ensure a balance of power and authority in relation to the establishment of a fully effective Board.

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

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

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

Board Meetings

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

The Board is provided with meeting papers in advance of the meeting dates to allow the Members of the Board to digest the issues at hand, seek clarification from the Management, if required and formulate opinions on matters to be deliberated at the meetings. In line with best practices, Board materials/papers are circulated to Members of the Board at least seven days prior to the scheduled Board Meeting date. At each Meeting, the Board receives updates from the respective Chairman/representatives of the Group Audit Committee and Group Risk Management Committee/Islamic Risk Management Committee on matters that have been deliberated at these committees, as well as on matters that require attention. The Board also reviews regular management reports and information on corporate and business issues to assess performance against business targets and objectives.

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

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

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

Directors' Report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Board Meetings (continued)

The Board convened thirteen (13) meetings for financial year ended 31 December 2010. The attendance of each director in office at the end of the financial year at the aforesaid Board Meetings are set out below:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Datuk Haji Faisal Siraj	13/13	100
Johari Abdul Muid	12/13	92
Arul Kanda a/l Kandasamy	13/13	100
Dato Abdullah Mat Noh	12/13	92
Charles Lew Foon Keong	12/13	92
Haji Md Ja'far Abdul Carrim	13/13	100
Choong Tuck Oon (1)*	5/5	100

Notes:

(1) Appointed on 9 August 2010
* Based on the number of meetings attended since his appointment in 2010

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 (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Audit Committee

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

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Ong Seng Pheow (Chairman)	22/23	96
Dato' Othman Jusoh	23/23	100
Patrick Chin Yoke Chung	22/23	96
Haji Md Ja'far Abdul Carrim	23/23	100
Dato' Saw Choo Boon (1)*	13/13	100
Previous Member:		
Dato' Tan Kim Leong (2)^	10/10	100

Notes:

(1) Appointed as a member on 20 May 2010
(2) Retired on 19 May 2010
* Based on the number of meetings attended since his appointment as a member in 2010
^ Based on the number of meetings attended during his tenure of appointment in 2010

The Group AC meets regularly to provide independent oversight over the management of the financial reporting and internal control system and ensure checks and balances for the relevant entities within RHB Banking Group. The Management, Head of Central Finance, group internal auditors as well as the external auditors are invited to these meetings as and when necessary.

To ensure the independence and objectivity of the external auditors, the Group AC meets with the external auditors without the presence of the Management at least twice a year.

Directors' Report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Nominating Committee

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

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

Notes:

(1) Appointed as a member on 20 May 2010
(2) Appointed as a member on 2 August 2010
(3) Relinquished membership on 1 August 2010
(4) Retired on 19 May 2010
* Based on the number of meetings attended since his appointment as a member in 2010
^ Based on the number of meetings attended during his tenure of appointment in 2010

Apart from identifying and selecting candidates for new appointments, the Group NC is also responsible for assessing the effectiveness of individual directors, Board as a whole and the various committees of the Board, Group Shariah Committee members, chief executive officers and key senior management officers of the relevant companies in the Group. The Group NC reviews annually the required mix of skills, experience and other qualities including core competencies which directors should bring to the Board and which the Board requires for it to function efficiently and effectively.

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

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

Directors' Report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Remuneration and Human Resource Committee

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

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

Notes:

(1) Appointed as the Chairman on 20 May 2010
(2) Appointed as a member on 20 May 2010
(3) Appointed as a member on 2 August 2010
(4) Relinquished membership on 1 August 2010
(5) Retired on 19 May 2010

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

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

Directors' Report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Risk Management Committee

The Risk Management Committee comprises three (3) Independent Non-Executive Directors of whom one (1) is the Chairman and one (1) Non-Independent Non-Executive Director. During the financial year ended 31 December 2010, a total of fifteen (15) meetings were held and details of attendance of each member at the Risk Management Committee Meetings held during the year as at 31 December 2010 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Haji Md Ja'far Abdul Carrim (Chairman)	15/15	100
Dato Abdullah Mat Noh	12/15	80
Datuk Haji Faisal Siraj	15/15	100
Johari Abdul Muid	13/15	87
Dato' Mohd Ali Mohd Tahir (1)	–	–

Note:

(1) Appointed as a member on 1 February 2011.

The Risk Management Committee is responsible to provide oversight over the management of risks unique to Islamic finance.

BNM has approved the consolidation of the existing Risk Management Committees within RHB Capital Group, which includes RHB Islamic Bank Berhad. However, BNM still requires a dedicated Risk Management Committee at the Bank to deal specifically with the risks and intricacies associated with Islamic finance.

Directors' Report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Risk Management Committee

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

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

Notes:

[1] Appointed as a member on 20 May 2010
[2] Retired on 19 May 2010
* Based on the number of meetings attended since his appointment as a member in 2010
^ Based on the number of meetings attended during his tenure of appointment in 2010

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

Directors' Report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Credit Committee

The Group Credit Committee ('GCC') comprises three (3) Independent Non-Executive Directors of whom one (1) is the Chairman, and a Non-Independent Non-Executive Director. During the financial year ended 31 December 2010, a total of thirty two (32) meetings were held and the details of attendance of each member at the GCC Meetings held during the financial year ended 31 December 2010 are as follows:

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

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

Group Recovery Committee

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

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Haji Khairuddin Ahmad (Chairman)	23/23	100
Dato' Mohamed Khadar Merican	17/23	74
Dato' Abdullah Mat Noh	20/23	87
Dato Teo Chiang Liang (1)*	14/15	93
Previous Member:		
Tan Sri Azlan Zainol (2)	11/13	85

Notes:

(1) Appointed as a member on 20 May 2010
(2) Relinquished membership on 1 August 2010
* Based on the number of meetings attended since his appointment as a member in 2010
^ Based on the number of meetings attended during his tenure of appointment in 2010

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

Directors' Report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group IT & Transformation Strategy Committee

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

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

(B) RISK MANAGEMENT FRAMEWORK

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

The Framework enshrines five fundamental principles that drive the philosophy of risk management. They are:
- Risk governance from the Board of Directors;
- Clear understanding of risk management ownership;
- Institutionalisation of a risk focused organisation;
- Alignment of risk management to business strategies; and
- Optimisation of risk adjusted economic and financial returns

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

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

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

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

The financial risk management objectives and policies of the Bank are set out in Note 33 to the financial statements.

Directors' Report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(C) INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES

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

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

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

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

(D) MANAGEMENT REPORTS

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

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

DISCLOSURE OF SHARIAH COMMITTEE

The RHB Capital Group Shariah Committee ('GSC'), comprises of four (4) qualified local and foreign Shariah scholars; an assortment of knowledge, experience and approach from these mixed Shariah scholars are needed to position the Bank's operations and products to be globally accepted.

During the financial year ended 31 December 2010 a total of six (6) meetings were held and details of attendance of each member at the Group Shariah Committee Meetings held during the year as at 31 December 2010 are as follows:

Directors' Report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

DISCLOSURE OF SHARIAH COMMITTEE (CONTINUED)

Composition of the Group Shariah Committee Current Members:	**Attendance at the Committee meetings**
1. Professor Dr. Haji Abdul Samat Musa (Chairman)	6 out of 6 meetings
2. Professor Dr. Joni Tamkin Borhan	5 out of 6 meetings
3. Dr. Abdulazeem Abozaid	6 out of 6 meetings
4. Asst. Prof. Dr. Aznan Hasan*	5 out of 6 meetings

* Appointed as Bank Negara Shariah Council member effective 1 November 2010

The main duties and responsibilities of the Group Shariah Committee as supplemented by the Bank's Shariah Unit staff are:

i) Advise the Group on Shariah matters in order to ensure that the Islamic business and operations of the Group comply with Shariah principles;

ii) Endorse the Group's Shariah Compliance Manuals which must specify the manner in which a submission or request for advice be made to GSC, the conduct of GSC's meeting and the manner of compliance with any decision thereof;

iii) Endorse and validate the following documentation:

a. The terms and conditions contained in the proposal forms, contract, agreement or other legal documentation used in executing the transactions; and
b. The product manual, marketing advertisement, sales illustration and brochures used to describe the product.

iv) Provide Shariah advice to the Group's legal counsel, auditor or consultant on Shariah matters as and when required to ensure compliance with Shariah principles;

v) Advise on matters to be referred to SAC of BNM, particularly matters which have not be resolved or endorsed by SAC;

vi) Prepare written Shariah opinions particularly in the following circumstances:

a. Where the Group makes reference to the SAC of BNM for advice; or
b. Where the Group submits applications to BNM or SC for new product approval in accordance with guidelines on product approval issued by BNM and SC;

vii) To articulate the Shariah issues involved and to ensure that all advice and/or opinion be supported by relevant Shariah jurisprudential literature from established sources. GSC is also expected to assist the SAC of BNM on any matters referred by the Group. To ensure that decisions/opinion/advice of SAC of BNM are properly implemented/adhered to by the Group;

viii) Where the issues involved relate directly to or falls under the purview of the SC, the Group Shariah Committee's responsibilities include the following:

a. To ensure that the formulation on policies of the Group relating to matters concerning the securities industry comply with the Shariah principles at all times;

Directors' Report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

DISCLOSURE OF SHARIAH COMMITTEE (CONTINUED)

ix) In respect of matters concerning Islamic unit trust funds ('Fund'), the GSC is responsible to:

a. Ensure that the Fund is managed and administered in accordance with Shariah principles;

b. Provide expertise and guidance in all matters relating to Shariah principles, including on the Fund's deed and prospectus, its structure and investment process and other operational and administrative matters;

c. Consult the SC where there is ambiguity or uncertainty as to an investment, instrument, system, procedure and/or process;

d. Act with due care, skill and diligence in carrying out its duties and responsibilities;

e. Scrutinise of the Fund's compliance report as provided by the compliance officer, and investment transaction reports provided by, or duly approved by, the trustee to ensure that the Fund's investment are in line with Shariah principles; and

f. Prepare a report to be included in the Fund's interim and annual reports certifying whether the Fund had been managed and administered with Shariah principles for the period concerned.

PERFORMANCE REVIEW FOR 2010

The year 2010 marks the first year of global recovery after a wave of global economic slowdown that had started since 2008. A combination of proactive measures taken by Bank Negara Malaysia and the Government through an accommodative monetary policy and economic stimulus packages helped build growth momentum in the domestic economy. The Overnight Policy Rate (OPR) was raised, bringing the cumulative OPR adjustments for the year to date to 75 basis points to normalise monetary conditions.

In line with the rapid growth of Islamic finance, the domestic Islamic banking industry has seen an increased market demand for its products and services with RHB Islamic focusing on building market share in its core businesses.

In May 2010, RHB Islamic remodelled its business model so as to streamline its operations in order to enhance efficiency and effectiveness as well as the standardization of methodologies and best practices, leveraging on the Group's strength and infrastructure in achieving optimum productivity and cost efficiency.

Notwithstanding the challenging external operating environment in 2010, the Bank's balance sheet expanded by 17.0% to RM13.1 billion and achieved a profit before taxation of RM90.6 million.

2011 BUSINESS PLAN AND OUTLOOK

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

The retail activities will continue to be active in the coming year and with the infrastructure being put in place, RHB Islamic will maintain to focus on building up its core businesses and is well poised to reap the benefits of the continued economic growth in the country.

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

Directors' Report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

RATINGS BY RATING AGENCIES

Agencies	Date accorded	Ratings
RAM Rating Services Berhad ('RAM')	November 2010	Long Term Financial Institution Rating – AA2 Short Term Financial Institution Rating – P1

Description of the ratings accorded

(a) RAM

(i) Long term financial institution rating

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

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

(ii) Short term financial institution rating

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

IMMEDIATE HOLDING COMPANY AND ULTIMATE HOLDING COMPANY/BODY

The Directors regard RHB Bank Berhad ('RHB Bank') and RHB Capital Berhad, both companies incorporated in Malaysia, as the immediate holding company and ultimate holding company respectively.

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

AUDITORS

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

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

DATUK HAJI FAISAL SIRAJ
CHAIRMAN

HAJI MD JA'FAR ABDUL CARRIM
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

Kuala Lumpur
28 February 2011

Directors' Report (continued)

REPORT OF THE RHB GROUP SHARIAH COMMITTEE

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

We, Professor Dr. Haji Abdul Samat Musa, Professor Dr. Joni Tamkin Borhan, Dr. Abdulazeem Abozaid and Asst. Prof. Dr. Aznan Hasan being four 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 financial year ended 31 December 2010.

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 financial year ended 31 December 2010 that we have reviewed are in compliance with the Shariah (Islamic Law) 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 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 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
e) The Bank is not required to pay Zakat. This should be paid by shareholders on their shareholding.

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

Wassalamu Alaikum Wa Rahmatullahi Wa Barakatuh

Prof. Dr. Haji Abdul Samat Musa
Chairman of the Committee

Prof. Dr. Joni Tamkin Borhan
Member of the Committee

Dr. Abdulazeem Abozaid
Member of the Committee

Asst. Prof. Dr. Aznan Hasan
Member of the Committee

Kuala Lumpur
28 February 2011

Statement Of Financial Position

As At 31 December 2010

	Note	2010 RM'000	2009 RM'000
ASSETS			
Cash and short-term funds	2	**1,076,905**	2,562,465
Deposits and placements with banks and other financial institutions	3	**40,062**	305,000
Financial assets held-for-trading	4	**218,928**	30,931
Financial investments available-for-sale	5	**1,787,265**	1,195,204
Financial investments held-to-maturity	6	**1,073,159**	1,042,352
Financing and advances	7	**8,713,761**	5,842,302
Other assets	8	**42,830**	74,619
Derivative assets	9	**1,369**	–
Statutory deposits with Bank Negara Malaysia	10	**105,140**	69,240
Tax recoverable		**–**	15,666
Deferred tax assets	11	**30,854**	17,046
Property, plant and equipment	12	**21,547**	23,083
Intangible assets	13	**–**	27,601
TOTAL ASSETS		**13,111,820**	11,205,509
LIABILITIES AND EQUITY			
Deposits from customers	14	**9,946,582**	8,127,782
Deposits and placements of banks and other financial institutions	15	**2,066,993**	1,831,020
Bills and acceptance payable		**12,124**	25,228
Other liabilities	16	**101,286**	326,017
Taxation		**170**	–
TOTAL LIABILITIES		**12,127,155**	10,310,047
Ordinary share capital	17	**523,424**	523,424
Reserves	18	**461,241**	372,038
TOTAL EQUITY		**984,665**	895,462
TOTAL LIABILITIES AND EQUITY		**13,111,820**	11,205,509
COMMITMENTS AND CONTINGENCIES	30	**3,519,220**	2,740,629
CAPITAL ADEQUACY	35		
Core capital ratio		**12.23%**	12.50%
Risk-weighted capital ratio		**13.56%**	13.78%

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

Income Statement

For The Financial Year Ended 31 December 2010

	Note	2010 RM'000	2009 RM'000
Income derived from investment of depositors' funds	19	**493,365**	434,323
Income derived from investment of shareholder's funds	20	**55,381**	49,418
Allowance for impairment on financing and advances	21	**(67,379)**	(83,028)
Impairment losses on intangible assets	13	**(24,945)**	–
Profit equalisation reserve		**(201)**	1,410
Total distributable income		**456,221**	402,123
Income attributable to depositors	22	**(220,166)**	(165,113)
		236,055	237,010
Personnel expenses	23	**(59,058)**	(54,281)
Other overheads and expenditures	24	**(86,372)**	(96,135)
Profit before taxation		**90,625**	86,594
Taxation	26	**(23,136)**	(23,125)
Net profit for the financial year		**67,489**	63,469
Basic earnings per share (sen)	27	**12.89**	12.13

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

Statement Of Comprehensive Income

For The Financial Year Ended 31 December 2010

	Note	2010 RM'000	2009 RM'000
Net profit for the financial year		**67,489**	63,469
Other comprehensive income/(loss):			
Financial investments available-for-sale			
– Unrealised net gain/(loss) on revaluation		**6,040**	(6,747)
– Net transfer to income statement on disposal or impairment		**(5,674)**	(8,859)
Income tax relating to components of other comprehensive income/(loss)	28	**(107)**	4,203
Other comprehensive income/(loss) for the financial year		**259**	(11,403)
Total comprehensive income for the financial year		**67,748**	52,066

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

Statement Of Changes In Equity

For The Financial Year Ended 31 December 2010

	Note	Share capital RM'000	◄Non-distributable► Statutory reserve RM'000	AFS reserve RM'000	Distributable Retained profits RM'000	Total RM'000
Balance as at 1 January 2010						
– As previously stated		**523,424**	**197,739**	**7,127**	**167,172**	**895,462**
– Effect of adoption of FRS 139	37	**–**	**–**	**–**	**21,455**	**21,455**
– As restated		**523,424**	**197,739**	**7,127**	**188,627**	**916,917**
Net profit for the financial year		**–**	**–**	**–**	**67,489**	**67,489**
Other comprehensive income/(loss):						
Financial investments available-for-sale						
– Unrealised net gain on revaluation		**–**	**–**	**6,040**	**–**	**6,040**
– Net transfer to income statements on disposal or impairment		**–**	**–**	**(5,674)**	**–**	**(5,674)**
Income tax relating to components of other comprehensive income	28	**–**	**–**	**(107)**	**–**	**(107)**
Total comprehensive income		**–**	**–**	**259**	**67,489**	**67,748**
Transfer to statutory reserves		**–**	**33,745**	**–**	**(33,745)**	**–**
Balance as at 31 December 2010		**523,424**	**231,484**	**7,386**	**222,371**	**984,665**
Balance as at 1 January 2009		523,424	166,005	18,530	135,437	843,396
Net profit for the financial year		–	–	–	63,469	63,469
Other comprehensive income/(loss):						
Financial investments available-for-sale						
– Unrealised net loss on revaluation		–	–	(6,747)	–	(6,747)
– Net transfer to income statements on disposal or impairment		–	–	(8,859)	–	(8,859)
Income tax relating to components of other comprehensive loss	28	–	–	4,203	–	4,203
Total comprehensive income		–	–	(11,403)	63,469	52,066
Transfer to statutory reserves		–	31,734	–	(31,734)	–
Balance as at 31 December 2009		523,424	197,739	7,127	167,172	895,462

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

Statement Of Cash Flows

For The Financial Year Ended 31 December 2010

	2010 RM'000	2009 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**90,625**	86,594
Adjustments for:		
Depreciation of property, plant and equipment	**3,771**	4,241
Amortisation of intangible assets	**4,600**	1,917
Write off of property, plant and equipment	**50**	–
Impairment losses on intangible assets	**24,945**	–
Income from:		
– Investment on financial assets held-for-trading	**(4,082)**	–
– Investment on financial investments available-for-sale	**(58,543)**	(41,186)
– Investment on financial investments held-to-maturity	**(47,707)**	(39,652)
Net gain on sale of financial investment available-for-sale	**(5,674)**	(9,522)
Net gain on sale of financial assets held-for-trading	**(2,731)**	(9,262)
Unrealised gain from revaluation of derivative	**(1,369)**	–
Unrealised (gain)/loss from financial assets held-for- trading	**(220)**	194
Allowance for impairment on financing and advances	**75,311**	87,696
Charge/(Write back) for profit equalisation reserve	**201**	(1,410)
Operating profit before working capital changes	**79,177**	79,610
(Increase)/Decrease in operating assets:		
Deposits and placements with banks and other financial institutions	**265,000**	(305,000)
Financing and advances	**(2,918,163)**	(578,254)
Financial assets held-for-trading	**(180,739)**	373,339
Other assets	**7,701**	46,982
Statutory deposits with Bank Negara Malaysia	**(35,900)**	130,200
	(2,782,924)	(253,123)
Increase/(Decrease) in operating liabilities:		
Deposits from customers	**1,851,026**	780,475
Deposits and placements of banks and other financial institutions	**249,829**	949,285
Bills and acceptances payable	**(13,104)**	(9,558)
Other liabilities	**(271,014)**	65,070
Cash (used in)/generated from operations	**(966,187)**	1,532,149
Taxation paid	**(28,367)**	(22,401)
Net cash (used in)/generated from operating activities	**(994,554)**	1,509,748

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

Statement Of Cash Flows

For The Financial Year Ended 31 December 2010 (continued)

	Note	2010 RM'000	2009 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(4,229)**	(7,890)
Income received from disposal of:			
– Investment on financial investments available-for-sale		**60,441**	35,909
– Investment on financial investments held-to-maturity		**43,997**	38,237
Net proceeds from:			
– Purchase of financial investments available-for-sale		**(575,366)**	(473,004)
– (Purchase)/Redemption of financial investments held-to-maturity		**(15,849)**	116,564
Net cash used in investing activities		**(491,006)**	(290,184)
ANALYSIS OF CASH AND CASH EQUIVALENT			
Net (decrease)/increase in cash and cash equivalents		**(1,485,560)**	1,219,564
Cash and cash equivalent at the beginning of the financial year		**2,562,465**	1,342,901
Cash and cash equivalent at the end of the financial year	2	**1,076,905**	2,562,465

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

Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements, unless otherwise stated.

(1) Basis of Preparation

The financial statements of the Bank have been prepared in accordance with Financial Reporting Standards ('FRS'), the Malaysian Accounting Standards Board ('MASB') approved accounting standards in Malaysia for Entities Other Than Private Entities, together with directives and guidelines issued by Bank Negara Malaysia ('BNM') and comply with the provisions of the Companies Act, 1965.

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

The financial statements of the Bank incorporate those activities which have been undertaken by the Bank in compliance with Shariah principles. Islamic Banking generally refers to the acceptance of deposits and granting of financing under the Shariah principles.

The preparation of financial statements in conformity with Financial Reporting Standards requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported financial year. It also requires directors to exercise their judgement in the process of applying the Bank accounting policies. Although these estimates and judgement are based on the directors' best knowledge of current events and actions, actual results may differ from those estimates.

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

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

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

- FRS 7 'Financial Instruments: Disclosures' and the related amendments
- FRS 8 'Operating Segments'
- FRS 101 (revised) 'Presentation of Financial Statements'
- FRS 123 'Borrowing Costs'
- FRS 139 'Financial Instruments: Recognition and Measurement' and the related amendments
- Amendments to FRS 132 'Financial Instruments: Presentation' and FRS 101 (revised) 'Presentation of Financial Statements' - Puttable financial instruments and obligations arising on liquidation
- IC Interpretation 9 'Reassessment of Embedded Derivatives' and the related Amendments
- IC Interpretation 10 'Interim Financial Reporting and Impairment'
- IC Interpretation 13 'Customer Loyalty Programmes'
- IC Interpretation 14 'FRS 119 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction'
- Improvements to FRSs (2009)

A summary of the impact of the new accounting standards, amendments and improvements to published standards and interpretations on the financial statements of the Bank is set out in Note 37.

Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) Basis of Preparation (continued)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective.

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

- The revised FRS 124 'Related Party Disclosures' (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:

  - The name of the government and the nature of their relationship;
  - The nature and amount of each individually significant transactions; and
  - The extent of any collectively significant transactions, qualitatively or quantitatively.

- Amendments to FRS 7 'Financial instruments: Disclosures' and FRS 1 'First-time Adoption of Financial Reporting Standards' (effective from 1 January 2011) requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

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

- Amendment to FRS 132 'Financial instruments: Presentation' on classification of rights issues (effective from 1 March 2010) addresses accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity instruments instead of as derivative liabilities, regardless of the currency in which the exercise price is denominated. Currently, these issues are accounted for as derivative liabilities.

- IC Interpretation 4 'Determining Whether an Arrangement Contains a Lease' (effective from 1 January 2011) requires the Bank to identify any arrangement that does not take the legal form of a lease, but conveys a right to use an asset in return for a payment or series of payments. This interpretation provides guidance for determining whether such arrangements are, or contain, leases. The assessment is based on the substance of the arrangement and requires assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset. If the arrangement contains a lease, the requirements of FRS 117 'Leases' should be applied to the lease element of the arrangement.

Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(1) Basis of Preparation (continued)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank but not yet effective. (continued)

Improvements to FRSs:

- FRS 101 'Presentation of Financial Statements' (effective from 1 January 2011) clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statements of changes in equity or in the notes to the financial statements.

- FRS 138 'Intangible Assets' (effective from 1 July 2010) clarifies that a group of complementary intangible assets acquired in a business combination may be recognised as a single asset if each asset has similar useful lives.

- IC Interpretation 9 (effective from 1 July 2010) clarifies that this interpretation does not apply to embedded derivatives in contracts acquired in a business combination, businesses under common control or the formation of a joint venture.

The adoption of the above standards, amendments to published standards and interpretations to existing standards that are applicable to the Bank is not expected to have any significant financial impact on the results of the Bank.

(2) Financial assets

(a) Classification

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

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

Financial assets at fair value through profit or loss are financial assets held-for-trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives are also categorised as held for trading unless they are designated as hedges (refer to accounting policy Note 4).

(ii) Financing, advances and receivables

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

(iii) Financial investments held-to-maturity

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

Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) Financial assets (continued)

(a) Classification (continued)

(iv) Financial investments available-for-sale

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

(b) Recognition and initial measurement

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

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

(c) Subsequent measurement – gain and losses

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

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, profit and dividend income are recognised in profit or loss in the period in which the changes arise. Changes in the fair value of financial investments available-for-sale are recognised in other comprehensive income, except for impairment losses (refer to accounting policy Note 14) and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in profit or loss, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

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

Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) Financial assets (continued)

(d) De-recognition

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

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

Changes in accounting policy

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

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

Refer to Note 37 for the impact of these changes in accounting policy.

(3) Property, plant and equipment and depreciation

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

Renovations in progress are not depreciated. Other property, plant and equipment are depreciated on a straight-line basis to write down their costs to their residual values over their estimated useful lives. The principal annual depreciation rates are as follows:

Renovations	7.5% to 20%
Office equipment, furniture and fixtures	7.5% to 20%
Computer equipment and software	20% to $33\frac{1}{3}$%
Motor vehicles	20% to 25%

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

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

At the end of the reporting period, the Bank assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount. Refer to accounting policy Note 16 on impairment of non-financial assets.

Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(4) Derivative financial instruments

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

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which variables include only data from observable markets. When such evidence exists, the Bank recognises profits on day one.

(5) Financial liabilities

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

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

Financial liabilities at fair value through profit or loss are financial liabilities held for trading, A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedges (refer to accounting policy Note 4).

(b) Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers and bills and acceptances payable.

Changes in accounting policy

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

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

Refer to Note 37 for the impact of these changes in accounting policy.

Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(6) Operating lease

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

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

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

(7) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation, as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

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

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

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

(8) Borrowings

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

(9) Financial guarantee contract

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

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

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

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

Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(10) 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-occurrence of one or more uncertain future events beyond the control of the Bank. The Bank does not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.

(11) Dividends payable

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

(12) Cash and cash equivalents

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

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

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

(13) Income recognition

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

When a financing, advances and receivable is impaired, the Bank reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective profit rate of the instrument, and continues unwinding the discount as profit income. Profit income on impaired financing and receivables is recognised using the original effective profit rate.

(b) Financing arrangement fees, commissions and placement fees are recognised as income when all conditions precedent are fulfilled.

(c) Guarantee fees are recognised as income upon issuance of guarantees.

Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(13) Income recognition (continued)

(d) Commitment fees are recognised as income based on time apportionment.

(e) Corporate advisory fees are recognised as income on completion of each stage of the engagement and issuance of invoice.

(f) Dividends from all investments are recognised when the shareholders' right to receive payment is established.

Change in accounting policy

The Bank has changed its accounting policy for profit income recognition upon adoption of FRS 139 on 1 January 2010. Previously, profit income is recognised based on contractual profit rate. Upon adoption of FRS 139, profit income is now recognised using the effective profit method, which is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instruments, or when appropriate, a shorter period to the net carrying amount.

The Bank has applied the new policy according to the transitional provision by recognising and measuring the financial instruments as at 1 January 2010 and recording any adjustments to opening retained profits. Comparative of profit income has not been adjusted and therefore the corresponding balance is not comparable. Refer to Note 37 for the impact of this change in accounting policy.

(14) Impairment of financial assets

(a) Assets carried at amortised cost

The Bank assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If 'financing, advances and receivables' or a 'held-to-maturity investment' have a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(14) Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

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

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

The Bank addresses impairment of financing and advances via either individually assessed allowance or collectively assessed allowance.

i) Individually impairment allowance

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

ii) Collective impairment allowance

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

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

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

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

Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(14) Impairment of financial assets (continued)

(b) Assets classified as available-for-sale

The Bank assesses at the end of the reporting period whether there is objective evidence that a financial asset or a bank of financial assets is impaired.

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

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

Changes in accounting policy

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

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

The Bank has applied the new policy according to the transitional provisions by re-measuring all financial assets, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained profits or, if appropriate, another category of equity, of the current financial year. Comparatives have not been adjusted and therefore the corresponding balances are not comparable. Refer to Note 37 for the impact of these changes in accounting policy.

(15) Employee benefits

(i) Short-term employee benefits

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

(ii) 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. The Bank's contributions to defined contribution plans are charged to the profit or loss in the period to which they relate. Once the contributions have been paid, the Bank has no further legal or constructive obligations.

Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(15) Employee benefits (continued)

(iii) 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.

(16) Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the non-financial assets exceeds its recoverable amount.

The recoverable amount is the higher of a non-financial assets' fair value less costs to sell and value in use. For the purpose of assessing impairment, non-financial assets are grouped at the lowest levels for which there is separately identifiable cash flow/CGU. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

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

(17) Current and deferred income taxes

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

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

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

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the date of statements of financial position and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

(18) Currency conversion and translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Ringgit Malaysia, which is the Bank's functional and presentation currency.

Summary Of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2010 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(18) Currency conversion and translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange gains and losses are presented in profit or loss within other operating income.

For translation differences on financial assets and liabilities held at fair value through profit or loss and available-for-sale financial assets, refer to accounting policy Note 2(c).

(19) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments of an entity. Refer to Note 36 for the disclosure of segment reporting.

Change in accounting policy

The Bank has adopted FRS 8 'Operating Segments' from 1 January 2010. FRS 8 replaces FRS 114 'Segment Reporting' and is applied retrospectively. The adoption of FRS 8 resulted in additional disclosures in segment reporting disclosures. Comparatives have been restated. Refer to Note 36 for the disclosure of segment reporting.

(20) Zakat

The obligation and responsibility of payment of Zakat lies with the ultimate individual shareholders and the depositors of the Bank. As such, no accrual of Zakat expenses is recognised in the financial statements of the Bank.

(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 impairment of financial assets

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

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

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010

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 is committed to offer customers a comprehensive range of product and services in accordance with its Articles of Association and Shariah principals.

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

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

	2010 RM'000	2009 RM'000
Cash and balances with banks and other financial institutions	**55,216**	122,147
Money at call and deposit placements maturing within one month	**1,021,689**	2,440,318
	1,076,905	2,562,465

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2010 RM'000	2009 RM'000
Licensed banks	**–**	200,000
Licensed Islamic banks	**40,062**	105,000
	40,062	305,000

4 FINANCIAL ASSETS HELD-FOR-TRADING

	2010 RM'000	2009 RM'000
At fair value		
Money market instruments:		
Malaysian government investment issues	**10,066**	–
BNM monetary notes	**173,816**	–
Unquoted securities:		
In Malaysia		
Private debt securities	**35,046**	30,931
	218,928	30,931

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	2010 RM'000	2009 RM'000
At fair value		
Money market instruments:		
Malaysian government investment issues	**1,239,535**	728,957
Islamic accepted bills	**93,868**	–
Unquoted securities:		
In Malaysia		
Private debt securities	**453,287**	465,672
	1,786,690	1,194,629
At cost		
Unquoted securities:		
In Malaysia		
Shares in Islamic Bank and Financial Institutions of Malaysia ('IBFIM')	**575**	575
	1,787,265	1,195,204

The carrying value of financial investments available-for-sale as at 31 December 2010, which was transferred from financial assets held-for-trading in previous financial year, for the Bank is RM20.3 million (2009 : RM20.4 million).

6 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	2010 RM'000	2009 RM'000
At amortised cost		
Money market instruments:		
Malaysian government investment issues	**589,168**	566,570
Cagamas bonds and Cagamas Mudharabah bonds	**183,895**	175,201
Khazanah bonds	**–**	34,935
Unquoted securities:		
In Malaysia		
Private debt securities	**300,096**	265,646
	1,073,159	1,042,352

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

7 FINANCING AND ADVANCES

	2010 RM'000	2009 RM'000
At amortised cost		
Cashline	**116,123**	87,557
Term financing		
– housing financing	**2,368,625**	1,872,246
– syndicated term financing	**898,904**	793,288
– hire purchase receivables	**1,625,598**	1,035,729
– other term financing	**2,902,392**	1,297,163
Bills receivable	**546,820**	503,119
Trust receipts	**17,994**	32,787
Staff financing	**11,404**	12,990
Credit/charge cards receivables	**530**	–
Revolving financing	**547,639**	451,209
Gross financing and advances	**9,036,029**	6,086,088
Allowance for bad and doubtful financing:		
– individual impairment allowance	**(163,440)**	–
– collective impairment allowance	**(158,828)**	–
– general allowance	**–**	(88,984)
– specific allowance	**–**	(154,802)
Net financing and advances	**8,713,761**	5,842,302

The remaining maturities of financing and advances are as follows:

	2010 RM'000	2009 RM'000
Maturing within one year	**1,685,198**	1,379,878
One to three years	**345,809**	279,897
Three to five years	**1,005,422**	559,650
Over five years	**5,999,600**	3,866,663
Gross financing and advances	**9,036,029**	6,086,088

Financing and advances analysed by type of customers are as follows:

	2010 RM'000	2009 RM'000
Domestic non-bank financial institutions		
– Others	**36,751**	10,486
Domestic business enterprises		
– Small medium enterprises	**712,770**	664,475
– Others	**2,667,781**	2,326,103
Government and statutory bodies	**1,516,587**	112,186
Individuals	**3,814,221**	2,669,895
Other domestic entities	**426**	676
Foreign entities	**287,493**	302,267
Gross financing and advances	**9,036,029**	6,086,088

Notes To The Financial Statements
For The Financial Year Ended 31 December 2010 (continued)

7 FINANCING AND ADVANCES (CONTINUED)

Financing and advances analysed by contract are as follows:

	2010 RM'000	2009 RM'000
Bai' Bithaman Ajil ('BBA')	**3,207,867**	1,969,354
Ijarah	**2,478,851**	1,996,943
Murabahah	**1,534,782**	1,124,993
Musyarakah	**1,172,733**	496,242
Istisna'	**530,275**	442,502
Others	**111,521**	56,054
Gross financing and advances	**9,036,029**	6,086,088

Financing and advances analysed by profit rate sensitivity are as follows:

	2010 RM'000	2009 RM'000
Fixed rate		
– Housing financing	**1,243,164**	1,417,055
– Hire-purchase receivables	**1,625,598**	1,035,729
– Other fixed rate financing	**3,015,961**	1,610,801
Variable rate		
– BFR-plus	**2,586,524**	1,341,860
– Cost-plus	**564,782**	680,643
Gross financing and advances	**9,036,029**	6,086,088

Financing and advances analysed by purpose are as follows:

	2010 RM'000	2009 RM'000
Purchase of securities	**12,270**	18,430
Purchase of transport vehicles	**1,567,375**	968,500
Purchase of landed property:		
– Residential	**2,439,955**	1,848,340
– Non-residential	**204,703**	183,280
Purchase of property, plant and equipment other than land and building	**528,785**	477,020
Personal use	**14,070**	13,778
Credit card	**530**	–
Purchase of consumer durables	**80**	110
Construction	**483,660**	402,450
Working capital	**1,506,160**	1,731,270
Other purposes	**2,278,441**	442,910
Gross financing and advances	**9,036,029**	6,086,088

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

7 FINANCING AND ADVANCES (CONTINUED)

Movement in impaired financing and advances are as follows:

	Note	2010 RM'000	2009 RM'000
Balance as at the beginning of the financial year			
– As previously stated		**376,940**	267,357
– Classified as impaired due to adoption of FRS 139	37	**101,472**	–
– As restated		**478,412**	267,357
Classified as impaired during the financial year		**486,779**	424,210
Amount recovered		**(43,269)**	(40,005)
Reclassified as non-impaired		**(293,671)**	(239,410)
Amount written off		**–**	(35,212)
Balance as at the end of the financial year		**628,251**	376,940
Gross impaired financing and advances ratio		**6.95%**	6.20%

Impaired financing and advances analysed by purpose are as follows:

	2010 RM'000	2009 RM'000
Purchase of transport vehicles	**16,270**	6,360
Purchase of landed property:		
– Residential	**202,090**	189,780
– Non-residential	**26,820**	2,690
Purchase of property, plant and equipment other than land and building	**74,010**	–
Personal use	**4,970**	2,210
Construction	**1,530**	1,140
Working capital	**299,231**	174,760
Other purposes	**3,330**	–
Gross impaired financing and advances	**628,251**	376,940

Movements in allowance for impaired financing and advances are as follows:

	Note	2010 RM'000	2009 RM'000
Individual impairment allowance			
Balance as at the beginning of the financial year			
– As previously stated		**–**	–
– Effect of adoption of FRS 139	37	**107,035**	–
– As restated		**107,035**	–
Allowance made during the financial year		**69,456**	–
Amount recovered		**(12,546)**	–
Amount written off		**(505)**	–
Balance as at end of the financial year		**163,440**	–

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

7 FINANCING AND ADVANCES (CONTINUED)

Movements in allowance for impaired financing and advances are as follows (continued):

	Note	2010 RM'000	2009 RM'000
Collective impairment allowance			
Balance as at the beginning of the financial year			
– As previously stated		**–**	–
– Effect of adoption of FRS 139	37	**140,427**	–
– As restated		**140,427**	–
Allowance made during the financial year		**18,401**	–
Balance as at end of the financial year		**158,828**	–

	Note	2010 RM'000	2009 RM'000
Specific allowance			
Balance as at the beginning of the financial year			
– As previously stated		**154,802**	92,581
– Effect of adoption of FRS 139	37	**(154,802)**	–
– As restated		**–**	92,581
Allowance made during the financial year		**–**	123,452
Amount recovered		**–**	(26,756)
Amount written off		**–**	(34,475)
Balance as at the end of the financial year		**–**	154,802

	Note	2010 RM'000	2009 RM'000
General allowance			
Balance as at the beginning of the financial year			
– As previously stated		**88,984**	97,984
– Effect of adoption of FRS 139	37	**(88,984)**	–
– As restated		**–**	97,984
Allowance made during the financial year		**–**	(9,000)
Balance as at the end of the financial year		**–**	88,984
As % of gross financing and advances less specific allowances		**–**	1.5%

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

8 OTHER ASSETS

	2010 RM'000	2009 RM'000
Accrued income receivable	–	28,681
Deposits and prepayments	**682**	22,227
Sundry deposits debtors	**1,251**	1,352
Other debtors	**40,897**	22,359
	42,830	74,619

9 DERIVATIVES ASSETS

Derivative financial instruments are financial instruments whose values change in response to changes in prices or rates (such as foreign exchange rates, profit rates and security prices) of the underlying instruments. These instruments are used by the Bank for economic hedges. The default classification for derivative financial instruments is trading, unless designated in a hedge relationship.

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

2010	Contract or underlying principal amount RM'000	Year-end positive fair value RM'000	Year-end negative fair value RM'000
Profit rate related contracts:			
– swaps	**650,000**	**1,369**	**–**

10 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

	2010 RM'000	2009 RM'000
Statutory deposits with Bank Negara Malaysia	**105,140**	69,240

The non-interest bearing statutory deposits are maintained with BNM in compliance with Section 26 (2) (c) of the Central Bank of Malaysia Act 2009. The amount is determined at a set percentage of total eligible liabilities.

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

11 DEFERRED TAXATION

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same authority. The following amounts determined after appropriate set off are shown in the statements of financial position:

	2010 RM'000	2009 RM'000
Deferred tax assets	**30,854**	17,046
Deferred tax assets		
– Settled more than 12 months	**24,532**	16,077
– Settled within 12 months	**6,322**	969
	30,854	17,046

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

	Note	Intangible assets RM'000	Property, plant and equipment RM'000	Financial investments available-for-sale RM'000	Financing and advances RM'000	Others liabilities RM'000	Total RM'000
2010							
Balance as at the beginning of the financial year							
– As previously stated		**(2,970)**	**(309)**	**(2,308)**	**22,247**	**386**	**17,046**
– Effect of adoption of FRS 139	37	**–**	**–**	**–**	**(7,152)**	**–**	**(7,152)**
– As restated		**(2,970)**	**(309)**	**(2,308)**	**15,095**	**386**	**9,894**
Transfer from income statement		**6,308**	**70**	**–**	**11,549**	**3,140**	**21,067**
Transfer to equity		**–**	**–**	**(107)**	**–**	**–**	**(107)**
Balance as at the end of the financial year		**3,338**	**(239)**	**(2,415)**	**26,644**	**3,526**	**30,854**
2009							
Balance as at the beginning of the financial year		–	(221)	(6,511)	24,647	2,045	19,960
Transfer to income statement		(2,970)	(88)	–	(2,400)	(1,659)	(7,117)
Transfer from equity		–	–	4,203	–	–	4,203
Balance as at the end of the financial year		(2,970)	(309)	(2,308)	22,247	386	17,046

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

12 PROPERTY, PLANT AND EQUIPMENT

	Renovations RM'000	Office equipment, furniture and fixtures RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
2010					
Cost					
Balance as at the beginning of the financial year	**11,898**	**5,190**	**14,294**	**1,486**	**32,868**
Additions	**1,949**	**111**	**1,779**	**390**	**4,229**
Reclassification to intangible assets	**–**	**–**	**(1,944)**	**–**	**(1,944)**
Written off	**–**	**(127)**	**(408)**	**(5)**	**(540)**
Balance as at the end of the financial year	**13,847**	**5,174**	**13,721**	**1,871**	**34,613**
Accumulated depreciation					
Balance as at the beginning of the financial year	**1,582**	**2,058**	**5,278**	**867**	**9,785**
Charge for the financial year	**769**	**872**	**1,860**	**270**	**3,771**
Written off	**–**	**(122)**	**(363)**	**(5)**	**(490)**
Balance as at the end of the financial year	**2,351**	**2,808**	**6,775**	**1,132**	**13,066**
Net book value as at the end of the financial year	**11,496**	**2,366**	**6,946**	**739**	**21,547**
2009					
Cost					
Balance as at the beginning of the financial year	9,888	2,490	11,138	1,462	24,978
Additions	4,274	436	3,156	24	7,890
Reclassification	(2,264)	2,264	–	–	–
Balance as at the end of the financial year	11,898	5,190	14,294	1,486	32,868
Accumulated depreciation					
Balance as at the beginning of the financial year	441	868	3,662	573	5,544
Charge for the financial year	1,141	1,190	1,616	294	4,241
Balance as at the end of the financial year	1,582	2,058	5,278	867	9,785
Net book value as at the end of the financial year	10,316	3,132	9,016	619	23,083

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above property, plant and equipment include the following assets under construction/progress:

	2010 RM'000	2009 RM'000
Cost		
Renovations	**5,322**	3,693
Computer equipment and software	**5,614**	5,152
	10,936	8,845

13 INTANGIBLE ASSETS

	2010 RM'000	2009 RM'000
Computer and software		
Cost		
Balance as at the beginning of the financial year	**27,601**	29,518
Reclassification from property, plant and equipment	**1,944**	–
Amortisation for the financial year	**(4,600)**	(1,917)
Impairment losses for the financial year	**(24,945)**	–
Balance as at the end of the financial year	**–**	27,601

The above intangible assets include the following assets under construction/in progress:

	2010 RM'000	2009 RM'000
Cost		
Computer software	**–**	6,518

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

14 DEPOSITS FROM CUSTOMERS

	2010 RM'000	2009 RM'000
Non-Mudharabah Funds:		
Demand deposits	**1,376,008**	1,607,302
Savings deposits	**569,786**	563,317
Negotiable Islamic Debt Certificates	**4,976**	4,754
Commodity Murabahah	**754,650**	–
	2,705,420	2,175,373
Mudharabah Funds:		
Demand deposits	**378,321**	374,513
Savings deposits	**3,123**	–
General investment accounts	**1,280,190**	1,166,442
Special investment accounts	**5,579,528**	4,411,454
	9,946,582	8,127,782

(a) The maturity structure of investment accounts, commodity murabahah and negotiable Islamic debt certificates are as follows:

	2010 RM'000	2009 RM'000
Due within six months	**6,876,995**	5,098,344
Six months to one year	**591,854**	467,400
One year to three years	**149,746**	15,927
Three years to five years	**749**	736
Over five years	**–**	243
	7,619,344	5,582,650

(b) The deposits are sourced from the following classes of customers:

	2010 RM'000	2009 RM'000
Government and statutory bodies	**2,391,923**	1,771,165
Business enterprises	**4,807,632**	5,026,432
Individuals	**1,095,704**	887,310
Others	**1,651,323**	442,875
	9,946,582	8,127,782

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

15 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2010 RM'000	2009 RM'000
Non-Mudharabah Funds:		
Licensed Islamic banks	**730,726**	152,720
Licensed banks	**324,013**	342,400
	1,054,739	495,120
Mudharabah Funds:		
Licensed Islamic banks	**807,836**	490,000
Licensed banks	**204,418**	498,000
Licensed investment banks	**–**	247,900
Other financial institutions	**–**	100,000
	2,066,993	1,831,020

16 OTHER LIABILITIES

	2010 RM'000	2009 RM'000
Sundry creditors	**49,990**	17,303
Profit equalisation reserve (i)	**4,527**	4,326
Amount due to immediate holding company (ii)	**11,355**	243,495
Other accruals and payables	**35,414**	60,893
	101,286	326,017

(i) Profit equalisation reserve:

	2010 RM'000	2009 RM'000
Balance as at the beginning of the financial year	**4,326**	5,736
Net amount charge/(written back)	**201**	(1,410)
	4,527	4,326

Profit equalisation reserve at the end of the financial year of which the shareholder's portion is RM184,720 (2009:RM238,362).

(ii) The amount due to immediate holding company is unsecured, non-profit bearing and repayable within the normal credit period.

Notes To The Financial Statements
For The Financial Year Ended 31 December 2010 (continued)

17 ORDINARY SHARE CAPITAL

	2010 RM'000	2009 RM'000
Ordinary shares of RM1.00 each:		
Authorised:		
Balances as at the beginning/end of financial year	**1,000,000**	1,000,000
Issued and fully paid:		
Balances as at the beginning/end of financial year	**523,424**	523,424

18 RESERVES

		2010 RM'000	2009 RM'000
Retained profits	(a)	**222,371**	167,172
Statutory reserve	(b)	**231,484**	197,739
AFS reserve	(c)	**7,386**	7,127
		461,241	372,038

(a) A single tier company tax was introduced effective 1 January 2008. Under this single tier system, tax on a company's profits is a final tax, and dividends distributed to shareholder are exempted from tax. Companies with S108 tax credit balance are given an option to elect to move to a single tier system immediately or allowed to use the Section 108 credit balance for the purpose of dividend distribution during a transitional period of 6 years until 31 December 2013.

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

Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax credits under Section 108(6) of the Income Tax Act, 1967 to pay dividends out of its entire retained profits as at 31 December 2010.

(b) The statutory reserves represent non-distributable profits held by the Bank in compliance with Section 15 of the Islamic Banking Act 1983. This fund is not distributable as cash dividends.

(c) The AFS revaluation reserve arises from a change in the fair value of securities classified as available-for-sale securities. The unrealised gains or losses are transferred to the income statement upon disposal, derecognition or impairment of such securities. The depositors' portion of unrealised gains on available-for-sale securities at the end of the financial year is RM7,070,618 (2009: RM6,733,874).

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

19 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	2010 RM'000	2009 RM'000
Income derived from investment of:		
(i) General investment deposit	**57,170**	65,440
(ii) Other deposits	**436,195**	368,883
	493,365	434,323

(i) Income derived from investment of general investment deposits:

	2010 RM'000	2009 RM'000
Finance income and hibah:		
Financing and advances	**38,453**	43,305
Financial assets held-for-trading	**443**	1,603
Financial investments available-for-sale	**6,365**	5,446
Financial investments held-to-maturity	**5,164**	6,812
Money at call and deposit with financial institutions	**5,226**	6,286
Total finance income and hibah	**55,651**	63,452
Other operating income (note a to c)	**1,519**	1,988
	57,170	65,440
Of which:		
Financing income earned on impaired financing	**782**	–

Other operating income comprise of:

	2010 RM'000	2009 RM'000
a) Fee income		
Commission	**524**	668
Guarantee fees	**35**	129
	559	797

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

19 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS (CONTINUED)

(i) Income derived from investment of general investment deposits (continued):

Other operating income comprise of (continued):

	2010 RM'000	2009 RM'000
b) Net gain/(loss) on financial assets held-for-trading – net gain/(loss) on revaluation and disposal	**323**	(407)
c) Net gain on disposal of financial investments available-for-sale	**637**	1,598
	1,519	1,988

(ii) Income derived from investment of other deposits:

	2010 RM'000	2009 RM'000
Finance income and hibah:		
Financing and advances	**293,161**	244,943
Financial assets held-for-trading	**3,405**	8,886
Financial investments available-for-sale	**48,548**	31,339
Financial investments held-to-maturity	**39,498**	37,207
Money at call and deposit with financial institutions	**40,172**	36,432
Total finance income and hibah	**424,784**	358,807
Other operating income (note a to c)	**11,411**	10,076
	436,195	368,883
Of which:		
Financing income earned on impaired financing	**5,901**	–

Other operating income comprise of:

	2010 RM'000	2009 RM'000
a) Fee income		
Commission	**4,007**	3,777
Guarantee fees	**274**	761
	4,281	4,538
b) Net gain/(loss) on financial assets held-for-trading – net gain/(loss) on revaluation and disposal	**2,415**	(1,832)
c) Net gain on disposal of financial investments available-for-sale	**4,715**	7,370
	11,411	10,076

Notes To The Financial Statements
For The Financial Year Ended 31 December 2010 (continued)

20 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	2010 RM'000	2009 RM'000
Finance income and hibah:		
Financing and advances	**22,108**	16,828
Financial assets held-for-trading	**234**	616
Financial investments available-for-sale	**3,630**	2,136
Financial investments held-to-maturity	**3,045**	2,601
Money at call and deposit with financial institutions	**3,041**	2,473
Total finance income and hibah	**32,058**	24,654
Other operating income (note a to c)	**23,323**	24,764
	55,381	49,418
Of which:		
Financing income earned on impaired financing	**436**	–

Other operating income comprise of:

	2010 RM'000	2009 RM'000
a) Fee income		
Commission	**3,295**	2,293
Service charges and fees	**17,849**	20,488
Guarantee and underwriting fees	**325**	312
Other fee income	**1,319**	1,253
	22,788	24,346
b) Net gain/(loss) on financial assets held-for-trading		
– net gain/(loss) on revaluation and disposal	**213**	(136)
c) Net gain on disposal of financial investments available-for-sale	**322**	554
	23,323	24,764

Notes To The Financial Statements
For The Financial Year Ended 31 December 2010 (continued)

21 ALLOWANCE FOR IMPAIRMENT ON FINANCING AND ADVANCES

	2010 RM'000	2009 RM'000
Allowance for impaired financing and advances/bad and doubtful debts:		
Individual impairment allowance		
– made during the financial year	**69,456**	–
– written back during the financial year	**(12,546)**	–
Collective impairment allowance		
– made during the financial year	**18,401**	–
Specific allowance		
– made during the financial year	**–**	123,452
– written back during the financial year	**–**	(26,756)
General allowance		
– written back during the financial year	**–**	(9,000)
Impaired financing and advances recovered	**(7,932)**	(4,668)
	67,379	83,028

22 INCOME ATTRIBUTABLE TO DEPOSITORS

	2010 RM'000	2009 RM'000
Deposits from customers:		
– Mudharabah funds	**174,742**	124,055
– Non-Mudharabah funds	**10,006**	11,829
Deposits and placements of banks and other financial institutions:		
– Mudharabah funds	**15,173**	13,036
– Non-Mudharabah funds	**20,245**	16,193
	220,166	165,113

23 PERSONNEL EXPENSES

	2010 RM'000	2009 RM'000
Salaries, allowance and bonuses	**46,190**	42,805
Contribution to Employees' Provident Fund	**7,524**	6,878
Other staff related cost	**5,344**	4,598
	59,058	54,281

Notes To The Financial Statements
For The Financial Year Ended 31 December 2010 (continued)

24 OTHER OVERHEADS AND EXPENDITURES

	2010 RM'000	2009 RM'000
Establishment costs		
Property, plant and equipment		
– depreciation	**3,771**	4,241
– written off	**50**	–
Amortisation of intangible assets	**4,600**	1,917
Information technology expenses	**3,142**	5,474
Repair and maintenance	**570**	335
Rental of premises	**4,464**	4,070
Water and electricity	**680**	625
Rental of equipment	**268**	285
Insurance	**1,518**	5,434
Others	**4,440**	771
	23,503	23,152
Marketing expenses		
Advertisement and publicity	**4,495**	5,977
Travelling expenses	**1,017**	1,314
Motor vehicle expenses	**926**	1,147
Others	**521**	5,825
	6,959	14,263
Administration and general expenses		
Auditors' remuneration		
– statutory audit	**113**	88
– non-audit	**87**	55
Communication expenses	**3,264**	2,395
Legal and professional fee	**986**	1,807
Others	**51,460**	54,375
	55,910	58,720
	86,372	96,135

Included in the administration and general expenses of the Bank are other director's remuneration (excluding benefits in kind) totalling RM795,000 (2009:RM752,000) as disclosed in Note 25.

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

25 REMUNERATION OF MANAGING DIRECTOR ('MD'), NON-EXECUTIVE DIRECTORS AND SHARIAH COMMITTEE MEMBERS

2010	Salary and other remuneration RM'000	Benefits-in-kind (based on estimated monetary value) RM'000	Bonus RM'000	Total RM'000
Managing Director				
Puan Jamelah Jamaluddin (resigned on 9 February 2010)	119	3	–	122

	Fees RM'000	Benefits-in-kind (based on estimated monetary value) RM'000	Others RM'000	Total RM'000
Non-Executive Directors				
Datuk Haji Faisal Siraj	80	10	62	152
Johari Abdul Muid	60	–	95	155
Arul Kanda a/l Kandasamy	60	–	20	80
Dato Abdullah Mat Noh	60	25	75	160
Charles Lew Foon Keong	60	–	18	78
Haji Md Ja'far Abdul Carrim	60	–	93	153
Choong Tuck Oon (appointed on 9 August 2010)	24	–	28	52
Total	404	35	391	830

	Fees RM'000
Shariah Committee	
Professor Dr. Haji Abdul Samat Musa	48
Professor Dr. Joni Tamkin Borhan	47
Dr. Abdulazeem Abozaid	55
Asst. Prof. Dr. Aznan Hasan	41
Total	191

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

25 REMUNERATION OF MANAGING DIRECTOR ('MD'), NON-EXECUTIVE DIRECTORS AND SHARIAH COMMITTEE MEMBERS (CONTINUED)

2009	Salary and other remuneration RM'000	Benefits-in-kind (based on estimated monetary value) RM'000	Bonus RM'000	Total RM'000
Managing Director				
Puan Jamelah Jamaluddin	1,168	34	600	1,802

	Fees RM'000	Others RM'000	Total RM'000
Non-Executive Directors			
Datuk Haji Faisal Siraj	80	52	132
Johari Abdul Muid	60	64	124
Arul Kanda a/l Kandasamy (appointed on 20 July 2009)	27	11	38
Dato Abdullah Mat Noh	60	63	123
Charles Lew Foon Keong	60	13	73
Haji Md Ja'far Abdul Carrim	24	24	48
Dato' Mohd Salleh Harun (resigned on 18 November 2009)	53	65	118
Dato' Othman Jusoh (resigned on 22 February 2009)	9	6	15
Ismail Fariz Ali (resigned on 30 September 2009)	44	26	70
Eirvin Bee Knox (resigned on 2 March 2009)	10	1	11
Total	427	325	752

	Fees RM'000
Shariah Committee	
Professor Dr. Haji Abdul Samat Musa	50
Professor Dr. Joni Tamkin Borhan	50
Dr. Abdulazeem Abozaid	64
Asst. Prof. Dr. Aznan Hasan (appointed 1 April 2009)	39
Dr Ma'sum Billah (resigned on 31 March 2009)	12
Dr Ahmad Moheildin (resigned on 31 March 2009)	15
Total	230

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

26 TAXATION

	2010 RM'000	2009 RM'000
Malaysian income tax:		
– Current tax	**42,526**	14,841
– Under provision in prior years	**1,677**	1,167
Deferred taxation (Note 11)	**(21,067)**	7,117
	23,136	23,125
Current tax		
Current year	**42,526**	14,841
Under provision in prior years	**1,677**	1,167
	44,203	16,008
Deferred tax		
Origination and reversal of temporary differences	**(21,067)**	7,117
	23,136	23,125

The numerical reconciliation between the effective tax rate and the applicable statutory income tax rate is as follows:

	2010 %	2009 %
Malaysian tax rate of 25% (2009:25%)	**25.0**	25.0
Tax effects in respect of:		
Expenses not deductible for tax purposes	**3.3**	0.4
Under provision in respect of prior years	**1.9**	1.3
Other temporary differences previously not recognised	**(4.7)**	–
Effective tax rate	**25.5**	26.7

27 EARNINGS PER SHARE

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

	2010	2009
Net profit for the financial year (RM'000)	**67,489**	63,469
Weighted average number of ordinary shares in issue (RM'000)	**523,424**	523,424
Basic earnings per share (sen)	**12.89**	12.13

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

28 INCOME TAX EFFECTS RELATING TO COMPONENTS OF OTHER COMPREHENSIVE INCOME/(LOSS)

	2010			2009		
	Before tax amount RM'000	Tax (expense)/ benefit RM'000	Net of tax amount RM'000	Before tax amount RM'000	Tax (expense)/ benefit RM'000	Net of tax amount RM'000
Financial investments available-for-sale:						
Net fair value gain/(loss) and amount transferred to income statement	**366**	**(107)**	**259**	(15,606)	4,203	(11,403)

29 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

(a) Related parties and relationships

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

Related parties	Relationship
EPF	Former ultimate holding body
RHB Capital Berhad	Ultimate holding company
RHB Bank Berhad	Immediate holding company
Subsidiaries of EPF as disclosed in its financial statements	Subsidiaries of the former ultimate holding body
Subsidiaries of RHB Capital Berhad as disclosed in its financial statements	Subsidiaries of the ultimate holding company
Subsidiaries of RHB Bank Berhad as disclosed in its financial statements	Subsidiaries of the immediate holding company

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

29 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(a) Related parties and relationships (continued)

Related parties	Relationship
Key management personnel	The key management personnel of the Group and the Bank consists of: – All Directors of the Bank, RHB Bank Berhad and RHB Capital Berhad – RHB Capital Berhad Central Management Committee members – Key management personnel of EPF who are in charge of the RHB Capital Group
Related parties of key management (deemed as related to the Bank)	(i) Close family members and dependents of key personnel (ii) Entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members indirectly by key management.

(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.

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

2010	Immediate holding company RM'000	Key management personnel RM'000	Other related companies RM'000
Income			
Income on deposits and placement	1,046	120	–
Commission	–	–	234
Other income	1,369	–	–
	2,415	120	234
Expenditure			
Profit expense on deposits and placements	8,031	6	–
Other expenses	–	–	705
Reimbursement of operating expenses to holding company	49,218	–	–
	57,249	6	705

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

29 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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

2010 (continued)	Immediate holding company RM'000	Key management personnel RM'000	Other related companies RM'000
Amount due from			
Cash and short term funds	**539**	**–**	**–**
Derivative assets	**1,369**	**–**	**–**
Other assets	**1,292**	**–**	**–**
	3,200	**–**	**–**
Amount due to			
Savings deposits	**–**	**38**	**–**
Current account and investment deposits	**–**	**269**	**3,589**
Deposits and placements of banks and other financial institutions	**528,941**	**–**	**–**
Other liabilities	**11,355**	**–**	**281**
	540,296	**307**	**3,870**

2009	Immediate holding company RM'000	Key management personnel RM'000	Other related companies RM'000
Income			
Income on deposits and placement	3,609	–	–
Commission	–	–	279
	3,609	–	279
Expenditure			
Profit expense on deposits and placements	11,052	26	–
Legal and professional fees	–	–	471
Other expenses	–	–	34
Dividends on deposits (Hibah)	–	1	–
Reimbursement of operating expenses to holding company	50,322	–	–
	61,374	27	505
Amount due from			
Deposits and placements of banks and other financial institutions	292,188	–	–
Other assets	12,133	–	–
	304,321	–	–

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

29 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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

2009 (continued)	Immediate holding company RM'000	Key management personnel RM'000	Other related companies RM'000
Amount due to			
Savings deposits	–	68	–
Current account and investment deposits	–	2,637	1,813
Deposits and placements of banks and other financial institutions	546,715	–	–
Other liabilities	243,495	–	328
	790,210	2,705	2,141

(c) Key management personnel

The remuneration of key management personnel are as follows:

	2010 RM'000	2009 RM'000
Short-term employee benefits		
– Salary and other remuneration	**914**	2,520
– Benefits-in-kind (based on an estimated monetary value)	**37**	34
	951	2,554

The above remuneration includes directors' remuneration as disclosed in Note 25.

(d) Credit exposures arising from transactions with connected parties

Credit exposures with connected parties as per Bank Negara Malaysia's revised Guidelines on Credit Transactions and Exposures with Connected Parties ('Revised BNM/GP6') are as follows:

	2010 RM'000	2009 RM'000
Outstanding credit exposures with connected parties	**261,754**	262,047
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	**2.61%**	3.68%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	**–**	–

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

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

30 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to customers.

2010	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Transaction-related contingent items	**146,995**	**73,498**	**34,201**
Short-term self-liquidating trade-related contingencies	**40,948**	**8,190**	**8,190**
Obligations under underwriting agreements	**29,000**	**14,500**	**14,500**
Irrevocable commitments to extend credit:			
– maturity more than one year	**449,091**	**224,546**	**191,524**
– maturity less than one year	**1,104,528**	**220,905**	**220,905**
Profit rate related contracts:			
– one year to less than five years	**650,000**	**130,000**	**130,000**
Total	**2,420,562**	**671,639**	**599,320**

2009			
Transaction-related contingent items	184,507	92,254	47,412
Short-term self-liquidating trade-related contingencies	96,206	19,241	19,241
Obligations under underwriting agreements	29,000	14,500	14,500
Irrevocable commitments to extend credit:			
– maturity more than one year	384,933	192,466	188,595
– maturity less than one year	2,045,983	409,197	411,982
Total	2,740,629	727,658	681,730

The credit equivalent and Risk Weighted Assets ('RWA') for the Bank are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks ('CAFIB'): Standardised Approach for Credit and Market Risk, and Basic Indicator Approach for Operational Risk (Basel II) respectively.

31 OPERATING LEASE COMMITMENTS

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

	2010 RM'000	2009 RM'000
Within one year	**1,172**	1,172
Between one to five years	**3,240**	5,584
	4,412	6,756

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

32 CAPITAL COMMITMENTS

	2010 RM'000	2009 RM'000
Capital expenditure for property, plant and equipment:		
Authorised and contracted for	**9,233**	11,876
Authorised but not contracted for	**16,876**	11,996
	26,109	23,872

33 FINANCIAL INSTRUMENTS

(a) Financial risk management objective and policies

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

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

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

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

Overriding Objectives of the Group RMC:

(i) To provide oversight and governance of risks at the RHB Banking Group ('Group');

(ii) To oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process of each entity in the Group is in place and functioning;

(iii) To deliberate and make recommendations to the Board of each relevant entity within the Group in respect of risk management matters of the respective entities.

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

Notes To The Financial Statements
For The Financial Year Ended 31 December 2010 (continued)

33 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial risk management objective and policies (continued)

Major Areas of Risk

As a banking institution's key activities covering retail, business banking, corporate banking and treasury products and services, the Bank is subject to business risks which are inherent in the financial services industry. Generally, these business risks can be broadly divided into the following:

(i) Market risk - the risk of potential loss resulting from adverse movements in the level of market prices, profit rate and foreign currency exchange.

(ii) Liquidity risk - the risk of the Bank being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due and transact at a reasonable cost.

(iii) Credit risk - the risk of potential loss due to changes in the quality of counter-parties and the market price for credit risk (collateral).

(iv) Operational risk - the risk of loss resulting from inadequate or failed internal processes, people, systems or external events as well as the risk of breach in applicable laws and regulatory requirements.

In order to mitigate the aforementioned business risks the Bank, GRMC has put in place the following:

Market risk

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

- The GRM function plays an independent role in the monitoring and assessing of risk exposures and reports independently to the Group RMC.

- Risk measurement techniques and stress testing are applied to RHB Islamic Bank's portfolio on a regular basis.

- For Profit Rate Risk:

  – The Asset and Liability Committee ('ALCO') monitors the balance sheet position and assesses it for profit and loss impacts arising from sensitivity to profit rate movements.

  – The ALCO also sets limits on the level of mismatch of profit rate re-pricing that may be undertaken, which is monitored monthly. Likewise, fixed rate assets, especially long term assets, are subject to various limit parameters.

Liquidity Risk

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

- Limits on the minimum portion of maturing funds available to meet obligations and the minimum level of inter-bank and other borrowing facilities are set to ensure adequate cover for withdrawals at unexpected levels of demand.

- Defined liquidity management ratios are maintained and monitored on an active basis.

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

33 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial risk management objective and policies (continued)

Liquidity Risk (continued)

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

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

Credit Risk

- The Bank abides by the Board's approved credit policy which supports the development of a strong credit culture with the objectives of maintaining a well diversified portfolio, that addresses credit risk, and mitigates concern for unexpected losses, and which ensures a reliable and satisfactory risk weighted return. Market best practices are incorporated into this policy.

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

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

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

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

Operational Risk

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

The Bank uses an operational risk management system. This system has integrated applications for supporting the entire operational risk management process for loss event data collection and management, loss event analysis, assessment and

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

33 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial risk management objective and policies (continued)

Operational Risk (continued)

monitoring of the quality of the internal control system, risk scenario analysis and measurement, comprehensive reporting of operational risks and internal control quality and tracking of risk mitigation and, control improvement actions. This system facilitates the Bank's capabilities for the Advanced Measurement Approach of the Basel II Framework in the future.

The Bank has an ongoing and actively managed Business Continuity Planning ("BCP") programme for its major critical business operations and activities at the Head Office, data centre and branch locations. The BCP programme is subject to regular testing to ensure efficacy, reliability and functionality.

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

Capital Management Policy

Capital

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

Risk Appetite

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

Exposure

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

Capital Management and Basel II

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

- enhance our economic capital management;
- refine risk based pricing methods for our products and services; and
- improve asset quality across the businesses of the Bank. RHB Islamic Bank continues to develop sustainable capabilities for continuous improvements in the use and adoption of the advanced approaches of the Basel II capital accord. RHB Islamic has adopted the Standardised Approach ('SA') for Credit Risk in 2008 in accordance with Bank Negara Malaysia Capital Adequacy Framework for Islamic Banks ('CAFIB'): Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk.

Basel II Implementation

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

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

33 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial risk management objective and policies (continued)

Basel II Implementation (continued)

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

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

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

(b) Financial instruments by category

2010	Financing and receivables RM'000	Assets at fair value through profit and loss RM'000	Available-for-sale RM'000	Held-to-maturity RM'000	Total RM'000
Assets					
Cash and short–term funds	1,076,905	–	–	–	**1,076,905**
Deposits and placements with banks and other financial institutions	40,062	–	–	–	**40,062**
Financial assets held-for-trading	–	218,928	–	–	**218,928**
Financial investments available-for-sale	–	–	1,787,265	–	**1,787,265**
Financial investments held-to-maturity	–	–	–	1,073,159	**1,073,159**
Financing and advances	8,713,761	–	–	–	**8,713,761**
Derivative assets	–	1,369	–	–	**1,369**
Other financial assets	15,334	–	–	–	**15,334**
Total	**9,846,062**	**220,297**	**1,787,265**	**1,073,159**	**12,926,783**

	Other financial liabilities RM'000	Total RM'000
Liabilities		
Deposits from customers	9,946,582	**9,946,582**
Deposits and placements of banks and other financial institutions	2,066,993	**2,066,993**
Bills and acceptances payable	12,124	**12,124**
Other financial liabilities	96,390	**96,390**
Total	**12,122,089**	**12,122,089**

Notes To The Financial Statements
For The Financial Year Ended 31 December 2010 (continued)

33 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Market risk

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

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

(i) Profit rate sensitivity analysis

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

2010	-50 bps RM'000	+50 bps RM'000
Impact on profit after tax	14,422	(14,411)
Impact on equity	23,855	(23,176)

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

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

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

(ii) Foreign currency sensitivity analysis

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

2010	+5 bps RM'000	-5 bps RM'000
Impact on profit after tax	1,298	(1,298)

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

33 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Market risk (continued)

Profit rate risk

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity date.

	Non trading book								
2010	**Up to 1 month RM'000**	**> 1-3 months RM'000**	**> 3-6 months RM'000**	**> 6-12 month RM'000**	**> 1-3 years RM'000**	**Over 3 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
Assets									
Cash and short–term funds	1,019,584	–	–	–	–	–	57,321	–	**1,076,905**
Deposits and placement with banks and other financial institutions	–	40,000	–	–	–	–	62	–	**40,062**
Financial assets held-for-trading	–	–	–	–	–	–	–	218,928	**218,928**
Financial investments available-for-sale	7,810	90,050	167,559	25,280	262,092	1,221,348	13,126	–	**1,787,265**
Financial investments held-to-maturity	–	–	60,237	67,918	195,795	737,962	11,247	–	**1,073,159**
Financing and advances									
– performing	1,853,506	321,639	386,900	209,569	771,440	4,844,594	20,130	–	**8,407,778**
– impaired	–	–	–	–	–	–	305,983	–	**305,983**
Other assets	–	–	–	–	–	–	42,830	–	**42,830**
Derivatives assets	–	–	–	–	–	–	–	1,369	**1,369**
Statutory deposits with BNM	–	–	–	–	–	–	105,140	–	**105,140**
Deferred tax assets	–	–	–	–	–	–	30,854	–	**30,854**
Property, plant and equipment	–	–	–	–	–	–	21,547	–	**21,5477**
TOTAL ASSETS	**2,880,900**	**451,689**	**614,696**	**302,767**	**1,229,327**	**6,803,904**	**608,240**	**220,297**	**13,111,820**

33 FINANCIAL INSTRUMENTS (CONTINUED)

(c) Market risk (continued)

Profit rate risk (continued)

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity date (continued).

	Non trading book								
2010 (continued)	**Up to 1 month RM'000**	**> 1-3 months RM'000**	**> 3-6 months RM'000**	**> 6-12 month RM'000**	**> 1-3 years RM'000**	**Over 3 years RM'000**	**Non-profit sensitive RM'000**	**Trading book RM'000**	**Total RM'000**
Liabilities									
Deposits from customers	4,825,251	2,553,060	877,940	590,906	149,746	749	948,930	–	**9,946,582**
Deposits and placements of banks and other financial institutions	952,204	150,000	950,933	–	–	–	13,856	–	**2,066,993**
Bills and acceptances payable	–	–	–	–	–	–	12,124	–	**12,124**
Other liabilities	–	–	–	–	–	–	101,286	–	**101,286**
Taxation	–	–	–	–	–	–	170	–	**170**
TOTAL LIABILITIES	**5,777,455**	**2,703,060**	**1,828,873**	**590,906**	**149,746**	**749**	**1,076,366**	**–**	**12,127,155**
TOTAL EQUITY	**–**	**–**	**–**	**–**	**–**	**–**	**984,665**	**–**	**984,665**
TOTAL LIABILITIES AND EQUITY	**5,777,455**	**2,703,060**	**1,828,873**	**590,906**	**149,746**	**749**	**2,061,031**	**–**	**13,111,820**
On-balance sheet profit sensitivity gap	(2,896,555)	(2,251,371)	(1,214,177)	(288,139)	1,079,581	6,803,155			
Off-balance sheet profit sensitivity gap	50,000	600,000	–	–	–	(650,000)			
TOTAL PROFIT SENSITIVITY GAP	**(2,846,555)**	**(1,651,371)**	**(1,214,177)**	**(288,139)**	**1,079,581**	**6,153,155**			

33 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Liquidity risk

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

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) as at 31 December 2010 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8i:

2010	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Assets								
Cash and short–term funds	1,030,646	46,259	–	–	–	–	–	**1,076,905**
Deposits and placement with banks and other financial institutions	–	–	40,062	–	–	–	–	**40,062**
Financial assets held-for-trading	–	80	99,448	99,194	–	20,206	–	**218,928**
Financial investments available-for-sale	–	7,810	83,618	174,146	25,302	1,496,389	–	**1,787,265**
Financial investments held-to-maturity	–	–	–	60,295	67,919	944,945	–	**1,073,159**
Financing and advances	173,592	1,679,915	321,639	386,900	222,704	5,929,011	–	**8,713,761**
Other assets	25,422	14,114	–	–	–	–	3,294	**42,830**
Derivatives assets	–	–	–	–	–	1,369	–	**1,369**
Statutory deposits with BNM	–	–	–	–	–	–	105,140	**105,140**
Deferred tax assets	–	–	–	–	–	–	30,854	**30,854**
Property, plant and equipment	–	–	–	–	–	–	21,547	**21,547**
TOTAL ASSETS	**1,229,660**	**1,748,178**	**544,767**	**720,535**	**315,925**	**8,391,920**	**160,835**	**13,111,820**

33 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) as at 31 December 2010 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8i (continued):

2010 (continued)	Up to 1 week RM'000	1 week to 1 month RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
Liabilities								
Deposits from customers	3,819,303	1,935,981	2,464,714	986,403	595,393	144,788	–	**9,946,582**
Deposits and placements of banks and other financial institutions	507,038	216,401	840,222	209,648	–	293,684	–	**2,066,993**
Bills and acceptances payable	12,124	–	–	–	–	–	–	**12,124**
Other liabilities	11,804	9,622	2,381	381	61,357	10,845	4,896	**101,286**
Taxation	–	–	–	–	–	–	170	**170**
TOTAL LIABILITIES	**4,350,269**	**2,162,004**	**3,307,317**	**1,196,432**	**656,750**	**449,317**	**5,066**	**12,127,155**
TOTAL EQUITY	**–**	**–**	**–**	**–**	**–**	**–**	**984,665**	**984,665**
TOTAL LIABILITIES AND EQUITY	**4,350,269**	**2,162,004**	**3,307,317**	**1,196,432**	**656,750**	**449,317**	**989,731**	**13,111,820**

33 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Liquidity risk (continued)

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

2010	Up to 1 month RM'000	1 to 6 months RM'000	6 to 12 months RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
Liabilities							
Deposits from customers	5,753,606	3,479,647	611,481	156,620	874	–	**10,002,228**
Deposits and placements of banks and other financial institutions	754,637	1,025,481	–	–	–	314,784	**2,094,902**
Bills and acceptances payable	12,124	–	–	–	–	–	**12,124**
Other liabilities	21,426	2,762	61,357	1,970	2,975	5,900	**96,390**
TOTAL FINANCIAL LIABILITIES	**6,541,793**	**4,507,890**	**672,838**	**158,590**	**3,849**	**320,684**	**12,205,644**

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

2010	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
Transaction-related contingent items	146,995	–	**146,995**
Short-term self-liquidating trade-related contingencies	40,948	–	**40,948**
Obligations under underwriting agreements	29,000	–	**29,000**
Irrevocable commitments to extend credit	1,104,528	449,091	**1,553,619**
TOTAL COMMITMENTS AND CONTINGENCIES	**1,321,471**	**449,091**	**1,770,562**

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

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

33 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Credit risk

(i) Maximum exposure to credit risk

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

	2010 RM'000
Credit risk exposure relating to on-balance sheet assets:	
Short–term funds (exclude cash in hand)	1,072,620
Deposits and placements with banks and other financial institutions	40,062
Financial assets and investments portfolios (exclude shares)	
– Held-for-trading	218,928
– Available-for-sale	1,786,690
– Held-to-maturity	1,073,159
Financing and advances	8,713,761
Other assets	15,334
Derivative assets	1,369
	12,921,923
Credit risk exposure relating to off-balance sheet items:	
Commitment and contingencies	1,770,562
Total maximum credit risk exposure	14,692,485

(ii) Collaterals

The main types of collateral obtained by the Bank are as follows:

(a) Fixed deposits, Mudharabah General Investment Account, negotiable instrument of deposits, foreign currency deposits and cash deposits/margins
(b) Land and buildings
(c) Vessels and automobiles
(d) Quoted shares, unit trusts, Malaysian Government Bonds and securities and private debt securities
(e) Endowment life policies with cash surrender value
(f) Other tangible business assets, such as inventory and equipment

The Bank also accept non-tangible securities such as support, guarantees from individuals, corporates and institutions, bank guarantees, debentures, assignment of contract payments, which are subject to internal guidelines on eligibility.

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

33 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Credit risk (continued)

(iii) Credit quality

The Bank assesses credit quality of financing and advances using internal rating techniques tailored to the various categories of products and counterparties. These techniques have been developed internally and combine statistical analysis with credit officer's judgement.

Financing and advances

Internal ratings	Description
– Investment grade	Strong(est) credit quality which associated with general standards of investment grade as per defined by international rating agency such as Standard and Poor's (S&P), Moody's, Fitch, and Japan Credit Rating Agency (JCR).
– Lower investment grade	Lower credit quality which associated with general standards of investment grade as per defined by international rating agency such as Standard and Poor's (S&P), Moody's, Fitch, and Japan Credit Rating Agency (JCR).
– Non-investment grade	Weaker credit quality which associated with general standards of non-investment grade as per defined by international rating agency such as Standard and Poor's (S&P), Moody's, Fitch, and Japan Credit Rating Agency (JCR).

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

– AAA to AA3
– A1 to A3
– Baa1 to Baa3
– P1 to P3
– Non-rated

(a) Financing and advances

Financing and advances are summarised as follows:

	2010 RM'000
Neither past due nor impaired	8,391,298
Past due but not impaired	16,480
Individually impaired	628,251
Gross financing and advances	9,036,029
Less: Individual impairment allowance	(163,440)
Collective impairment allowance	(158,828)
Net financing and advances	8,713,761

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

33 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Credit risk (continued)

(a) Financing and advances (continued)

(i) Financing and advances neither past due nor impaired (continued)

Analysis of financing and advances that are neither past due nor impaired analysed based on the Bank's internal credit grading system is as follows:

	2010 RM'000
Investment grade	3,236,755
Lower investment grade	697,755
Non investment grade	37,288
Non-rated	4,419,500
	8,391,298

Financing and advances classified as non-rated mainly comprise of financing under the standardised approach for credit risk including housing financing and hire purchase receivables.

(ii) Financing and advances past due but not impaired

Analysis of aging of financing and advances that are past due but not impaired is as follows:

2010	Balance RM'000
Past due up to 30 days	11,430
Past due 31 to 60 days	4,064
Past due 61 to 90 days	986
Past due but not impaired	16,480

The fair value of collateral held as security in respect of financing and advances past due but not impaired is not disclosed by the Bank as it is not practicable to do so.

(iii) Financing and advances that are determined to be individually impaired as at 31 December 2010 are as follows:

2010	Balance RM'000
Individually impaired financing	628,251

The fair value of collateral held as security in respect of impaired financing and advances past due but not impaired is not disclosed by the Bank as it is not practicable to do so.

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

33 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Credit risk (continued)

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

(i) Short–term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, other assets and derivative assets are summarised as follows:

2010	Short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other assets RM'000	Derivative assets RM'000
Neither past due nor impaired	1,072,620	40,062	218,928	1,786,690	1,073,159	15,334	1,369

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

2010	Short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other assets RM'000	Derivative assets RM'000
AAA to AA3	–	–	10,140	301,195	418,287	–	–
A1 to A3	–	40,062	–	–	20,312	–	1,369
P1 to P3	30,070	–	24,906	9,951	–	–	–
Non-rated	1,042,550	–	183,882	1,475,544	634,560	15,334	–
of which:							
– Bank Negara Malaysia	1,002,153	–	173,816	–	–	–	–
– Malaysian Government Investment Issues	–	–	10,066	1,239,535	589,168	–	–
– Private Debt Securities	–	–	–	132,154	45,392	–	–
– Others	40,397	–	–	103,855	–	–	–
	1,072,620	**40,062**	**218,928**	**1,786,690**	**1,073,159**	**15,334**	**1,369**

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

33 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Credit risk (continued)

(b) Short–term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios, other assets and derivative assets (continued)

(iii) Renegotiated Financial Assets

Carrying amount of financial assets that would have been past due or impaired had they not been renegotiated during the financial year are as follows:

	2010 RM'000
Financing and advances	30,527

(iv) Collateral and other credit enhancements obtained

There are no assets held by the Bank as at 31 December 2010 as a result of taking possession of collaterals held as securities.

Repossessed properties are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. The Bank generally does not occupy the repossessed premises for its business use.

33 FINANCIAL INSTRUMENTS (CONTINUED)

(e) Credit risk (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:

2010	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Financing and advances # RM'000	Other financial assets* RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Agriculture	–	–	–	–	332,107	–	332,107	31,093
Mining and quarrying	–	–	–	–	26,853	–	26,853	–
Manufacturing	–	–	–	–	878,308	–	878,308	186,517
Electricity, gas and water	–	24,906	67,334	48,563	224,263	–	365,066	12,255
Construction	–	–	–	–	482,139	–	482,139	375,698
Real estate	–	–	16,255	35,723	134,259	–	186,237	2,589
Purchase of landed property	–	–	–	–	2,628,564	–	2,628,564	244,515
General commerce	–	–	5,048	–	602,806	–	607,854	387,904
Transport, storage and communication	–	–	40,432	87,320	1,566,565	–	1,694,317	50,693
Finance, insurance and business service services	110,529	183,956	275,714	295,797	14,150	–	880,146	140,561
Government and government agencies	1,002,153	10,066	1,381,907	605,756	–	–	2,999,882	–
Purchase of securities	–	–	–	–	12,269	–	12,269	–
Consumption credit	–	–	–	–	–	–	–	5,099
Others	–	–	–	–	1,970,306	16,703	1,987,009	333,638
	1,112,682	**218,928**	**1,786,690**	**1,073,159**	**8,872,589**	**16,703**	**13,080,751**	**1,770,562**

Excludes collective impairment allowance amounting to RM158,828,000

* Other financial assets include other financial assets amounting to RM15,334,000 and derivative assets amounting to RM1,369,000

Notes To The Financial Statements
For The Financial Year Ended 31 December 2010 (continued)

34 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

2010	Carrying value RM'000	Fair value RM'000
Financial assets		
Financial investments held-to-maturity	**1,073,159**	**1,092,905**
Financing and advances	**8,713,761**	**8,825,208**
2009		
Financial assets		
Financial investments held-to-maturity	1,042,352	1,058,204
Financing and advances	5,842,302	5,874,202

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

(i) Cash and short-term funds and deposits and placements with financial institutions

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

(ii) Financial investments held-to-maturity

The fair value for financial investments held-to-maturity is based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been assessed by reference to market indicative profit 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 statement of financial position date.

(iii) Financing and advances

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

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

The fair values of impaired floating and fixed rates financing are represented by their carrying value, net of impairment allowance.

(iii) Other assets and liabilities

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

Notes To The Financial Statements
For The Financial Year Ended 31 December 2010 (continued)

34 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

(iv) Deposits from customers

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

(v) Deposits and placements of banks and other financial institutions, bills and acceptances payables

The estimated fair values of deposits and placements of banks and other financial institutions, bills and acceptances payable with maturities of less than six months approximate the carrying values. For the items with maturities six months and above, the fair values are estimated based on discounted cash flows using prevailing money market profit rates with similar remaining period to maturities.

(vi) Credit related commitments and contingencies

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

35 CAPITAL ADEQUACY

With effect from 1 January 2008, the capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia Capital Adequacy Framework for Islamic Banks ('CAFIB'): Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk.

	2010 RM'000	2009 RM'000
Tier I Capital		
Paid-up ordinary share capital	**523,424**	523,424
Retained profits	**222,371**	167,172
Statutory reserve	**231,484**	197,739
	977,279	888,335
Less :		
Deferred tax assets	**(33,269)**	(17,046)
Total Tier I capital	**944,010**	871,289
Tier II Capital		
Collective impairment/ allowance for bad and doubtful financing^	**103,037**	88,984
Total Tier II capital	**103,037**	88,984
Less:		
Other deduction*	**(102)**	(12)
Total capital base	**1,046,945**	960,261

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

35 CAPITAL ADEQUACY (CONTINUED)

With effect from 1 January 2008, the capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia Capital Adequacy Framework for Islamic Banks ('CAFIB'): Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk (continued).

	2010 RM'000	2009 RM'000
Core capital ratio (inclusive of market risk)	**12.23%**	12.50%
Risk-weighted capital ratio (inclusive of market risk)	**13.56%**	13.78%

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

	2010 RM'000	2009 RM'000
Credit risk-weighted assets	**7,124,858**	6,401,766
Market risk-weighted assets	**30,513**	9,114
Operational risk-weighted assets	**566,538**	558,743
Total risk-weighted assets	**7,721,909**	6,969,623

^ Excludes collective assessment impairment allowance attributable to financing and advances classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on "Classification and Impairment Provisions for Loans/Financing" issued on 8 January 2010 and subsequently updated on 26 January 2010 and 17 December 2010.

* Pursuant to the Basel II Market Risk para 5.19 and 5.20 – Valuation Adjustments / Reserves, the RWCR computation shall account for the ageing, liquidity and holding back adjustments / reserves on its trading portfolio.

Notes To The Financial Statements
For The Financial Year Ended 31 December 2010 (continued)

35 CAPITAL ADEQUACY (CONTINUED)

With effect from 1 January 2008, the capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia Capital Adequacy Framework for Islamic Banks ('CAFIB'): Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk (continued).

2010	**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%	**4,615,087**	**–**
10%	**–**	**–**
20%	**1,126,000**	**225,200**
50%	**135,370**	**67,685**
75%	**4,336,444**	**3,252,333**
100%	**2,906,587**	**2,906,587**
150%	**448,702**	**673,053**
	13,568,190	**7,124,858**
(ii) Market Risk Capital Adequacy Framework	**230,515**	**30,513**
(iii) Basic Indicator Operational Risk Capital Charge	**–**	**566,538**
	13,798,705	**7,721,909**

2009	**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%	3,948,139	–
10%	–	–
20%	1,417,166	283,433
50%	28,935	14,467
75%	2,658,060	1,993,545
100%	3,539,734	3,539,734
150%	380,391	570,587
	11,972,425	6,401,766
(ii) Market Risk Capital Adequacy Framework	38,755	9,114
(iii) Basic Indicator Operational Risk Capital Charge	–	558,743
	12,011,180	6,969,623

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

36 SEGMENT REPORTING

In the financial year ended 31 December 2010, segment reporting by the Bank has been prepared for the first time in accordance with FRS 8 'Operating Segments' ('FRS 8'). Segment information for 2009 that is reported as comparative information for 2010 has been restated to conform with the requirements of FRS 8. Following the management approach of FRS 8, operating segments are reported in a manner consistent with the internal reporting provided to the chief operation decision-maker, who is the person or group that allocates resources to and assesses the performance of the operating segments of an entity.

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

The business segment results are prepared based on the Bank's internal management reporting, which reflect the organisation's management structure. Internal allocation of costs has been used in preparing the segmental reporting.

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

Corporate and Investment banking

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

Business banking

Business 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.

Retail banking

Retail 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), Islamic automobile financing business with concentration on the financing of high demand and popular passenger motor vehicles, deposit portfolios (savings and current account), remittance services and investment products (term deposit/investment accounts).

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.

International Currency Business Unit ('ICBU')

ICBU conducts Islamic banking business activities, which includes deposits, financing and related activities, in international currency.

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

36 SEGMENT REPORTING (CONTINUED)

2010	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Transaction Banking RM'000	ICBU RM'000	Total RM'000
External revenue	121,397	55,313	196,583	169,246	4,003	2,204	548,746
Inter-segment revenue/expense	(52,960)	(5,346)	(63,574)	74,456	43,396	4,028	–
Total revenue	68,437	49,967	133,009	243,702	47,399	6,232	548,746
Depositors' payout	(5,825)	(8,787)	(12,824)	(176,119)	(13,804)	(2,807)	(220,166)
Net income	62,612	41,180	120,185	67,583	33,595	3,425	328,580
Operating overheads of which:	(21,118)	(19,495)	(53,102)	(18,413)	(24,327)	(604)	(137,059)
Depreciation of property and equipment	(377)	(566)	(1,810)	(528)	(490)	–	(3,771)
Amortisation of intangible assets	(460)	(690)	(2,209)	(643)	(598)	–	(4,600)
Allowance for impairment on financing and advances	(2,796)	(46,489)	(17,104)	–	–	(990)	(67,379)
Impairment losses on intangible assets	(2,495)	(3,742)	(11,974)	(3,492)	(3,242)	–	(24,945)
Segmental results	35,366	(29,802)	39,986	44,507	4,938	1,831	90,826
Segmental results							90,826
Profit equalisation reserve							(201)
Profit before taxation							90,625
Taxation							(23,136)
Profit for the financial year							67,489

Note:
Total segment revenue comprise of net profit income and other operating income.

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

36 SEGMENT REPORTING (CONTINUED)

2010 (continued)	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Transaction Banking RM'000	ICBU RM'000	Elimination RM'000	Total RM'000
Segment assets	3,683,476	925,597	3,940,043	7,947,680	1,869,427	359,677	(5,644,934)	13,080,966
Deferred tax assets								30,854
Total assets								13,111,820
Segment liabilities	3,556,779	896,015	3,631,940	7,489,588	1,869,427	323,813	(5,644,934)	12,122,628
Profit equalisation reserve								4,527
								12,127,155
Other segment items:								
Capital expenditure	423	634	2,030	592	550	–	–	4,229

2009	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Transaction Banking RM'000	ICBU RM'000	Total RM'000
External revenue	102,341	47,216	172,152	149,776	5,500	6,756	483,741
Inter-segment revenue/expense	(29,313)	(4,157)	(33,611)	27,892	38,529	660	–
Total revenue	73,028	43,059	138,541	177,668	44,029	7,416	483,741
Depositors' payout	(5,111)	(6,649)	(13,783)	(117,308)	(15,163)	(7,099)	(165,113)
Net income	67,917	36,410	124,758	60,360	28,866	317	318,628
Operating overheads of which:	(25,063)	(17,939)	(58,962)	(18,914)	(21,721)	(1,659)	(144,258)
Depreciation of property and equipment	(424)	(636)	(2,036)	(594)	(551)	–	(4,241)
Amortisation of intangible assets	(192)	(288)	(920)	(268)	(249)	–	(1,917)
Allowance for impairment on financing and advances	24,393	(11,693)	(12,385)	–	–	(83,343)	(83,028)
Segmental results	66,631	5,854	50,455	40,584	6,345	(84,685)	85,184
Segmental results							85,184
Profit equalisation reserve							1,410
Profit before taxation							86,594
Taxation							(23,125)
Profit for the financial year							63,469

Note:
Total segment revenue comprise of net profit income and other operating income.

Notes To The Financial Statements
For The Financial Year Ended 31 December 2010 (continued)

36 SEGMENT REPORTING (CONTINUED)

2009 (continued)	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Transaction Banking RM'000	ICBU RM'000	Elimination RM'000	Total RM'000
Segment assets	1,993,925	809,549	2,846,139	6,728,801	1,449,300	341,513	(2,996,430)	11,172,797
Deferred taxation assets								17,046
Tax recoverable								15,666
Unallocated assets								–
Total assets								11,205,509
Segment liabilities	1,948,847	776,806	2,618,629	6,149,010	1,449,300	359,559	(2,996,430)	10,305,721
Profit equalisation reserves								4,326
								10,310,047
Other segment items:								
Capital expenditure	789	1,183	3,787	1,105	1,026	–	–	7,890

37 CHANGES IN ACCOUNTING POLICIES

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

- Financial assets
- Financial liabilities
- Revenue recognition
- Impairment of financial assets

Refer to the summary of significant accounting policies for the details of changes in accounting policies.

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

37 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The following disclose the impacts of such changes on the financial statements of the Bank.

(i) Impact on the Bank's statement of financial position:

	Balance as at 31 December 2009 RM'000	FRS 139 RM'000	Balance as at 1 January 2010 RM'000
Deferred tax assets	17,046	(7,152)	**9,894**
Financing and advances			
– Gross financing and advances	6,086,088	32,283	**6,118,371**
– Individual impairment allowance	–	107,035	**107,035**
– Collective impairment allowance	–	140,427	**140,427**
– Specific allowance	154,802	(154,802)	**–**
– General allowance	88,984	(88,984)	**–**
Retained profits	167,172	21,455	**188,627**
Financing and advances of which:			
– Impaired financing and advances	376,940	101,472	**478,412**

	Increase/(decrease) to balance as at 31 December 2010 FRS 139 RM'000
Assets	
Cash and short-term funds	**2,105**
Deposits and placements with banks and other financial institutions	**62**
Financial assets held-for-trading	**224**
Financial investments available-for-sale	**12,551**
Financial investments held-to-maturity	**11,247**
Financing and advances	**(56,736)**
Other assets	**(46,318)**
Liabilities	
Deposits from customers	**32,226**
Deposits and placements of banks and other financial institutions	**13,856**
Taxation	**(19,216)**
Other liabilities	**(46,082)**

Notes To The Financial Statements

For The Financial Year Ended 31 December 2010 (continued)

37 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The following disclose the impacts of such changes on the financial statements of the Bank (continued).

(ii) Impact on the Bank's income statement:

	Increase/(decrease) for the financial year ended 31 December 2010
	FRS 139 RM'000
Profit income	(12,618)
Other operating expenses	(6,189)
Allowance for impairment on financing and advances	70,436
Profit before taxation	(76,865)
Taxation	(19,216)
Net profit for the financial year	(57,649)

38 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 23 February 2011.

Statement By Directors

Pursuant To Section 169 (15) Of The Companies Act, 1965

We, Datuk Haji Faisal Siraj and Haji Ja'far Abdul Carrim, 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 59 to 130 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2010 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.

DATUK HAJI FAISAL SIRAJ
CHAIRMAN

HAJI MD JA'FAR ABDUL CARRIM
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

Kuala Lumpur
28 February 2011

Statutory Declaration

Pursuant To Section 169(16) Of The Companies Act, 1965

I, Yap Choi Foong, the officer primarily responsible for the financial management of RHB Islamic Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 59 to 130 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.

YAP CHOI FOONG

Subscribed and solemnly declared by the abovenamed Yap Choi Foong at Kuala Lumpur in Wilayah Persekutuan on 28 February 2011.

Before me:
COMMISIONER FOR OATHS

Kuala Lumpur

Independent Auditors' Report

To The Member Of RHB Islamic Bank Berhad

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of RHB Islamic Bank Berhad, which comprise the statement of financial position as at 31 December 2010, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 59 to 130.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act 1965 so as to give a true and fair view of the financial position of the Bank as of 31 December 2010 and of its financial performance and cash flows for the year then ended.

Independent Auditors' Report
To The Member Of RHB Islamic Bank Berhad (continued)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that, in our opinion, 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.

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

MOHAMMAD FAIZ BIN MOHAMMAD AZMI
(No. 2025/03/12 (J))
Chartered Accountant

Kuala Lumpur
28 February 2011

Pillar 3 Disclosures Contents

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- 1.0 Introduction
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  - 1.2 Basis of Disclosure
- 2.0 Scope of Application
- 3.0 Capital Adequacy
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- 6.0 Credit Risk
  - 6.1 Credit Risk Management Oversight and Organisation
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  - 6.3 Internal Credit Ratings Models
  - 6.4 Standardised Approach
  - 6.5 Credit Exposures and Risk Weighted Assets by Portfolio
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- 9.0 Rate of Return Risk in the Banking Book
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- 13.0 Reputational Risk
- 14.0 Internal Capital Adequacy Assessment Process ('ICAAP')

Statement by Group Managing Director

In accordance with the requirements of BNM's Guideline on Capital Adequacy Framework For Islamic Banks ('CAFIB') – Disclosure Requirements ('Pillar 3'), and on behalf of the Board and Senior Management of RHB Islamic Bank Berhad, I am pleased to provide an attestation that the Pillar 3 disclosures of the Bank for the year ended 31st December 2010 are accurate and complete.

DATO' TAJUDDIN ATAN
Group Managing Director

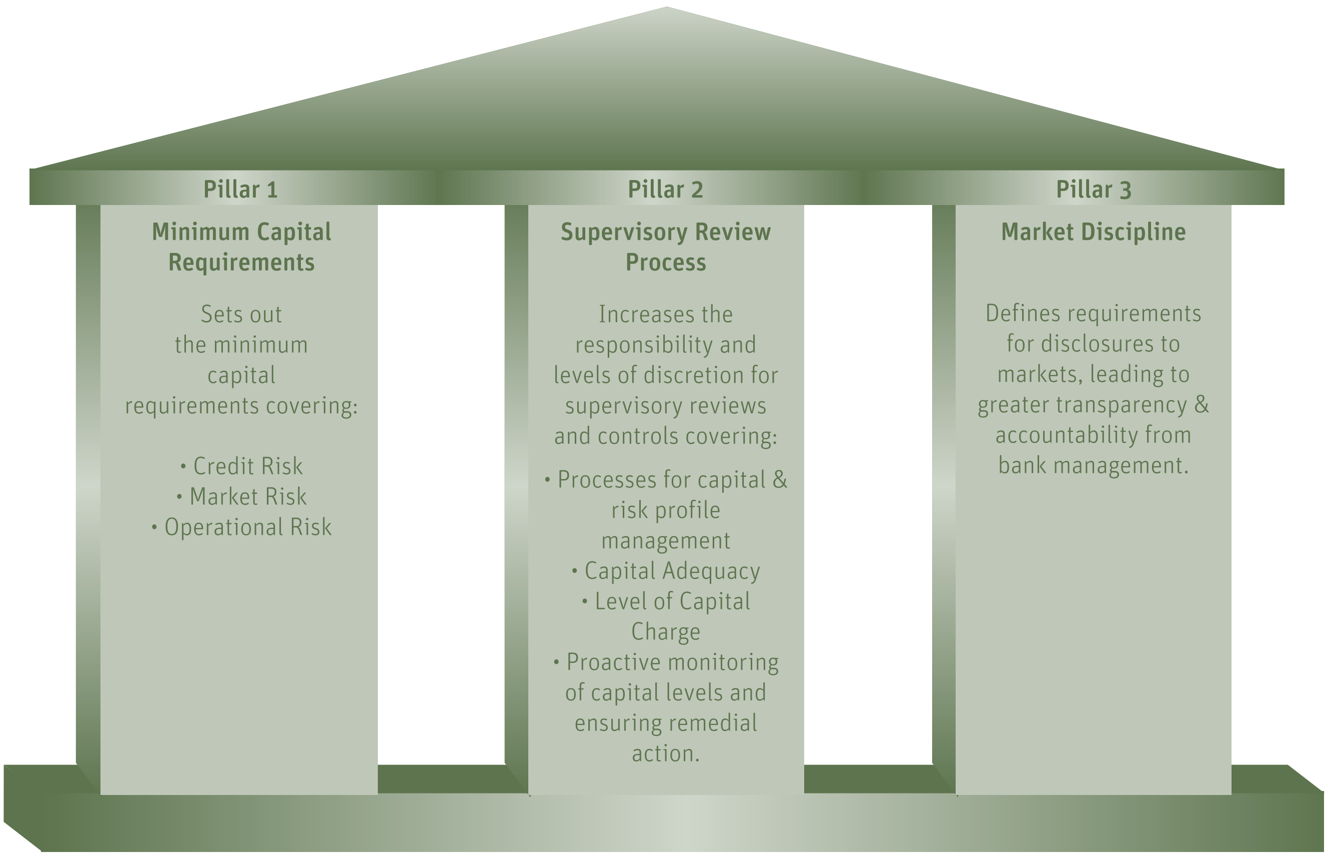
1.0 Introduction

This document discloses RHB Islamic Bank's risk profile, risk management practices and capital adequacy position in accordance with the disclosure requirements as outlined in the Capital Adequacy Framework for Islamic Banks ('CAFIB')– Disclosure Requirements ('Pillar 3') issued by Bank Negara Malaysia ('BNM').

In December 2009, BNM had issued the final requirements and guidance on the adoption of the Internal Ratings – Based ('IRB') Approach for credit risk under the Risk Weighted Capital Adequacy Framework ('RWCR') for banking institutions and the Capital Adequacy Framework for Islamic Banks ('CAFIB').

Basel II introduces a more risk-based approach to regulatory capital with a distinct charge for operational risk in addition to the existing credit and market risk capital charges. Basel II is designed to be a catalyst for more advanced risk management techniques, enterprise-wide cultures of risk management and improved corporate governance and public disclosure.

The Basel II approach based on the three pillars can be diagrammatically depicted as below:



1.0 Introduction (continued)

- Pillar 1 provides guidelines for calculation of risk weighted assets for credit risk, market risk and operational risk, and the minimum amount of regulatory capital that banks must hold against the risks they assume.

- Pillar 2 outlines the key principles of the supervisory review process and related risk management guidance, thus allows banks and supervisors to take a view on whether the bank should hold additional capital to cover the three Pillar 1 risk types, to cover other risks. It sets out specific oversight responsibilities for the Board and senior management, thus re-enforcing principles of internal controls and other corporate governance practices. The bank's own internal models and assessments support this process.

- Pillar 3 covers external communication of risk and capital information by banks. The purpose of the Pillar 3 disclosures is to complement the minimum capital requirements under Pillar 1 and the supervisory review process under Pillar 2 by encouraging market efficiency through the development of a set of disclosure requirements that will allow market participants to assess key pieces of information on banks' capital structures, risk exposures, risk management processes, and hence, their overall capital adequacy.

Under this approach, banking institutions are allowed to use internal estimates of risk parameters (namely the probability of default, loss given default and exposure at default) to determine regulatory capital requirements. Banking institutions are required to obtain explicit approval from BNM to adopt the IRB Approach. The requirements set out under the IRB Approach are largely based on the Framework on International Convergence of Capital Measurement and Capital Standards (commonly referred to as 'Basel II'), issued by the Basel Committee on Banking Supervision ('BCBS'), but which had been appropriately adjusted to calibrate risk parameters more closely to the domestic operating environment and default experience.

The table below lists the various methodologies applicable to the capital requirements calculation in connection to the various types of risk under Pillar 1.

Credit Risk	Market Risk	Operational Risk
1. Standardised Approach ('SA')	1. Standardised Approach ('SA')	1. Basic Indicator Approach ('BIA')
2. Foundation Internal Ratings Based Approach ('F-IRB')	2. Internal Models Approach ('IMA')	2. The Standardised Approach ('TSA')
3. Advanced Internal Ratings Based Approach ('A-IRB')		3. Advanced Measurement Approach ('AMA')

For purpose of credit risk measurement, RHB Islamic Bank has adopted the Standardised Approach ('SA') for credit risk since January 2008.

For market risk, the Bank applies the Standardised Approach while for operational risk; the Bank applies the Basic Indicator Approach ('BIA').

1.0 Introduction (continued)

1.1 Purpose

This disclosure is prepared in accordance with the requirements under Bank Negara Malaysia's Guideline on Capital Adequacy Framework for Islamic Banks ('CAFIB') – Disclosure Requirements ('Pillar 3'). This document covers qualitative and quantitative disclosures and is the Bank's first published report provided in accordance with the Guideline.

In compliance with the guideline, the Pillar 3 report for the Bank will be regularly prepared for two periods: 30th June and 31st December, commencing 31st December 2010. The Bank's Pillar 3 report will be made available under the Investor Relations section of the Bank's website at www.rhb.com.my and as a supplement to its annual and the half-yearly financial reports, after the notes to the financial statements.

BNM's Pillar 3 Guideline also requires banks to adopt a formal policy to meet the minimum public disclosure requirements and to put procedures in place that enable them to assess its adequacy, also in terms of its verification and frequency.

To this end, RHB Banking Group comprising RHB Bank Berhad, RHB Investment Bank and RHB Islamic Bank, (herein referred to as 'RHB Banking Group') has implemented a Basel Pillar 3 Disclosure Policy to address the requirements laid down for Pillar 3 diclosure. This document sets out the duties and responsiblities of the various operating units within RHB Banking Group involved in different stages of the process governing the disclosure.

Given the importance, this disclosure report has been verified and approved internally by the Bank in line with the Group Pillar 3 Disclosure Policy. There are no requirements for external auditing of these disclosures.

1.2 Basis Of Disclosure

This Pillar 3 disclosure is designed to comply with the BNM's CAFIB Disclosure Guideline, and should be read in conjunction with the Bank's Statutory Financial Statements 2010.

This document discloses the Bank's assets both in terms of exposures and capital requirements; however, information in this document is not directly comparable with the information in the 2010 Statutory Financial Statements published by the Bank.

This is most apparent for credit risk disclosures, where the risk arising from credit exposures are estimated by using parameters specified under Basel II. This estimate takes into account of contractual commitments related to undrawn amounts. This differs from similar information in the 2010 Statutory Financial Statements, which does not reflect the expected future drawdown under committed credit lines. An asset in the Bank's balance sheet, as published in the Statutory Financial Statements, is reported as drawn balance only. This is one of the reasons why exposure values in the Pillar 3 report can differ from asset values in the published accounts.

In addition, since this is the first year of disclosure by the Bank, there are no corresponding disclosures in the preceding reporting period(s).

2.0 Scope Of Application

In this report, the Bank's information is presented at entity level. The Bank is a wholly owned subsidiary of RHB Bank Berhad as at 31st December 2010.

3.0 Capital Adequacy

Capital adequacy is the degree to which capital resources on the Bank's balance sheet are sufficient to cover the businesses' capital requirements now and in the foreseeable future. It also indicates the ability of the Bank to provide credit across the business cycles and in meeting any contingency without compromising the interest of the depositors and investors.

Sufficient capital in relation to the risk profile of the Bank's assets helps promote financial stability and the confidence of the shareholders. The Bank aims to maximize the shareholder's value through an optimal capital structure that protects the stakeholders' profits under stress situations, provides sufficient room for growth while meeting the regulatory requirements and at the same time gives reasonable return to shareholders.

The Bank is also committed to maintaining a sound capital base to support the risks associated with diversified businesses, while still providing investors with superior returns.

There was no dividend declared or payout during the financial year. The Bank's core capital ratio and Risk Weighted Capital ratio are as follows:

Table 1: Capital Adequacy Ratios

Ratio	
Core Capital	12.23%
Risk-Weighted Capital	13.56%

The above Core Capital Ratio and Risk-Weighted Capital Ratio are above the minimum level required by BNM.

Table 2: Risk Weighted Assets ('RWA') by Risk Types

Risk Types	RWA RM'000
Credit RWA	7,124,858
Market RWA	30,513
Operational RWA	566,538
Total	**7,721,909**

4.0 Capital Structure

The constituents of total eligible capital are set out in BNM's Guideline on 'Risk-Weighted Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks (General Requirements and Capital Components)' Part C and D. These include shareholders' fund, after regulatory-related adjustments, and eligible capital instruments issued by the Bank.

The following table represents the Bank's capital position as at 31st December 2010. Details on capital instruments, including share capital and reserves are found in notes 17 and 18 of the Financial Statements.

Table 3: Capital Structure

Tier I Capital	RM'000
Paid-up ordinary share capital	523,424
Retained profits	222,371
Statutory reserve	231,484
Total Tier I capital	**977,279**
Less : Deferred tax assets	(33,269)
Eligible Tier I capital	**944,010**
Tier II Capital	
Collective impairment/ allowance	103,037
Total Tier II capital	**103,037**
Less : Ageing Reserve and Liquidity Reserve	(102)
Eligible Tier II Capital	**102,935**
Capital Base	**1,046,945**

Minimum Capital Requirements & Risk Weighted Assets ('RWA')

Capital requirements for the three risk types are derived by multiplying the risk weighted assets by 8%. The following table shows a breakdown of the Bank's RWA by risk types for position 31st December 2010:

Table 4: Minimum Capital Requirements and Risk Weighted Assets by Risk Types

Risk Type	RWA RM'000	Capital Requirement RM'000
Credit Risk Under Standardised Approach	7,124,858	569,989
Market Risk Under Standardised Approach	30,513	2,441
Operational Risk Under Basic Indicator Approach	566,538	45,323
Total	**7,721,909**	**617,753**

The Bank does not have any capital requirement for Large Exposure Risk as there is no exposure arising from equity holdings.

5.0 Risk Management

Risk is inherent in the Bank's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Bank is exposed to a range of other risk types such as market, liquidity, operational, legal, and strategic and cross border, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

Effective risk management is fundamental to being able to generate profits consistently while sustaining competitive advantage, and is thus a central part of the financial and operational management of the Bank.

To this extent, the RHB Group Risk Management Framework governs the management of risks in the banking group. The Framework operates on two interlocking layers:

- It provides a holistic overview of the risk and control environment of the Group, with the risk management going towards loss minimisation and protection against losses which may occur through, principally, the failure of effective checks and balances in the organisation, as well as deficiencies in risk management culture.

- It sets out the strategic progression of risk management towards becoming a value creation enterprise. This is affected through building up capabilities and infrastructure in risk management sophistication, and using the improvement in risk quantification to optimise risk-adjusted (or economic) returns.

The following sections describe some of these risk management content areas.

OVERARCHING RISK MANAGEMENT PRINCIPLES

The framework enshrines five fundamental principles that drive the philosophy of risk management in the RHB Banking Group. They are:

- Risk governance from the Boards of Directors of companies in the Group;
- Clear understanding of risk management ownership;
- Institutionalisation of a risk focused organization;
- Alignment of risk management to business strategies; and
- Optimisation of risk adjusted economic and financial returns.

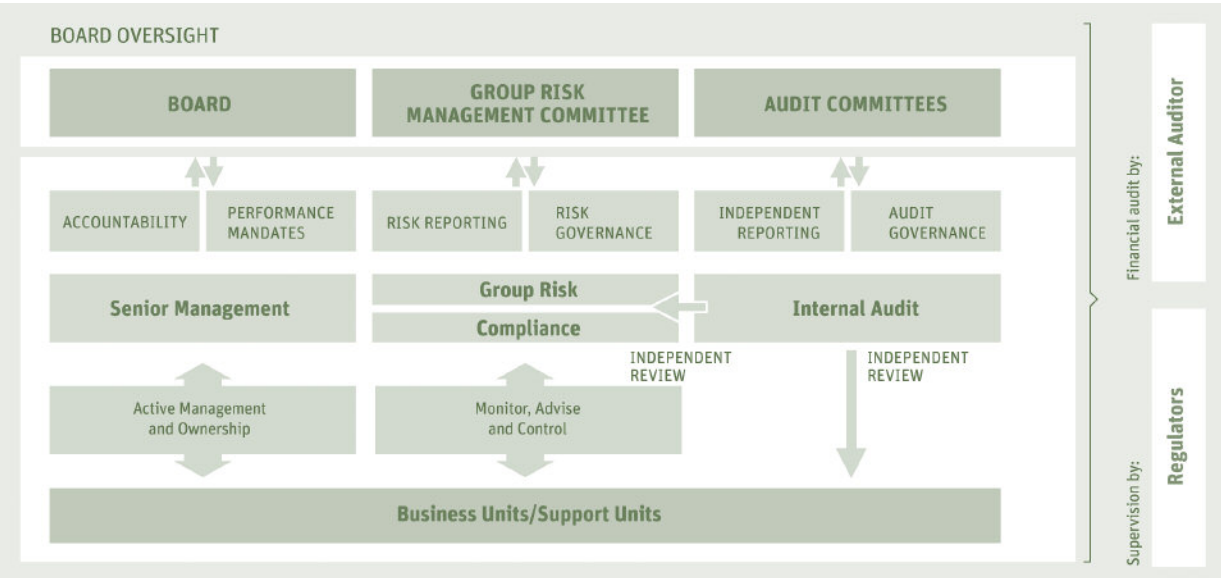
5.0 Risk Management (continued)

OVERARCHING RISK MANAGEMENT PRINCIPLES (CONTINUED)

Principle 1: Risk Governance from the Boards of Directors of Companies in the Group

The ultimate responsibility of the Boards of Directors in the RHB Banking Group is to ensure that an effective risk management strategy is in place and uniformly understood across the Group. The Group has a structured framework to support the Board oversight responsibilities which is depicted in the accompanying diagram:

Structured Framework to Support Board Oversight Role in Risk Management



RISK GOVERNANCE AND ORGANISATION

The Board of Directors ('Board' or 'BOD') through the Group Risk Management Committee ('GRMC') and Group Risk Management function ('GRM function') establishes the Group's risk appetite and risk principles. The GRMC is the principal Board Committee that oversees the Group's risk management. It provides oversight and governance of risks for the Group oversees senior management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process of the Group is in place and functioning; promotes the management of the Group's risks in accordance with a risk return performance management framework; and deliberates and make recommendations to the Boards of the Group in respect of risk management matters.

A Risk Management Committee is also established at the Bank to focus on the risk management issues of the Bank, particularly in relation to risk issues unique to Islamic finance. This is to achieve the intended objectives of enhancing the risk management of the Group's Islamic finance activities.

5.0 Risk Management (continued)

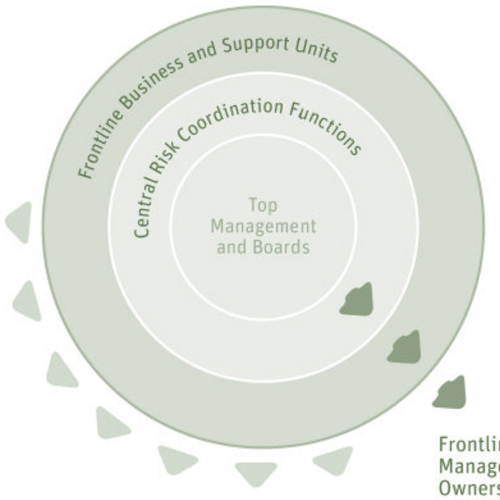
OVERARCHING RISK MANAGEMENT PRINCIPLES (CONTINUED)

Principle 2: Clear Understanding of Risk Management Ownership

Risk awareness culture is instilled throughout the Group through proactive risk ownership. The business and functional units of the Group are primarily responsible for identifying, managing and reporting their risks. The business units manage certain defined risks through the use of facilities and services provided by the functional units.

Risk management processes are a collective responsibility and cooperation of business and functional units, risk management functions, top management and the Board. This leads to risk management ownership with differing levels of focus established across the Group as follows:

Risk Management Ownership and Lines of Defence



Frontline Risk Management Ownership and Lines of Defences

Principle 3 : Institutionalisation of a Risk Focused Organization

Institutionalisation of a risk focused organization is progressively revolutionised within the RHB Banking Group through a number of measures, two of which are:

(i) Strengthening of the central risk coordination functions, and
(ii) Continuous reinforcing of a risk and control environment within the Group.

5.0 Risk Management (continued)

OVERARCHING RISK MANAGEMENT PRINCIPLES (CONTINUED)

Principle 3 : Institutionalisation of a Risk Focused Organization (continued)

They are described in further detail in the succeeding sections:

Central Risk Coordination Functions

The following summarises the key differences in perspectives (which are also strategically complementary) between the Risk Management, Compliance and Internal Audit functions.

The **Risk Management** function is responsible for upholding the integrity of our risk/ return decisions, and in particular in ensuring that risks are properly assessed and managed.

The risk management function is independent of the origination and sales functions to ensure that the necessary balance in risk/ return decisions is not compromised by short-term pressures to generate revenues. This risk function reports to GRMC and assists the GRMC and Board in formulating risk related policies, advises the GRMC and Board on the risk impact of business strategies, and reviews compliance by the management to the risk policy framework that is approved by the Board.

The risk function is also responsible for maintaining the Group Risk Management Framework, ensuring it remains appropriate to the Group's activities, and is effectively communicated and implemented across the Group.

The risk management function in the Group reports to the Head of Group Risk Management. Among the roles and responsibilities of the Head of Group Risk Management are:

- Facilitating the setting of the strategic direction and overall policy on management and control of risk of the Group;
- Ensuring industry best practice risk management disciplines are adopted across the Group, including the setting of risk management parameters and risk underwriting models;
- Developing a pro-active; balanced and risk attuned culture within the Group;
- Advising senior management, the GRMC and the Board on risk issues of, and impacts on, the Group; and
- Administering the delegation of discretionary powers to management personnel within the Group.

The **Compliance** function is centrally managed and provides assurance to management that the Group's activities are in compliance with external requirements and internal policies and procedures.

The **Audit** function independently reviews and reports on the adequacy and integrity of the Group's internal control systems and information management systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

5.0 Risk Management (continued)

OVERARCHING RISK MANAGEMENT PRINCIPLES (CONTINUED)

Principle 3 : Institutionalisation of a Risk Focused Organization (continued)

Risk and Control Environment

Business, functional and governance heads are accountable for risk management in their businesses and functions, and for countries where they have governance responsibilities. The business and functional units have a clear segregation of duties with sufficient check and balance to ensure that business processes are functioning effectively. There is appropriate accountability delegated to the appropriate authority to execute their respective authorities in meeting the business strategies without compromising the risk management strategies.

Primary responsibility for managing risks, therefore, rests with the business managers. They are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. There is a continuous review of business activities and processes to identify significant risk areas and implement control procedures to operate within established corporate policies and limits.

Principle 4: Alignment of Risk Management to Business Strategies

A statement of intent of the Group's Risk Management Framework is to align the Group's business strategy to risk strategy, and vice versa. This is typically articulated through the Group's annual business and financial budgetary plan, which is progressively facilitated by the integration of risk measures in economic capital management. It is also implemented through the Group's construction of a sustaining risk-focused organization as described in preceding sections where business and support units are required to be primarily responsible and accountable for risk management.

Principle 5: Optimisation of Risk Adjusted Economic and Financial Returns

An objective of economic capital management is to reflect a true return in relation to risk level assumed by businesses throughout the Group. By linking risk to capital, the risk adjusted returns measure contributes to the creation of shareholder value by facilitating the allocation of capital to the businesses whose value creation significantly exceed the risk profile of their activities. The medium to long term strategy and principle of risk management of the Group is to deepen the integration of economic capital management within the Group. The Group's management has implemented a risk-adjusted returns based framework for allocation of capital to business units and for performance measurement and management.

6.0 Credit Risk

Credit Risk Definition

Credit risk arises as a result of customers' or counterparties' inability to fulfil their financial and contractual obligations as and when they arise. These obligations arise from the Bank's direct lending obligations, trade finance and its funding, investment and trading activities.

6.1 Credit Risk Management Oversight and Organisation

The Central Credit Committee ('CCC') is the senior management committee that reviews the Group's credit risk philosophy, framework, and policies; aligns credit risk management with business strategy and planning; recommends credit approval authority limits; reviews the credit profile of material portfolios; and recommends actions where necessary to ensure that credit risk remains within established risk tolerances. CCC also approves and renews financing/ facilities and submits to the Group Credit Committee ('GCC') for affirmation or veto if the financing/ facilities exceed a pre-defined threshold.

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

The Group has established a Group Recovery Committee ('GRC') to oversee the management of non performing accounts ('NPA') and high risk accounts as well as affirming, imposing additional covenants or vetoing credits under NPA from Credit Recovery for amounts above the defined thresholds of the CCC.

Within Group Risk Management, the Credit Risk Management Department has the functional responsibility for credit risk management, including portfolio risk monitoring and risk reporting. Group Risk Management units also conduct regular credit stress tests to assess the credit portfolio's vulnerability to adverse credit risk events.

Regular risk reporting is made to the Board and GRMC. These reports include various credit risk aspects such as portfolio quality, credit migration, expected losses, and concentration risk exposures by business portfolio. Such reporting allows senior management to identify adverse credit trends, take corrective actions promptly, and ensure appropriate risk-adjusted decision making.

6.2 Credit Risk Management Approach

RHB Banking Group's credit risk management framework which is founded upon BNM's guidelines on 'Best Practices for the Management of Credit Risk' is documented under the Group Credit Policy. The Bank abides by this Credit Policy which supports the development of a strong credit culture with the objective of maintaining a diversified portfolio and mitigates the risk of unexpected losses, and which ensures a reliable and satisfactory risk weighted return. Industry best practices are instilled in the continual updating of credit risk policies.

The Bank ensures that stringent measures and processes are in place before credit proposals are approved. All corporate credit proposals are first evaluated by the originating business units before being independently evaluated by an independent credit evaluation and management function. All credit exposure limits are approved within a defined credit approval authority framework. Large financing exposures are subject to post approval credit review by Group Internal Audit.

The Bank's credit risk management process is documented in the Group Credit Procedures Manual ('GCPM') which sets out the operational procedures and guidelines governing the credit processes of the Group's Retail, Business Banking, Treasury, Corporate and Investment Banking & Finance Business operations.

6.0 Credit Risk (continued)

6.2 Credit Risk Management Approach (continued)

The GCPM has been designed to ensure that:-

- The process of credit initiation, administration, supervision and management of financing and advances are carried out consistently and uniformly by the business origination and other credit support functions within the Group.

- Procedures and guidelines governing the credit function are in compliance with the credit policies laid down by the respective Board of the Bank.

Financing to Corporate and Institutional Customers

Financing to corporates and institutional customers are individually evaluated and risk-rated. Credit Officers identify and assess the credit risks of large corporate or institutional customers, or customer groups, taking into consideration their financial and business profiles, industry and economic factors, collateral, or other credit support. Credit extensions have to meet pre-defined target market and risk acceptance criteria.

Credit Risk from Investment or Trading Activities

In the course of its trading or investment banking activities, the Bank is also exposed to credit risks from trading, derivative and debt securities activities. The credit risk exposure from these products is derived from the positive mark-to-market value of the underlying instruments, and an additional component to cater for potential market movements.

Financing to Consumers and Small Businesses

For the consumer and small business sectors, credit risks are managed on a portfolio basis. Such products include mortgages, credit cards, auto financing, commercial property financing, personal financing and business financing. Financing are underwritten under product programmes that clearly define the target market, underwriting criteria, terms of financing, maximum exposure, credit origination guidelines, and verification process. Scoring models are used in the credit decision process to enable objective risk evaluation and consistent decisions, cost efficient processing, and behavioural score monitoring of expected portfolio performance.

Credit Risk Measurement

Along with judgement and experience, risk measurement plays a critical role in making informed risk taking and portfolio management decisions. As the nature of credit risk varies by credit type, the Bank applies different credit risk measuring tools so that the credit risk of each credit type is appropriately reflected.

Credit risk is calculated from 3 key factors as follows:

1. Probability of Default ('PD')
   For corporate/ non-retail credit, the probability of default is measured from obligor rating obtained from the risk rating system to determine customer's level of risk. The risk rating of each customer is regularly reviewed to ensure that it actually reflects the customer's risk. For retail credit, active accounts of each portfolio are classified into a specific segment (or pool), which can be classified by various factors e.g. age, application score, behaviour score, utilisation, and payment history, etc.

2. Loss Given default ('LGD')
   For corporate credit, its value will be determined via the credit risk mitigant adjustment, in which collateral and security will determine the level of LGD for a specific transaction. For retail credit, LGD is captured at respective segment (or pool) level.

6.0 Credit Risk (continued)

6.2 Credit Risk Management Approach (continued)

3. Exposure at Default ('EAD')
   Exposure at default is calculated from the current outstanding balance and availability of committed credit line. In this regard, the key factor is the Bank's obligations related to the available credit line. For corporate credit, credit risk is measured at an individual exposure. For retail credit, principles of credit risk measurement are similar, but measured on a pooled basis.

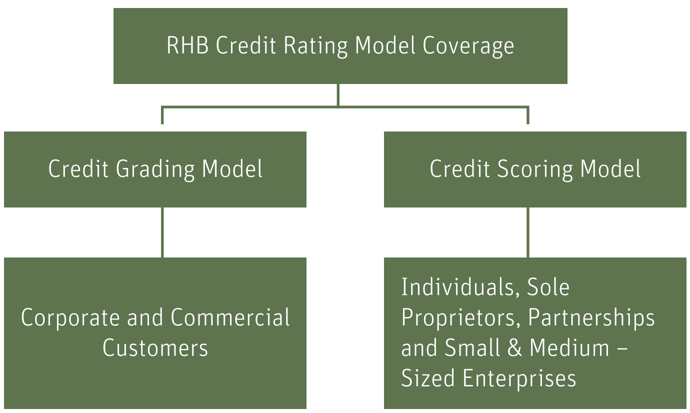
6.3 Internal Credit Rating Models

Internal credit rating models are an integral part of the Bank's credit risk management, decision making process, and regulatory capital calculations. These internal credit rating models are developed with active participation by the relevant credit experts from the Bank's functional units and/ or business units.

Internal rating model development and implementation process have been established to govern the development and validation of ratings models and the application of these models. Specifically, all newly developed models prior to implementation, its material changes (of the rating systems) and validation results must be approved by GRMC and Board. All models are also subject to independent validation by the Quantitative Model Validation Unit ('QMVU') before implementation, to ensure that all aspects of the model development process have been satisfied. In addition, the models are also subject to annual review and independent validation by QMVU to ensure that they are performing as expected.

Credit risk/ rating models can be classified into types:-
- Credit Grading Models
- Credit Scoring Models

The diagram below shows a broad perspective of the current credit rating model coverage of the Group for the different customer/ obligor:-



The model for Corporate and Investment Banking (CIB) exposure is typically associated with large corporate customers/ guarantors or debt issuers, in that the grading model attempts to rate the credit worthiness of the corporate customers/ guarantors or debt issuers, through their financial standing (including gearing, expenses, profit) and through qualitative factors (management effectiveness, industry environment).

The credit scoring model for individuals, sole proprietorships, partnerships-related exposures and small & medium-sized enterprises is typically associated with volume-based retail financing, and is developed through statistical modelling, where a set of factors that are predictive in separating 'good credit' and 'bad credit' applications/ customers are identified through a rigorous analysis and modelling process.

6.0 Credit Risk (continued)

Application of Internal Ratings

The three components; the PD, LGD and EAD are used in variety of applications that measure credit risk across the entire portfolio.

- Credit Approval: PD models are used in the approval process in both retail and wholesale portfolios. In high-volume retail portfolios, application and behaviour scorecards are used as decision making tools.

- Credit Grading: Implemented since 2007 to provide a common measure of risk across the Group. This credit grading now employs a 22 point scale of default probabilities, summarised as below:

PD Grade Range	Interpretation
PD1	Highest Credit Quality
PD2 to PD7	Strong Credit Quality
PD8 to PD12	Good Credit Quality
PD13 to PD16	Average Credit Quality
PD17 to PD18	Below Average Credit Quality
UGO	Un-graded
N21 to N23	Non-Performing Financing

- Risk Reward and Pricing: PD, EAD and LGD metrics are used to assess profitability of deals and portfolios and to allow for risk-adjusted pricing and strategy decisions.

- Economic Capital Allocation: Most economic capital calculations use the same PD and EAD inputs as the regulatory capital process.

- Risk Management Information: Group Risk Management and the business units generate risk reports to inform senior management on issues such as business performance and consumption of regulatory capital.

Off-Balance Sheet Exposures.

Off-Balance sheet exposures of the Bank are mainly from the following:-

- Financial guarantees and standby letters of credit, which represent undertakings that the Bank will make payments in the event that its customer cannot meet its obligations to third parties. These exposures carry the same credit risk as financing even though they are contingent in nature.
- Documentary and commercial letters of credit, which are undertakings by the Bank on behalf of its customers. These exposures are usually collateralised by the underlying shipment of goods to which they relate.
- Commitments to extend credit including the unutilised or undrawn portions of credit facilities.
- Unitilised credit card lines.
- Principal or notional amount of derivative financial instruments.

The management of off-balance sheet exposures is in accordance to the credit risk management approach as set out under Section 6.2 of this report.

6.0 Credit Risk (continued)

Counterparty Credit Risk on Derivative Financial Instruments

Counterparty Credit Risk ('CCR') on derivative financial instruments is the risk that the Bank's counterparty in a benchmark rate defaults prior to the maturity date of the contract and that the Bank at the relevant time has a claim on the counterparty. Derivative financial instruments are entered into for hedging purposes.

Any financial loss is calculated based on the cost to replace the defaulted derivative financial instruments with another similar contract in the market. The cost of replacement is equivalent to the difference between the original value of the derivatives at time of contract with the defaulted counterparty and the current fair value of a similar substitute at current market prices. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default.

All outstanding financial derivative positions are marked-to-market on a daily basis. Treasury Operations Department monitors counterparties' positions and promptly escalates to the revelant parties upon any shortfall in the threshold levels.

6.4 Standardised Approach

Under Standardised Approach, the risk weights are prescribed by BNM based on the asset class to which the exposure is assigned.

A summary of these exposures with the corresponding risk weights are shown in Table 5.

6.5 Credit Exposures and Risk Weighted Assets ('RWA') By Portfolio

All credit exposures of the Bank are booked in Malaysia. The subsequent tables reflect the Bank's credit exposures (EAD) for position 31st December 2010, segregated by:

- the various types of asset classes, showing details of the exposures before and after CRM, the corresponding RWA and capital requirement;
- disclosure on Off-Balance Sheet and Counterparty Credit Risk;
- industry sector; and
- residual maturity; segregated by one year or less, one to five years, and over five years.

6.0 Credit Risk (continued)

Table 5: Disclosure on Portfolios under the Standardised Approach by Risk Weights

Risk Weights RM'000	Exposures after Credit Risk Mitigation												Total Exposures after Credit Risk Mitigation RM'000	Total Risk Weighted Assets RM'000
	Sovereigns & Central Banks RM'000	PSEs RM'000	Banks, MDBs & DFIs RM'000	Insurance Cos, Securities Firms & Fund Managers RM'000	Corporates RM'000	Regulatory Retail RM'000	Residential Mortgages RM'000	Higher Risk Assets RM'000	Other Assets RM'000	Specialised Financing/ Investment RM'000	Securitisation RM'000	Equity RM'000		
0%	4,528,079				83,334	3,674							4,615,087	–
10%													–	–
20%			224,616		901,384								1,126,000	225,200
35%													–	–
50%					116,026	19,344							135,370	67,685
75%						4,336,444							4,336,444	3,252,333
90%													–	–
100%					2,708,952	40,794			156,841				2,906,587	2,906,587
110%													–	–
125%													–	–
135%													–	–
150%					163,138	177,471		108,093					448,702	673,053
Total	**4,528,079**	**–**	**224,616**	**–**	**3,972,834**	**4,577,727**	**–**	**108,093**	**156,841**	**–**	**–**	**–**	**13,568,190**	**7,124,858**

6.0 Credit Risk (continued)

Table 6: Summary of Credit Exposures with CRM by Asset Class & Capital Requirement (On & Off-Balance Sheet Exposures)

Exposure Class	Gross Exposures/ EAD before CRM RM'000	Net Exposures/ EAD after CRM RM'000	Risk Weighted Assets RM'000	Minimum Capital Requirement at 8% RM'000
Credit Risk				
Exposures under the Standardised Approach				
On-Balance Sheet Exposures				
Sovereigns/ Central Banks	4,528,079	4,528,079	–	–
Public Sector Entities	–	–	–	–
Banks, Development Financial Institutions & MDBs	224,616	224,616	44,923	3,594
Insurance Cos, Securities Firms & Fund Managers	–			–
Corporates	3,170,599	3,170,599	2,397,702	191,816
Regulatory Retail	4,208,033	4,208,033	3,153,269	252,262
Residential Mortgage	–	–	–	–
Higher Risk Assets	44,319	44,319	66,479	5,318
Other Assets	156,841	156,841	156,841	12,547
Specialised Financing/ Investment				–
Securitisation Exposures				–
Equity Exposure				–
Defaulted Exposures	564,064	564,064	706,324	56,506
Total On-Balance Sheet Exposures	**12,896,551**	**12,896,551**	**6,525,538**	**522,043**
Off-Balance Sheet Exposures				
OTC Derivatives				–
Credit Derivatives				–
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	671,639	671,639	599,320	47,946
Defaulted Exposures				–
Total Off-Balance Sheet Exposures	**671,639**	**671,639**	**599,320**	**47,946**
Total On and Off-Balance Sheet Exposures	**13,568,190**	**13,568,190**	**7,124,858**	**569,989**

Note: As at 31st December 2010, the Bank did not have any credit risk weighted assets absorbed by Profit Sharing Investment Account ('PSIA') and exposure under securitisation.

6.0 Credit Risk (continued)

Table 7: Off-Balance Sheet and Counterparty Credit Risk (after Credit Risk Mitigation)

Nature of item	Principal/ Notional Amount RM'000	Positive Fair Value Deriatives Contracts RM'000	Credit Equivalent Amount RM'000	RWA RM'000
Direct credit substitutes				
Transaction related contingent items	146,995		73,498	34,201
Short term self liquidating trade related contigencies	40,948		8,190	8,190
Assets sold with recourse				
Forwards assets purchases, forward deposits, partly paid shares and securities which represents commitments with certain drawdowns				
NIFs and obligations under an ongoing underwriting agreement	29,000		14,500	14,500
Lending of Banks' securities or the posting of securities as collateral by banks, including instances where these arise out of repo-style transactions (i.e repurchase/ reverse repurchase and securities lending/ borrowing transactions), and commitment to buy-back Islamic securities under Sell and Buy Back				
Foreign exchange related contracts	–	–	–	–
One year or less				
Over one year to five years				
Over five years				
Profit rate related contracts	650,000	–	130,000	130,000
One year or less				
Over one year to five years	650,000	–	130,000	130,000
Over five years				
Equity related contracts	–	–	–	–
One year or less				
Over one year to five years				
Over five years				
Gold and Other Precious metal contracts	–	–	–	–
One year or less				
Over one year to five years				
Over five years				
Other Commodity contracts	–	–	–	–
One year or less				
Over one year to five years				
Over five years				

6.0 Credit Risk (continued)

Table 7: Off-Balance Sheet and Counterparty Credit Risk (after Credit Risk Mitigation) (continued)

Nature of item	Principal/ Notional Amount RM'000	Positive Fair Value Deriatives Contracts RM'000	Credit Equivalent Amount RM'000	RWA RM'000
Credit derivative contracts	–	–	–	–
One year or less				
Over one year to five years				
Over five years				
OTC derivative transactions and credit derivative contracts subject to valid bilateral netting agreements				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	449,091		224,546	191,524
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	1,104,528		220,905	220,905
Any commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	–	–	–	–
Unutilised credit card lines	–	–	–	–
Off-balance sheet securitisation exposures	–	–	–	–
Off-balance sheet esposures due to early amortisation provisions	–	–	–	–
Total	**2,420,562**	**–**	**671,639**	**599,320**

Note: The Bank does not have any OTC derivatives transactions.

6.0 Credit Risk (continued)

Table 8: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector

Exposure Class	Agriculture RM'000	Mining & Quarrying RM'000	Manufacturing RM'000	Electricity, Gas & Water Supply RM'000	Construction RM'000	Wholesale, Retail Trade, Restaurants & Hotels RM'000	Transport, Storage & Communication RM'000	Finance, Insurance, Real Estate & Business RM'000	Education, Health & Others RM'000	Household RM'000	Others RM'000	Total RM'000
Exposure under Standardised Approach												
Sovereigns/ Central Banks									1,509,993		3,018,086	4,528,079
Public Sector Entities												–
Banks, Development Financial Institutions & MDBs								224,616				224,616
Insurance Cos, Securities Firm & Fund Managers												–
Corporates	207,784	13,369	724,569	222,511	84,616	183,120	354,927	744,630	77,181		1,360,127	3,972,834
Regulatory Retail	96,143	620	202,256	1,850	24,580	166,684	132,737	40,100	10,415	3,665,042	237,300	4,577,727
Residential Mortgage												–
Higher Risk Assets					44,319			61,922		1,852		108,093
Others Assets											156,841	156,841
Specialised Financing/ Investment												–
Securitisation Exposures												–
Equity Exposure												–
Total Standardised Approach	**303,927**	**13,989**	**926,825**	**224,361**	**153,515**	**349,804**	**487,664**	**1,071,268**	**1,597,589**	**3,666,894**	**4,772,354**	**13,568,190**

6.0 Credit Risk (continued)

Table 9: Credit Risk Exposures by Maturity

Exposure Class	One year or less RM'000	One to five years RM'000	Over five years RM'000	Total RM'000
Exposures under Standardised Approach				
Sovereigns/ Central Banks	1,084,131	400,635	3,043,313	4,528,079
Public Sector Entities				–
Banks, Development Financial Institutions & MDBs	202,534	22,082		224,616
Insurance Cos, Securities Firms & Fund Managers				–
Corporates	473,530	1,860,026	1,639,278	3,972,834
Regulatory Retail	363,541	439,219	3,774,967	4,577,727
Residential Mortagage				–
Higher Risk Assets	61,922	20,381	25,790	108,093
Other Assets			156,841	156,841
Speacialised Financing/ Investment				–
Securitisation Exposures				–
Equity Exposure				–
Total Standardised Approach	**2,185,658**	**2,742,343**	**8,640,189**	**13,568,190**

Use of External Ratings

For sovereigns, corporates and banking institutions, external ratings from approved external credit assessment institutions ('ECAI'), where available, are used to determine the risk weighted assets and regulatory capital.

The process used to map ECAI issuer ratings or comparable ECAI issue ratings are in accordance to BNM standards. Approved ECAIs are as follows:

- Standard & Poors ('S&P');
- Moody's Investor Services ('Moody's');
- Fitch Ratings ('Fitch');
- Malaysian Rating Corporation Berhad ('MARC');
- Rating Agency Malaysia ('RAM'); and
- Rating and Investment Information, Inc ('R&I').

External ratings for the counterparties are determined as soon as relationship is established and these ratings are tracked and kept updated. Only publicly available credit ratings are used for regulatory risk weight purpose. Where the counterparty is not rated, the corresponding exposure is mapped as 'unrated' and the appropriate risk weight for unrated exposures is assigned.

6.0 Credit Risk (continued)

Use of External Ratings (continued)

Table 10: Rated Exposures according to Rating by ECAIs

The following table shows the Bank's credit exposures to sovereigns, corporate and banking institutions according to the ratings by ECAIs:

Ratings of Corporates by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA–	A+ to A–	BBB+ to BB–	B+ to D	Unrated
	Fitch	AAA to AA–	A+ to A–	BBB+ to BB–	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA–	A+ to A–	BBB+ to BB–	B+ to D	Unrated
	Rating & Investment Inc	AAA to AA–	A+ to A–	BBB+ to BB–	B+ to D	Unrated
On & Off-Balance Sheet Credit Exposures Corporates (RM'000)	–	901,384	20,000	4,494	–	3,046,956

Rating of Sovereigns and Central Banks by Approval ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA–	A+ to A–	BBB+ to BBB–	BB+ to B–	CCC+ to D	Unrated
	Fitch	AAA to AA–	A+ to A–	BBB+ to BBB–	BB+ to B–	CCC+ to D	Unrated
	Rating & Investment Inc	AAA to AA–	A+ to A–	BBB+ to BBB–	BB+ to B–	CCC+ to D	Unrated
On & Off-Balance Sheet Exposures Sovereigns and Central Banks (RM'000)	–	4,528,079	–	–	–	–	–

Ratings of Banking Institutions by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA–	A+ to A–	BBB+ to BBB–	BB+ to B–	CCC+ to D	Unrated
	Fitch	AAA to AA–	A+ to A–	BBB+ to BBB–	BB+ to B–	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA–	A+ to A–	BBB+ to BBB–	BB+ to B–	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA–	A+ to A–	BBB+ to BBB–	BB+ to B–	CCC+ to C	Unrated
On & Off-Balance Sheet Exposures Banks, MDBs and DFIs (RM'000)	–	224,616	–	–	–	–	–

6.0 Credit Risk (continued)

6.6 Credit Risk Monitoring and Control

Credit Risk Mitigation

As a fundamental credit principle, the Bank generally does not grant credit facilities solely on the basis of collateral provided. All credit facilities are granted based on the credit standing of the customer source of repayment and debt servicing ability.

Collateral is taken whenever possible to mitigate the credit risk assumed, subject to the Group's policies that govern the eligibility of collateral used for credit risk mitigation. Reliance on collateral when taken is carefully assessed in the light of issues such as legal certainty and enforceability, market valuation and counterparty risk of the guarantor.

Collateral as a credit risk mitigant is also considered even if they are not eligible for regulatory capital adequacy calculations. The internal rating assignment process also includes the assessment of collaterals amongst other factors.

The main types of collateral taken by the Bank are:-

- Commodity Murabahah Fixed Deposits, Mudharabah General Investment Account and Cash Deposits/ Margins;
- Land and/ or Buildings;
- Vessels and Automobiles;
- Quoted Shares, Unit Trusts, Malaysian Government Bonds and Securities, and Private Debt Securities;
- Endowment Life Policies with Cash Surrender Value; and
- Other tangible business assets, such as inventory and equipment.

Collateral is valued in accordance with the Group's policy on collateral valuation, which prescribes the frequency of valuation for different collateral/ securities types, based on liquidity and volatility of the collateral value and the underlying product or risk exposure. The value of collaterals/ securities pledged is monitored periodically; analysed and updated concurrently with the annual/ periodic renewal of facilities, as well as updated into the Bank system.

The Bank also accepts non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debenture, assignment of contract payments, subject to internal guidelines on eligibility. Currently, the Bank does not use on-balance sheet netting to mitigate its credit exposures.

Equity securities or collaterals acquired arising from debt conversions are accounted for as a disposal of the financing and an acquisition of equity securities or investment properties. Any further impairment of the assets or business acquired is treated as an impairment of the relevant asset or business rather than as an impairment of the original instrument.

6.0 Credit Risk (continued)

Table 11: Credit Risk Mitigation under the Standardised Approach

Exposure Class	Exposures before CRM RM'000	Exposures Covered by Guarantees /Credit Derivatives RM'000	Exposures Covered by Eligible Financial Collateral RM'000
On-Balance Sheet Exposures			
Sovereigns/ Central Banks	4,528,079	–	–
Public Sector Entities			
Banks, Development Financial Institutions & MDBs	224,616	–	–
Insurance Cos, Securities Firms & Fund Managers			
Corporates	3,170,599	5,020	42,076
Regulatory Retail	4,208,033	–	3,674
Residential Mortgage			
Higher Risk Assets	44,319	–	–
Other Assets	156,841	–	–
Specialised Financing/ Investment			
Securitisation Exposures			
Equity Exposure			
Defaulted Exposures	564,064	–	–
Total On-Balance Sheet Exposures	**12,896,551**	**5,020**	**45,750**
Off-Balance Sheet Exposures			
OTC Derivatives			
Credit Derivatives			
Off balance sheet exposures other than OTC derivatives or credit derivatives	671,639	–	–
Defaulted Exposures			
Total for Off-Balance Sheet Exposures	**671,639**	**–**	**–**
Total On and Off-Balance Sheet Exposures	**13,568,190**	**5,020**	**45,750**

Credit Concentration Risks

The Bank manages the diversification of its portfolio to avoid undue credit risk concentrations. Credit risk concentrations exist in financing to single customer groups, customers engaged in similar activities, or diverse groups of customers that could be affected by similar economic or other factors. To manage these concentrations, exposure limits are established for single customer groups and industry segments. In this respect, analysis of large customer group exposures are regularly conducted, and the financing and financing units undertake regular account updates, monitoring and management of these exposures.

Industry and sectoral analysis are also incorporated within the overall credit risk management regiment. In this respect, the Bank seeks to continually update financing guidelines based on periodic reviews and updates of industry and sectoral risk factors and economic outlooks. This facilitates the better management of credit concentration risks.

6.0 Credit Risk (continued)

Credit Monitoring and Annual Reviews

The Bank regularly monitors credit exposures, portfolio performance, and external trends which may impact risk management outcomes. Internal risk management reports are generated for senior management and risk committees, containing information on key environmental, political and economic trends across portfolios and countries, portfolio delinquency with major credit delinquency, and financing impairment performance.

In addition to the on-going qualitative assessment by the account relationship managers, reviews are conducted at least once a year with updated information on the customer's financial position, market position, industry and economic condition and account conduct.

The Bank has established internal financing policies to promote early problem recognition and attention, where enhanced monitoring will take place when accounts show signs of credit deterioration. Delinquency trends are monitored, analysed and reported to the CCC, GRC and GRMC.

Group Internal Audit conducts independent post approval reviews on sampling basis to ensure that the quality of credit appraisals and approval standards are in accordance with the credit standards and lending policies established by the Bank's management and laws and regulations.

6.7 Impairment Allowances for Financing

The BNM Guideline on Classification and Impairment Provisions for Financing provides for two types of impairment assessment methodologies, i.e. individual assessment and collective assessment. The former applies to significant customers with certain pre-defined threshold limits whereas the latter applies to facilities of homogeneous portfolios.

The impairment assessment for customers under individual assessment is based on pre-defined impairment triggers, of which aging more than 90 days or 3 months is only one of the mandatory status triggers. In the case of portfolios under collective assessment, the impairment assessment is primarily time bound based on default period of more than 90 days or more than 3 months. A financing is considered past due or defaulted when scheduled payment of principal or profit is due and not paid. When this financing is past due or defaulted for a period of more than 90 days or more than 3 months, this financing is classified as non-performing or impaired.

The impairment provisioning for portfolio under individual assessment are established based primarily on estimates on the realisable value of the collateral to secure the financing and advances and are measured as the difference between the financing or advance's carrying amount and the net present value of the expected future cash flows discounted based on the original effective profit rates. All other financing and advances that have been individually evaluated, but not considered to be individually impaired are assessed collectively for impairment.

In the case of financing portfolio under collective assessment, the impairment provision is based on the estimated losses of a homogeneous pool of financing by deriving the probability of default ('PD') and loss given default ('LGD') based on incurred loss model. Each portfolio of individually smaller financing with similar credit risk characteristics is collectively evaluated for impairment.

The Bank has adopted the transitional provisions as provided under the BNM's Guideline on Classification and Impairment Provisions for Financing. Under the transitional provisions, collective assessment provisions are as follows:

- Collective assessment provision for non performing financing (excluding those customers defined under individual assessment) shall be based on the previous BNM GP3 guidelines, i.e. it shall be based on time based provisioning.

- Collective assessment provision for the rest of the financing (both performing financing and all non performing financing shall be based on 1.5% of the total outstanding financing amounts, net of provisions made (both individual assessment provisions and specific provision under previous BNM GP3 guidelines).

6.0 Credit Risk (continued)

6.7 Impairment Allowances for Financing (continued)

Write-Off Policy

Financing are written-off against impairment allowances when recovery action has been instituted, prospect of recovery is considered remote or when all feasible avenues of recovery have been exhausted. The management and administration of such exposures are outlined in the Bank's Policy on Non Performing/ Impaired financing. The Bank's write off policy is in compliance with the requirements specified in the BNM's Guideline on Classification and Impairment Provisions for Financing.

Table 12: Impaired, Past Due and Provisions for Impairment Financing – by Industry Sector

Industry Sector	Impaired Advances and Financing RM'000	Past Due Financing RM'000	Individual Impairment Provision RM'000	Collective Impairment Provision RM'000	Charges/ (Write-back) for Individual Impairment Provision RM'000	Write Offs RM'000
Agriculture	45,399	–	26,400		26,400	
Mining & Quarrying	25,526	5	12,522		12,522	
Manufacturing	97,026	459	32,319		5,942	
Electricity, Gas & Water Supply	–	14	–		–	
Construction	14,212	155	4,896		4,896	
Wholesale, Retail Trade, Restaurants & Hotels	15,216	35	12,047		12,047	
Transport, Storage & Communication	7,218	382	4,462		4,462	
Finance, Insurance, Real Estate & Business	145,307	141	43,399		(34,458)	
Education, Health & Others	69,236	3	4,963		2,421	
Household	208,406	15,259	22,432		35,224	505
Others	705	27	–		–	
Total	**628,251**	**16,480**	**163,440**	**158,828**	**69,456**	**505**

All impaired, past due and provisions for impaired financing are for credit exposures booked in Malaysia.

Table 13: Reconciliation of Changes to Financing Impairment Provisions

Impairment Provision Details	Individual Impairment Provision RM'000	Collective Impairment Provision RM'000
Opening Balance	107,035	140,427
Net Allowance made	69,456	18,401
Amount recovered	(12,546)	–
Amount Written Off	(505)	–
Closing Balance	**163,440**	**158,828**

7.0 Market Risk

Market risk is the risk of loss arising from adverse movements in market variables, such as profit rates, credit spreads, prices of bonds & equities and currency exchange rates, and includes rate of return risk and displaced commercial risk.

Market risk is segregated into trading market risk and non-trading market risk. Trading market risk arises from changes in profit rate risk, foreign exchange rates, equity process and credit spreads on the value assets held for trading while non-trading market risk arises from changes in profit rate, foreign exchange rates and equity prices, of which the main non-trading, market risk is profit rates risk arising from re-pricing mismatches of its assets & liabilities from its banking activities.

The Bank transacts in money market, foreign exchange markets and capital markets which give rise to market risk exposures. Financial instruments transacted include debt and other securities and certain financial derivative instruments. Derivative instruments are contracts whose characteristics and value are derived from underlying financial instruments, profit rates, exchange rates, or indices. Derivative contracts entered into by the Bank such as Islamic Profit Rate Risk Swap are primarily over the counter derivatives.

The Group has established a Trading Book Policy as guidelines for market risk management. This is reviewed regularly, and/ or upon change in strategy or significant event that has a material impact on policy compliance.

The Group's Asset and Liability Committee ('ALCO') performs a critical role in the management of market risk that supports the Group Risk Management Committee in the overall market risk management. ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of market risk; this includes the development of the Group's market risk strategy, market risk management structure and the policies as well as measurement techniques to be put in place.

The Market Risk Management is the working level that forms a centralised function that support senior management and operationalise the processes and methods to ensure adequate risk control and oversight are in place.

Market Risk Assessment

The Bank applies risk monitoring and assessment tools to measure trading book positions and market risk factors. Statistical and non-statistical risk assessment tools applied include Sensitivity Analysis and Stress Testing.

The Bank adopts a systematic approach in managing these risks by types of instruments and nature of exposure. Market risk is primarily monitored and controlled via a structure of limits and triggers i.e. cut loss, trading and notional limit set in accordance with the size of positions and risk tolerance appetites.

In addition, the Bank conducts periodic stress testing of its respective portfolios to ascertain market risk under abnormal market conditions.

Market Risk Monitoring and Reporting

For effective control of market risk, defined management action triggers and risk limits are established and actively monitored. Only authorised trading activities may be undertaken by the various business units within the allocated limits. All trading positions are monitored on a daily basis by independent support units. Should exposures or transactions set off pre-established triggers, management will deliberate and determine on course of actions required on a timely basis.

7.0 Market Risk (continued)

Hedging Activities

Hedging activities designated for hedge accounting are governed by the Bank's Hedging Policies that prescribes the overall hedge activities that can be executed by the Bank and the subsequent control procedures such and effectiveness measurement and reporting to Group ALCO.

A hedge is defined as a position that materially or entirely offsets the component risk elements of another position or portfolio.

Hedging instruments used to mitigate these risks includes derivatives such as swaps that are approved by the Group Shariah Committee. Execution of the hedging is carried out by the relevant division through the Group's treasury functions with the approval of Group ALCO.

Capital Treatment for Market Risk

The Bank applies the Standardised Approach to calculate market risk capital requirements in accordance with BNM guidelines. The market risk weighted assets ('RWA') and the corresponding market risk capital charge for the Bank as at 31st December 2010 are shown in Table 14 below:

Table 14: Market Risk Capital Charge

Market Risk	Long Position RM'000	Short Position RM'000	RWA RM'000	Capital Charge RM'000
Profit Rate Risk	218,704	–	18,702	1,496
Foreign Currency Risk	11,811	–	11,811	945
Total			**30,513**	**2,441**

As at 31st December 2010, the Bank did not have any exposure under:

- Equity risk, commodity risk, inventory risk and options risk, and
- Market risk exposure absorbed by PSIA.

8.0 Liquidity Risk

There are two types of liquidity risk, namely funding liquidity and market liquidity risk. Funding liquidity risk is the risk that the Bank is unable to meet its payment obligations as they fall due. These payment obligations could emanate from depositor withdrawals, the inability to roll over maturing deposits or meet contractual commitments to lend. Market liquidity risk is the risk that the Bank will be unable to sell assets quickly, closer to its fair value without incurring an unacceptable loss, in order to generate cash required to meet payment obligations under a stress liquidity event.

The primary role of a bank in terms of financial intermediation is the transformation of short-term deposits into longer term financing. By fulfilling the role of maturity transformation, banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risks.

Through the Group's Liquidity Practices Guide, the Bank manages the funding and market liquidity risk to ensure that banking operations continue uninterrupted under normal and stressed conditions. The key objectives that underpin the Group's Liquidity Practices Guide include maintaining financial market confidence at all times, protecting key stakeholder profits and meeting regulatory liquidity requirements.

The Group's ALCO supports Group Risk Management Committee by performing the critical role in the management of liquidity risks, and is responsible in establishing strategies that assist in controlling and reducing any potential exposures to liquidity risk. The ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of liquidity risks and the Group's balance sheet profile. Global and domestic economic data, information and events are synthesized at the ALCO which enables the Group to determine its actions and reactions in the capital markets. The ALCO is also the governance body which sets profit rates for liabilities products as well as reference rates for financing products and services.

The liquidity management process involves establishing liquidity management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions.

Some of the key liquidity risk management tools are top depositors' mixture, funding source mixture, maturity profile of funding sources and contingency funding lines.

Liquidity Contingency Plan

The Group's Liquidity Policy Statement establishes guidelines for managing a liquidity crisis, identifying early warning signs of a possible liquidity event and the need for heightened liquidity risk monitoring and reduced liquidity risk exposure. In addition, the Group's Liquidity Policy Statement identifies the individuals responsible for formulating and executing the Bank's response to a liquidity event.

9.0 Rate Of Return Risk In The Banking Book

Profit rate risk in the banking book refers to any opportunity loss to the Bank's income and/ or economic value to changes in profit rate, which may arise from both on and off-balance sheet positions in the banking book. Profit rate risk occurs whenever there is a mismatch in the re-pricing period of assets and liabilities. Excessive profit rate risk can pose a significant threat to the Bank's earnings and capital. Changes in profit rates may affect the Bank's earnings in terms of the net profit income and economic value of equity.

Profit rate risk in the banking book comprises:
- Re-pricing risk (mismatch risk) – timing difference in the maturity (for fixed rate) and re-pricing (for floating rate) of bank's assets, liabilities and off-balance sheet positions;
- Basis risk – imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics;
- Yield curve risk – changes in the shape and slope of the yield curve; and
- Embedded optionality – the risk pertaining to profit-related options embedded in bank's products.

The ALCO supports Group Risk Management Committee in establishing policies, strategies and limits for the management of balance sheet risk exposure. Group Risk Management supports the ALCO in the monthly monitoring and reporting of the profit rate risk profile of the banking book. The primary objective in managing balance sheet risk is to manage the net profit income as well as to ensure that profit rate exposures are maintained within defined risk tolerances.

In addition, the Group has established the Rate of Return Risk Policy which provides for the governance of rate of return. Profit rate sensitivity triggers are applied on earnings for the respective profit centres within the Group. The Group regularly considers the economics and necessity of increasing or reducing its profit rate risk hedges.

In line with the Group's Rate of Return Risk Policy to achieve a balance between profitability from banking activities and minimizing risk to earnings and capital from changes in profit rates, profit rate risk to earnings is controlled using Management Action Triggers ('MATs') and identified escalation procedures.

Stress testing is also performed regularly to determine the adequacy of capital in meeting the impact of extreme profit rate movements on the balance sheet. Such tests are also performed to provide early warnings of potential extreme losses, facilitating proactive management of profit rate risks in an environment of rapid financial market changes.

The impact of changes in profit rate to earning and economic value for position as at 31st December 2010 for the Bank are shown in Table 15 below:

9.0 Rate Of Return Risk In The Banking Book (continued)

Table 15: Profit Rate Risk/ Rate of Return Risk in the Banking Book

	Impact on Position as at 31st December 2010 (50 basis points) Parallel shift			
	Increase/(Decline) in Earnings		Increase/(Decline) in Economic Value	
Currency	**Impact based on +50 basis points RM'000**	**Impact based on -50 basis points RM'000**	**Impact based on +50 basis points RM'000**	**Impact based on -50 basis points RM'000**
MYR	(18,547)	18,547	(187,732)	187,732
Total	**(18,547)**	**18,547**	**(187,732)**	**187,732**

The impact of the net earnings above represents financial assets and liabilities that have been prepared on the following basis:

- Profit rate sensitive assets and liabilities with residual maturity or re-pricing tenure of up to one year that is not captured in the trading portfolio are slotted into time bands based on the maturity or re-pricing tenure whichever that is earlier.
- A set of risk weights with its respective time band is used to project the 50 basis point profit rate change impact.
- For assets and liabilities with non fix maturity e.g. current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of profit bearing items.

Economic value is characterised by the impact of interest rate changes on the value of all net cash flows i.e. the effect on the economic value of the Bank's assets, liabilities and off-balance sheet positions which provides a more comprehensive view of the potential long-term effects of changes in profit rates than is offered by the earnings perspective.

However, the computation of economic value takes into account of net cash flows which is derived from a series of assumption, for instance assets and liabilities with non fix maturity e.g. current and savings accounts; assumptions are made to reflect the behavioural changes against profit rate movements. The scenarios used are simplified whereby it is assumed that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables.

10.0 Displaced Commercial Risk

Displaced commercial risk is the risk that the Bank is not able to pay its mudharabah depositors a rate of return based on actual investment return of mudharabah fund, which is competitive to the market rate.

The Bank manages this risk by optimising the employment of the mudharabah funds through prudent credit management and effective product pricing. In addition, the maintenance of Profit Equalisation Reserve ('PER') account and the ability of the Bank to adjust the profit sharing rate in order to smoothen the returns payable to the mudharabah depositors serve as a tool for the Bank to mitigate the displaced commercial risk.

The Bank does not have Profit Sharing Investment Accounts ('PSIA') which are eligible for risk absorbent treatment.

11.0 Operational Risk

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes, people and systems and from external events, which also includes IT and legal risks. Operational risks are inherent in the Bank's operations and can never be eliminated entirely. The impact can be in the form of actual financial loss as well as non-financial loss such as loss of reputation, non-compliance and unsatisfactory service level to customers.

One of the Bank's primary safeguards against operational risks is the existence of a sound internal control system, based on the principle of dual control, checks and balance, segregation of duties, independent checks and verification processes, segmented system access control and authorisation process. These controls are documented through a set of policies and procedures at the respective business level.

The Group's Operational Risk Management Framework comprises a wide range of activities and elements, broadly classified into:-

- Analysis & Enhancement – The Group has implemented a Basel II compliant operational risk management system to support its workflow and analytical capabilities.
- Education & Awareness – The Group undertakes change management activities to progressively improve the risk management knowledge, culture and practices of the Bank personnel. This is aligned with the principle and requirement that the front-line business and support units of the Group, are by nature of their direct involvement in interfacing with customers and in operating the business, responsible for managing operational risk and acting as the first line of defence against operational losses.
- Monitoring & Intervention – This is where the principal head office risk control units, including the operations management function, compliance function and the internal audit function, actively manage operational non-compliances, incidences, and undertake recovery actions, including business continuity measures in cases of incidences causing disruption to business activities.

Operational Risk Management Function and Organisation

The Operational Risk Management Department reporting directly to the Head of Group Risk Management has the functional responsibility for the development of risk policies, frameworks and methodologies, and providing guidance and information to the business units on operational risk areas. Its function also includes generating a broader understanding and awareness of operational risk issues at all levels of the RHB Banking Group. It also ensures that operational risk from new products, processes and systems are adequately managed and mitigated. The respective business units are primarily responsible for managing operational risk on a day-to-day basis.

Regular operational risk reporting is made to the senior management, GRMC and the Board. These reports include various operational risk aspects such as reporting of significant operational loss events. Such reporting allows senior management to identify adverse operational lapses, take corrective actions promptly, and ensure appropriate risk mitigation decision making and action plans.

11.0 Operational Risk (continued)

Risk Management Process and Methodologies

The Bank has defined an operational risk management process, comprising risk identification, assessment, monitoring, and reporting. These are outlined as follows:

- **Risk and Control Self Assessment ('RCSA')**

Each business unit is required to identify and assess their own operational risks. RCSA is a risk profiling tool which facilitates effective operational risk management for the Bank, and focuses on future risk assessment by using past records of loss or near misses, key risk indicators, and related issues such as audit findings. The RCSA process is facilitated by the business units themselves who together with personnel from Operational Risk Management would identify and assess key operational risks that could affect the effectiveness of controls and impact the achievement of business objectives. For identified risks lacking sufficient mitigation, the business units are required to establish action plans to improve the control environment so as to contain the risks to acceptable levels.

- **Key Risk Indicators ('KRIs')**

Business units are required to monitor their risk exposures via KRIs and are required to develop specific and concrete plans to address those where indicators are unfavourable. KRIs are embedded into critical processes to provide early warning signals of increasing risk and /or control failures by flagging up given frequencies of events as a mechanism for continuous risk assessment and monitoring.

- **Incident and Loss Management**

Business and support units are required to report operational losses for further analysis of root cause for further recurrence. This is also useful for reviewing the effectiveness of the RCSA and KRIs.

The Bank uses an operational risk management system. This system has integrated applications for supporting the entire operational risk management process for loss event data collection and management.

Risk Mitigation and Controls

Risk mitigation tools and techniques are used to minimise risk to an acceptable level and aims to decrease the likelihood of an undesirable event and the impact on the business, should it occur.

The control tools and techniques are as follows:-

- **Business Continuity Management ('BCM')**

To mitigate the impact of unforeseen operational risk events, the Bank has on-going and actively managed Business Continuity Planning ('BCP') programmes for its major critical business operations and activities at the Head Office, data centre, and branches' locations. The BCP programmes are subject to regular testing to ensure efficacy, reliability and functionality, and come under the responsibility of the Business Continuity Management ('BCM') Department.

The Board of Directors has an oversight function through the GRMC and CMC. The Group Business Continuity Management Steering Committee ('GBCMSC') is the committee that oversees the Group's business continuity framework, policies, budget and plans. The GBCMSC reports to the CMC.

- **Outsourcing**

With the increasing need to outsource for cost and operational efficiency, the Group's Policy on Outsourcing of RHB Banking Group's Operations and Services ensures that outsourcing risks are adequately identified, assessed and managed prior to entering into any new arrangements and on an on-going basis.

11.0 Operational Risk (continued)

Risk Mitigation and Controls (continued)

- **Insurance Management**

The Bank considers risk transfer by means of insurance to mitigate operational risk. The Group has a programme of insurances designed to reduce its exposure to liability and to protect its assets. The Group purchases insurance from leading insurers in the market covering fraud, theft, property and casualty, business disruption, liability and other risks for which it may be held responsible. These are provided by third party insurers and will financially mitigate the economic consequences of risks.

New Product and Services Approval Process

The Bank has established a Policy on 'Introduction of New/ Variation Products and Services Lifecycle' which governs the risk management for new products, services or significant changes thereto. The responsible units have a duty to assess the operational risks for new product launches and/ or significant changes in product features or related processes and working systems, as well as to ensure that operational risk is at an acceptable level at all times.

Legal Risk

Legal risk is part of operational risk. It can arise from unenforceable, unfavourable, defective or unintended contracts; lawsuits or claims; developments in laws and regulations, or non-compliance with applicable laws and regulations. Business units work together with the Group's legal counsel and external legal counsel to ensure that legal risks are effectively managed.

Country Cross-Border Risk

Country cross-border risk is the risk that we will be unable to obtain payment from customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments.

Cross border assets comprise financing and advances, profit bearing deposits with other banks, trade and other bills, acceptances, derivatives, certificates of deposit and other negotiable instruments, investment securities and other formal commitments where the counterparty is resident in a country other than where the assets are recorded. Cross border assets also include exposures to local residents denominated in currencies other than the local currency.

The Bank is guided by the Group Guidance on Cross-Border Business, particularly on ethics in business practices, key success factors in managing such business, and the internal control measures which are essential to provide equal and adequate protection to its customers as well as the Group's profits, thus reducing the risks associated with business activities.

Treatment for Operational Risk Capital Charge

Currently, the Bank adopts the Basic Indicator Approach for the calculation of regulatory operational risk capital. The Bank's operational risk weighted assets and the corresponding risk capital charge for position 31st December 2010 are shown below:-

Table 16: Operational Risk Capital Charge

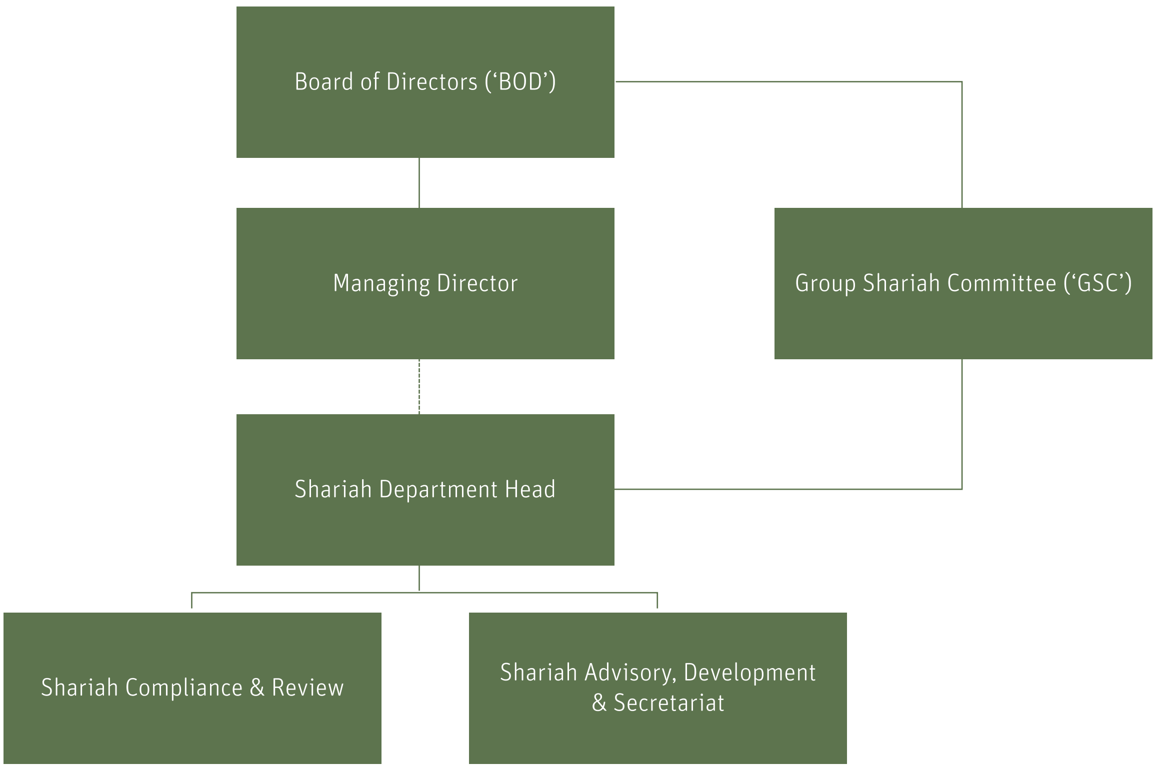
Operational Risk – BIA	RM'000
Risk Weighted Assets	566,538
Risk Capital Charge	45,323

12.0 Shariah Governance

The Bank developed Shariah Framework to:

- Ensure that the planning, development, and implementation of the Bank's products, services and conduct of business are in accordance with and adhered to the principles of the Shariah;
- Ensure the Bank's operations do not contravene with the Shariah requirements and authorities regulations related to the Shariah; and
- Act as a guide on the Bank's expectations to all the personnel engaged in the Bank's activities; to ensure that all such functions are based on the Shariah principles, practices and prudence.

The reporting structure of Shariah governance is as follows:



12.0 Shariah Governance (continued)

The Group Shariah Committee ('GSC') reports to the BOD of the Bank. This reporting structure reflects the status of the GSC as an independent advisory body of the Bank. Meanwhile, as for day-to-day operations, the Bank has established its Shariah Department.

The main duties and responsibilities of GSC are to advise the BOD on Shariah matters in its business and operation, to endorse Shariah compliance manuals, to endorse and validate relevant documents as well as to provide written Shariah opinion on new products and the Bank's financial statements.

The Head of Shariah Department reports functionally to the GSC and administratively to the Managing Director of the Bank. The key functions of the Shariah Unit are undertaken by two sub-units, which are organized along the various functional lines of the Bank – 'Shariah Advisory, Development and Secretariat' and 'Shariah Compliance and Review'.

The main duties and responsibilities of Shariah Compliance & Review are to conduct post approval Shariah review on Islamic Banking business activities on a regular basis in ensuring Shariah compliance within the Bank's business activities and all the processes and conduct of the business are adhered to the Shariah principle as per the endorsement by regulatory bodies and GSC.

The main duties and responsibilities of Shariah Advisory, Development and Secretariat are to conduct Shariah review on the Bank proposed new products and services, to provide internal Shariah advisory support to the management of the Bank in its day-to-day running of the Bank business and operations and to represent the Bank in any Shariah related matters.

Shariah Non-Compliance Risk Management

Shariah non-compliance risk arises from the Bank's failure to comply with the Shariah rules and principles as determined by the GSC of the Bank or any other relevant body such as BNM's Shariah Advisory Council.

Any incidences of Shariah non-compliance are reported to the Shariah Committee. Remedial actions which include the immediate termination of the Shariah non-compliant products or services to address Shariah non-compliant income or activities. There is no Shariah non-compliant events nor income arising from the Bank's products or services during the financial year under review.

The GSC of the Bank was established under BNM's 'Guidelines on the Governance of Shariah Committee for Islamic Financial Institutions' ('BNM/GPS1') to advise the Bank's Board on Shariah matters.

13.0 Reputational Risk

Reputational risk is the risk that negative publicity regarding the conduct of the Bank or any of the entities within the Group, business practices or associations, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures.

Negative publicity about an institution's business practices may involve any aspect of its operations, but usually relates to questions of business ethics and integrity, or quality of products and services. Reputational risk will arise from failure to effectively mitigate one or more of country, credit, liquidity, market, regulatory, operational, environmental or social risk.

Reputational risk in the Bank is managed and controlled through codes of conduct, governance practices and risk management practices, policies, procedures and training. Towards this end, the Group has developed and implemented a Reputational Risk Management Framework.

The key elements for management of reputational risk include:

- Prompt and effective communication with all stakeholders;
- Strong and consistent enforcement of controls relating to governance, business compliance and legal compliance;
- Continuous monitoring of threats to reputation;
- Ensuring ethical practices throughout the organization; and
- Establishing and continually updating crisis management plans.

14.0 Internal Capital Adequacy Assessment Process ('ICAAP')

BNM has recently issued the Guideline on 'Risk–Weighted Capital Adequacy Framework (Basel II) – Internal Capital Adequacy Assessment Process ('Pillar 2') ' in December 2010, and the Bank is in the process of implementing this.

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