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d e l i v e r i n g r e s u l t s

RHB ISLAMIC Bank

ANNUAL REPORT **2005**



BANK ISLAM
BERLESEN



Delivering Results

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

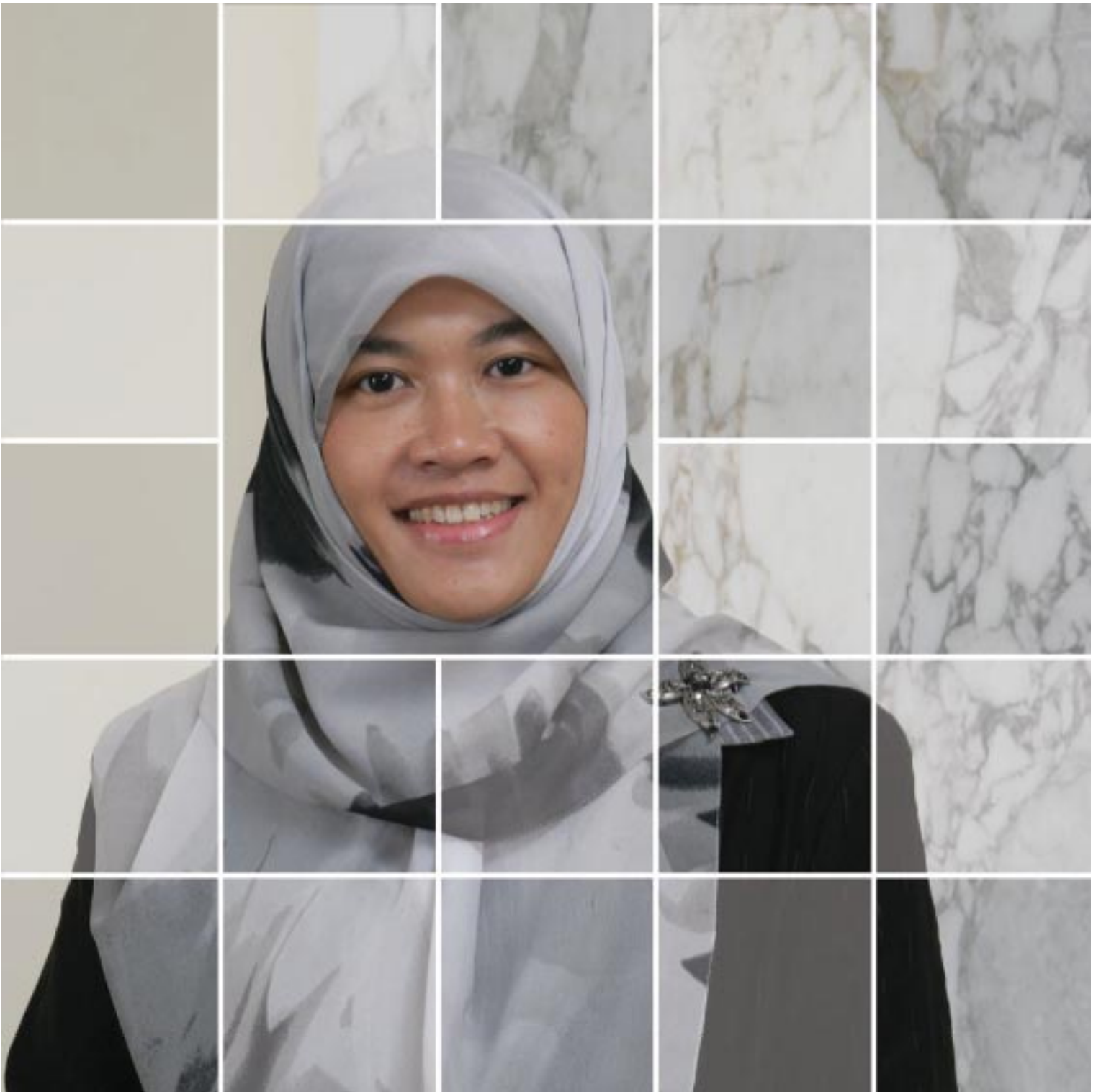
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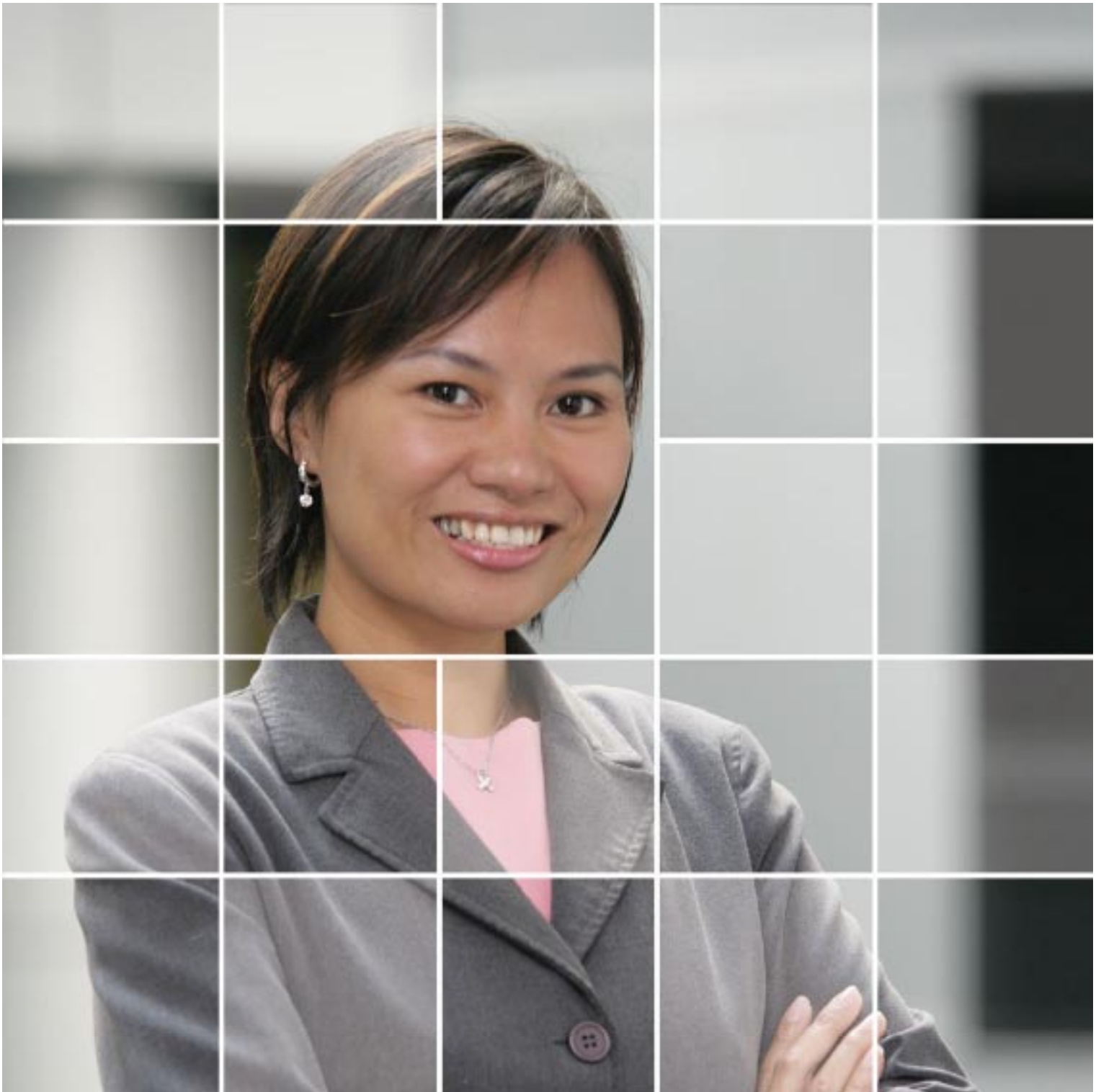
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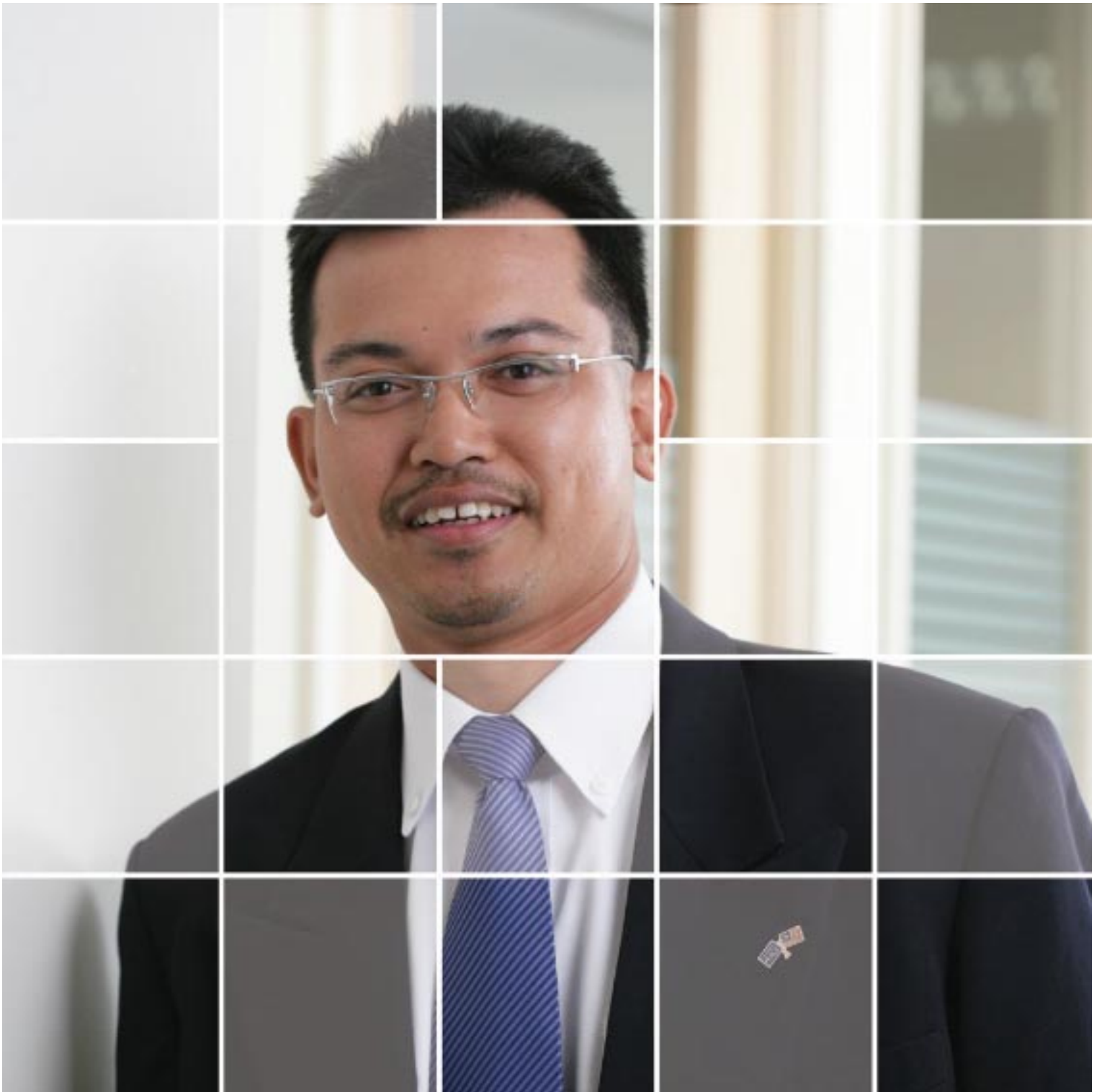
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We know that customers – individuals and businesses alike – require products and services that are easy and intuitive to use, and customer interactions as straightforward and hassle-free as possible. And that’s just the way our approach has been for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



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



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

board of

corporate information

BOARD OF DIRECTORS

Encik Vaseehar Hassan Abdul Razack
Non-Independent Non-Executive Chairman

YBhg Dato Sri Sulaiman Abdul Rahman Taib
Non-Independent Non-Executive Director

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

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

YBhg Dato' Othman Jusoh
Non-Independent Non-Executive Director

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

SECRETARY

Encik Azman Shah Md Yaman

SHARIAH COMMITTEE

Professor Dr. Hj. Abdul Samat Musa

Sheikh Sir Dr. Mohamed Aboulkhair Zaki Badawi

Dr. Ahmed Mohieddin Ahmed

Associate Professor Dr. Joni Tamkin Borhan

Professor Dr. Mohd Ma'sum Billah

directors

standing from left :

Encik. Vaseehar Hassan Abdul Razack
YBhg Dato Sri Sulaiman Abdul Rahman Taib
YBhg Dato Abdullah Mat Noh
YBhg Dato' Mohd Salleh Hj. Harun
Prof. Balachandran A. Shanmugam
YBhg Dato' Othman Jusoh



profile of the board of directors



ENCIK VASEEHAR HASSAN ABDUL RAZACK

(54 years of age - Malaysian)

Non-Independent Non-Executive Chairman

Encik Vaseehar Hassan Abdul Razack (“Encik Vaseehar Hassan”) has 25 years experience in the financial sector. He holds a Bachelors Degree in Accounting, Masters in Business Administration as well as Specialised Masters in Consulting and Coaching. He is currently pursuing a Doctoral Research at the Vrije Universiteit, Amsterdam.

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

Encik Vaseehar Hassan was appointed as a Director of RHB ISLAMIC Bank on 2 February 2005 representing RHB Bank Berhad, the holding company of RHB ISLAMIC Bank and subsequently appointed as the Chairman on 17 March 2005. He also serves as a Member of the Nominating Committee and Remuneration and Human Resource Committee of RHB ISLAMIC Bank.



YBHG DATO SRI SULAIMAN ABDUL RAHMAN TAIB

(37 years of age - Malaysian)

Non-Independent Non-Executive Director

YBhg Dato Sri Sulaiman Abdul Rahman Taib (“Dato Sri Sulaiman”) is currently the Group Chairman of Cahya Mata Sarawak Berhad (“CMSB”), a conglomerate listed on the Main Board of Bursa Malaysia Securities Berhad with financial services and infrastructure development as its main business. He was appointed as Group Chairman of CMSB in May 2002, having been on the Board of CMSB since January 1995. He was Acting Group Chief Executive Officer for the conglomerate in 2001, before assuming the position as Group Deputy Chairman from January till May 2002. He holds a Bachelor of Science degree in Business Administration from the University of San Francisco, USA.

Dato Sri Sulaiman was appointed as a Director of RHB ISLAMIC Bank on 2 February 2005 representing RHB Bank Berhad, the holding company of RHB ISLAMIC Bank. He also serves as a Member of the Nominating Committee and Remuneration and Human Resource Committee of RHB ISLAMIC Bank. Other directorships in public companies include Rashid Hussain Berhad (Chairman), RHB Capital Berhad, Utama Banking Group Berhad, K & N Kenanga Holdings Berhad, CMS Works International Ltd and CMS I-Systems Berhad (fka I-Systems Group Berhad) (Chairman).



YBHG DATO' MOHD SALLEH HJ. HARUN

(61 years of age - Malaysian)

Independent Non-Executive Director

YBhg Dato' Mohd Salleh Hj. Harun ("Dato' Mohd Salleh") has 30 years of experience in banking and finance sector. He was the Deputy Governor of Bank Negara Malaysia from 2000 to 2004. He has held various senior positions in Aseambankers Malaysia Berhad, Bank Kerjasama Rakyat Malaysia Berhad and Malayan Banking Berhad. He was the Executive Director of Malayan Banking Berhad from 1994 to 2000 prior to joining Bank Negara Malaysia. He is a Fellow of the Institute of Bankers and also a Member of the Malaysian Institute of Certified Public Accountants.

Dato' Mohd Salleh was appointed as an Independent Director of RHB ISLAMIC Bank on 22 February 2005. He also serves as the Chairman of the Audit Committee, Risk Management Committee and Nominating Committee. His current directorships in public companies include RHB Capital Berhad, RHB Insurance Berhad (Chairman), RHB Bank Berhad, Titan Chemical Corp Bhd (fka Titan Petrochemicals & Polymers Berhad) and Scicom MSC Berhad.



YBHG DATO ABDULLAH MAT NOH

(65 years of age - Malaysian)

Non-Independent Non-Executive Director

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

Dato Abdullah was appointed as a Director of RHB ISLAMIC Bank on 22 February 2005 representing RHB Bank Berhad, the holding company of RHB ISLAMIC Bank. He also serves as a Member of the Nominating Committee and Risk Management Committee of RHB ISLAMIC Bank. He is also the Chairman of RHB Sakura Merchant Bankers Berhad and the Deputy Chairman of RHB Bank Berhad.



YBHG DATO' OTHMAN JUSOH

(53 years of age - Malaysian)

Non-Independent Non-Executive Director

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

Dato' Othman was appointed as a Director of RHB ISLAMIC Bank on 22 February 2005 representing RHB Bank Berhad, the holding company of RHB ISLAMIC Bank. He also serves as a Member of the Nominating Committee, Audit Committee and Risk Management Committee of RHB ISLAMIC Bank. His current directorships in public companies include RHB Bank Berhad and Bank Pembangunan dan Infrastruktur Malaysia Berhad.



PROF. BALACHANDRAN A. SHANMUGAM

(51 years of age - Malaysian)

Independent Non-Executive Director

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

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

RHB group Shariah Committee

Professor Dr. Hj. Abdul Samat Musa

(Chairman Of The Committee)

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

Sheikh Sir Dr. Mohamed Aboulkhair Zaki Badawi

Educated at University of Al-Azhar, Dr. Mohamed obtained the degree of Al-A'liyah equivalent of BA First Class in 1945 and the degree of AL-Alimiyah (MA) in 1947. Dr. Mohamed received the King Fuad First Prize for best graduate and King Farouk First Prize for best post-graduate student. He later obtained a BA Hons Degree in Psychology from University College London (1954) and a PHD from London University in Modern Muslim Thought. Apart from having lectured at Al-Azhar University, University of Malaya (Singapore) and University of Malaya (Kuala Lumpur), Dr Mohamed was also a professor at Ahmadu Bello University (Nigeria), Bayero University and the Hajj Research Centre. He is a member of various organizations and companies i.e. High Council of Islamic Affairs (Egypt), The World Call Member of the World Islamic Congress (Pakistan), The Board of Religious Advisors to the Malaysian Government, Chairman of the Shariah (Muslim Law) Board of Labuan Offshore Financial Services Authority (Malaysia) and Chairman of The Abrahamic Forum (an international organization). At present, Dr Mohamed is a Director in the Directors' Office of the Muslim College in London, England.

Dr. Ahmed Mohieddin Ahmed

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

Associate 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. Dr Joni Tamkin is an Associate Professor at the Department of Shariah & Economics, Academy of Islamic Studies, University Malaya.

Professor Dr. Mohd Ma'sum Billah

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



chairman's report 2005

It gives me great pleasure to present to you RHB ISLAMIC Bank Berhad's ("RHB ISLAMIC Bank") first annual report for the financial year ended 31 December 2005, which maps out the Bank's successful and pioneering transformation from an Islamic banking window within RHB Bank Bhd ("RHB Bank") into a full-fledged Islamic bank.

RHB ISLAMIC Bank marked its first anniversary on 16 March 2006, cementing not only the RHB Group's place in the history of Islamic banking in Malaysia, but also its 15-year track record as one of the most innovative financial services groups in the Islamic banking sector.

Leveraging on this heritage, the Group took the bold step of setting up RHB ISLAMIC Bank just over a year ago, making it the first full-fledged Islamic bank in Malaysia to mature from an Islamic banking window operation. The de-merger of the Islamic banking operation from RHB Bank Bhd was made under the Islamic Banking Act 1983. This enabled the RHB Group to expand its range of products and services that were Shariah compliant to meet the needs of an increasing number of customers who were looking for an alternative to the interest-based conventional banking system.

Today, as I present our first audited financial results for the period, I am pleased to inform you that RHB ISLAMIC Bank has carried on the same pioneering spirit and continued to set milestones and benchmarks by which the industry is being shaped and measured.

As you are aware, competition within the Islamic banking landscape has intensified vis-à-vis the exponential growth in the industry. This has translated into more competitive pricing, a wider array of quality services and more innovative products, all of which ultimately benefit our customers.



The Islamic banking sector has also attained new momentum as a result of the strong support and encouragement extended by the authorities. In its *Financial Sector Master Plan*, Bank Negara Malaysia (“Bank Negara”), the Central Bank projects that Islamic banking will account for at least a 20% share of the banking sector market by 2010. This translates into an annual growth of more than 20% over the next few years.

This rapid growth is in line with Bank Negara’s vision of making Malaysia an international Islamic banking hub. To realise this dream, Bank Negara has put in place policies and strategies that are aimed at giving the Islamic banking sector the dynamism required to turn it into the fastest growing segment in the country’s financial services sector.

BUSINESS REVIEW

In line with Bank Negara’s vision and objectives, RHB ISLAMIC Bank has been pursuing a strategy that will help it grow its business both domestically and regionally. Marketing and promotional efforts are also being expended to meet the objective of making RHB ISLAMIC Bank, in particular, and the RHB Group, in general, the premier provider of Islamic financial services in Malaysia and the region.

One of the major steps that the RHB Group has taken towards meeting this objective was, of course, establishing its own standalone Islamic bank. This has enabled the Group to offer a much wider range of products and services it could not otherwise offer as a window operation within a conventional bank.

The move has certainly paid off, and we have come a long way in a relatively short time. RHB Bank began its Islamic banking operations, known as Skim Perbankan Islam (“SPI”) with an RM10 million investment back in 1993. At the end of its first year in business, its assets had doubled to RM20 million. By the year 2000 it had grown to RM2.5 billion and when the SPI became a full-fledged Islamic bank in March 2005, the assets had grown to RM6.6 billion. Today, after only a year in business, RHB ISLAMIC Bank’s asset has grown another 15.2% to RM7.6 billion.

On an annualised basis, the return on equity was 14.22%, and earnings per share 7.93 sen. Despite this rapid growth, RHB ISLAMIC Bank successfully kept the risk weighted capital ratio at a strong 18.73% and the core capital ratio at 16.49% – significantly above Bank Negara requirements and industry standard.

Marketing & Promotional Efforts

RHB ISLAMIC Bank has been able to achieve this by focusing on asset quality even as it pushed ahead to expand its market share. Marketing and promotional efforts have been driven by the objective of creating customised products and services to meet individual customer needs – be they corporate, commercial, retail, or the Government. Efforts are also being made to create awareness among consumers and the public that Islamic banking is suitable for both Muslims and non-Muslims.

RHB ISLAMIC Bank continues to utilise all possible marketing channels to reach out to potential and existing customers to enhance their knowledge on the nature of Islamic banking products and services.

All RHB ISLAMIC Bank sales and business units as well as more than 200 RHB Bank branches nationwide are constantly updated with new product information to better serve existing and potential customers from both retail and institutional markets. RHB ISLAMIC Bank also provides product information and features via phone banking as well as on its website, rhbislamicbank.com.my.



In line with its vision of being the complete banker for all customers, RHB ISLAMIC Bank offers products and services to meet the needs of all segments of the market. They include:

- **Deposits and Investment** services that come with features such as monthly dividends and free Takaful personal accident protection; accounts that enable corporations and individuals to manage offshore transactions in various currencies in a flexible manner, and investment accounts that offer attractive profit sharing ratios.
- **Financing and Trade Finance** services. These include financing products such as mortgages and car financing, with competitive rates for individuals to commercial and corporate financing products and trade finance products such as letters of credit and trust receipts for businesses.
- **Capital Market Products** that were launched in the third quarter of 2005 include Islamic Commercial Papers and *Sukuk* as well as advisory services such as corporate advisory, project finance and advisory services, syndication and restructuring advisory.

These products and services were being marketed as commercially viable alternatives to conventional banking products and services for

both Muslim and non-Muslim customers. The fact that a substantial proportion of RHB ISLAMIC Bank's 600,000 customers are non-Muslims is testament to the success of this strategy.

Branch Network

In an effort to reach as many of its customers as possible, particularly the retail clients, RHB ISLAMIC Bank currently leverages on the wide branch network already established by RHB Bank. RHB ISLAMIC Bank's products and services are offered at all branches of RHB Bank.

The seamless move from SPI in RHB Bank to RHB ISLAMIC Bank meant that SPI customers' accounts were automatically transferred to RHB ISLAMIC Bank upon its establishment. Account holders of RHB ISLAMIC Bank could continue to conduct their banking transactions at their RHB Bank branches and electronic banking facilities.

Customers were informed by various communication channels that their accounts would be moved to RHB ISLAMIC Bank, but they could continue to use the same passbook and electronic banking cards. Details of their accounts, such as account numbers, were changed and new passbooks given to them progressively when they visited their branches for over the counter transactions – thus ensuring that there were no disruptions.

RHB ISLAMIC Bank opened its first standalone branch at the RHB Centre on Jalan Tun Razak when it began operating on 16 March 2005. It opened its first marketing centre in Kota Baru in October 2005, thus helping boost its presence in the East Coast extensively.

Shariah Committee

While Bank Negara requires Islamic banks in Malaysia to appoint a Shariah Advisory Committee, RHB ISLAMIC Bank has taken it a step further by engaging both Malaysian and foreign Islamic banking experts for its Shariah Committee. This team of distinguished Shariah experts bring with them invaluable experience in Shariah consultation and applications from intellectual knowledge, education and Islamic principles to research and development. These experts have been entrusted with the task of screening all new and existing products and services to ensure that they are compliant with globally accepted Shariah principles and standards.

The presence of internationally recognised expertise in its Shariah Committee has not only put RHB ISLAMIC Bank a step ahead of the industry, but also entrenched its position as the banker of choice for domestic and regional customers looking for Shariah compliant banking products and services. This is also in line with the Malaysian Government's vision of making the country a hub for Islamic banking.



At this juncture, please allow me to take the opportunity to record our deepest condolence to the family of the late Sheikh Sir Dr. Mohamed Aboulkhair Zaki Badawi, formerly a panel member of the RHB Group Shariah Committee who passed away on 24 January 2006 in the United Kingdom. Sheikh Sir Dr. Mohamed, who was appointed to the RHB Group Shariah Committee in April 2005, was a prominent advisor on all Shariah matters, not just for RHB ISLAMIC Bank but for the whole of RHB Group as well. The Group had benefited extensively from his vast knowledge in Islamic principles of economics, finance and world affairs, and his service will be greatly missed.

LOOKING AHEAD

Islamic banking is now the fastest growing segment of the Malaysian financial services sector, challenging the position of conventional banking as the mainstream banking of the future. This tremendous growth potential continues to attract competition that, in turn, will lead to cost optimisation, innovation and efficiency – factors that will ultimately benefit the stakeholders, particularly customers.

As the market for Islamic banking expands, the demand for increasingly more innovative products and services will continue to grow. To meet this new demand, RHB ISLAMIC Bank will continue to not

only expand its product range but also enhance individual products and services to better meet customer needs.

Our efforts are in line with global initiatives to deliver high quality and readily accepted products and services quickly and efficiently. These products and services are also being marketed throughout the Asean region as well as other parts of the world, such as the Middle East, through regular marketing and promotional initiatives.

CONCLUSION AND APPRECIATION

Our first nine and a half months of operations have reaffirmed the decision to formalise the RHB Group's Islamic banking operations into a standalone banking entity.

We would not have come this far if not for the support and assistance extended by the management and staff of RHB Bank. Today, RHB Bank continues to provide the same support in backroom operations as well as branch premises where our customers are able to continue conducting over the counter transactions.

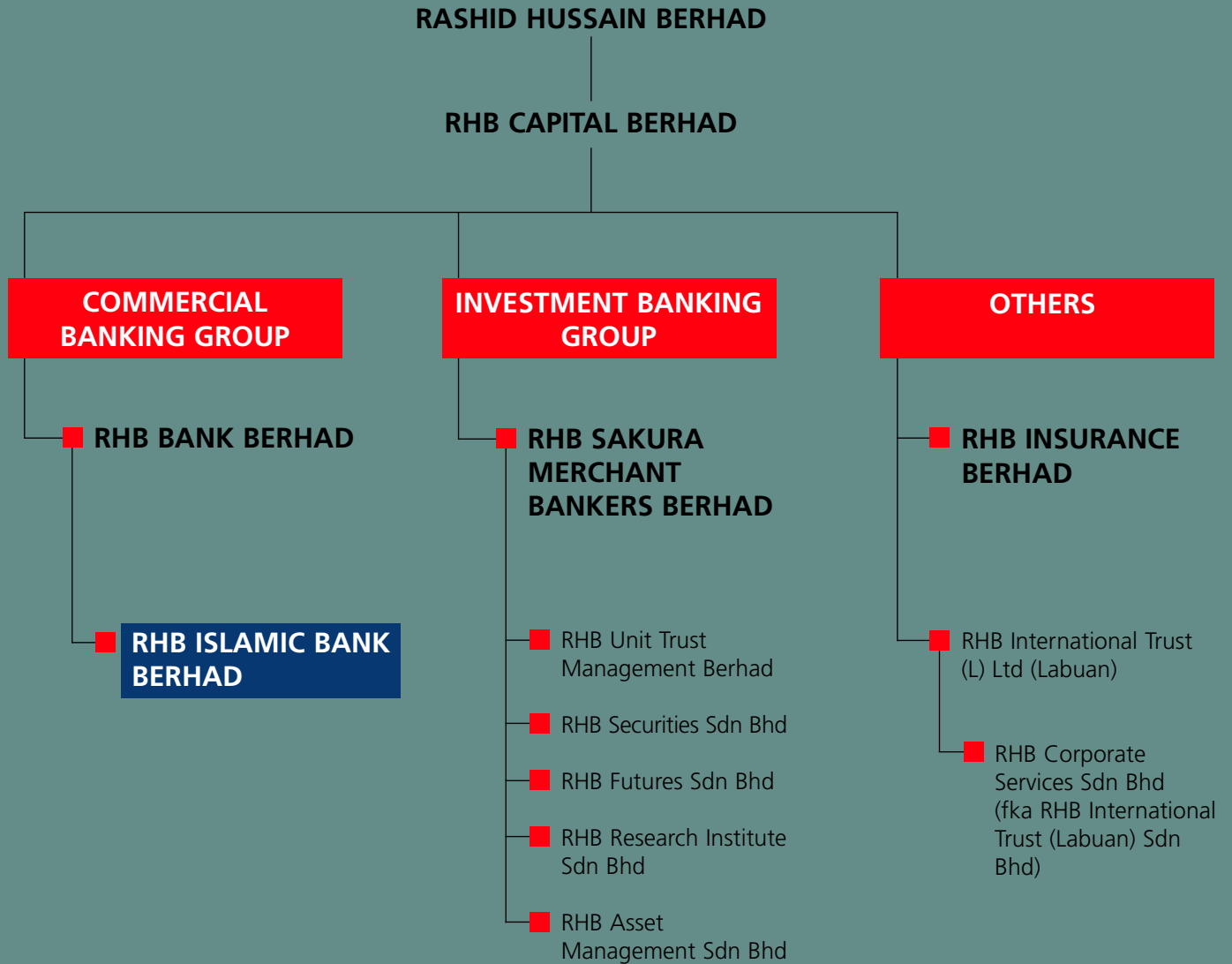
We would also like to express our appreciation to the management and staff of the RHB Group for embracing this switch unconditionally and ensuring all banking services are delivered seamlessly to all our customers.

In line with Malaysia's aim to become a hub for Islamic banking, RHB ISLAMIC Bank is well positioned to take pole position as the premier provider of Islamic banking services in the country. This, we will achieve as we continue to leverage upon the intrinsic qualities of the RHB Group in all our operations, while being aware and mindful of the heightened competition. Our strength lies in the quality of our service and management, customer focus as well as customised solutions for specific requirements. We will continue to leverage on our key strengths and attributes to take RHB ISLAMIC Bank to a much higher level.

On behalf of the Board of Directors, I would like to extend our appreciation to the Government and regulators for setting the foundation towards establishing Malaysia as an Islamic financial hub. Our sincere appreciation also goes to all our employees for their commitment and hard work to ensure the success of our first year of operations. We must also applaud the entire RHB Group for the visionary decision to establish RHB ISLAMIC Bank and for the unyielding commitment to ensure that we will be the premier Islamic financial institution in the country.

Vaseehar Hassan Abdul Razack
Chairman

RHB group corporate structure



report of the RHB Group Shariah Committee

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

We, **Prof. Dr. Abd Samat Musa and Prof. Madya Dr Joni Tamkin Borhan**, being two of members of Shariah Committee of RHB ISLAMIC Bank Berhad, do hereby confirm on behalf of the members of the Committee, that we have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank during the year ended December 31, 2005.

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

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

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

In our opinion:

- a) main sources of income of the Bank during the year ended 31 December 2005 that we have reviewed are in compliance with the Islamic Shariah rules and principles;
- b) all investments that have been disclosed to us by the Bank conform to the basis that had been approved by us in accordance with Islamic Shariah rules and principles;
- c) the contracts and legal documents of the products used by the Bank that we reviewed are in compliance with the Islamic Shariah rules and principles;
- d) the products proposals including concepts used by the Bank which have been reviewed and advised by us are in compliance with the Shariah rules and principles; and

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

Wassalam Alaikum Wa Rahmat Allah Wa Baraktuh

Prof. Dr. Hj. Abd Samat Musa
Chairman of the Committee

Prof. Madya Dr. Joni Tamkin Borhan,
Member of the Committee

Kuala Lumpur, Malaysia
3 February 2006

senior

MANAGEMENT

Khalid Mahmood Bhaimia

Chief Executive Officer

Zulkefly Abdullah

Chief Operating Officer

DIVISION HEADS

Azidy Daud

Treasury

Faridah Hanom Hj. Mohammad

HR & Administration

Ida Aizun Husin

Corporate Banking

Iskandar Hj. Razali

Regional Office East Malaysia

Jasani Abdullah

Product Development

Khadijah Iskandar

Credit Management

Mahmond Saidek Sulaiman

Commercial Banking

Mohamad Azlan Mohamad Alam

Finance

Mohd Sofi Mat Jahaya

Consumer Banking

Saiful Bahri Ab Rashid

Branch Management

Saw Ann Ping

Corporate Finance

Yaacob Ariffin

Transaction Banking Services

Zulkhairi Zabiri

Automobile Business

management

RUIB ISLAMIC Bank



standing from left :
Ida Aizun Husin, Jasani Abdullah, Yaacob Ariffin,
Saw Ann Ping, Khadijah Iskandar.

sitting from left :
Zulkefly Abdullah, Khalid Mahmood Bhaimia.

senior management



standing from left :

Zulkhairi Zabiri, Saiful Bahri Ab Rashid, Azidy Daud,
Mahmond Saidek Sulaiman, Mohd Sofi Mat Jahaya,
Mohamad Azlan Mohamad Alam.

sitting from left :

Iskandar Hj. Razali, Faridah Hanom Hj. Mohammad.

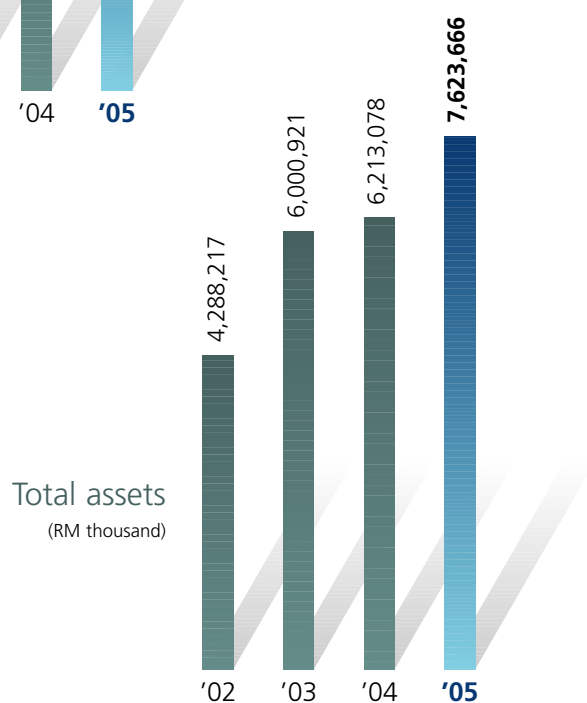
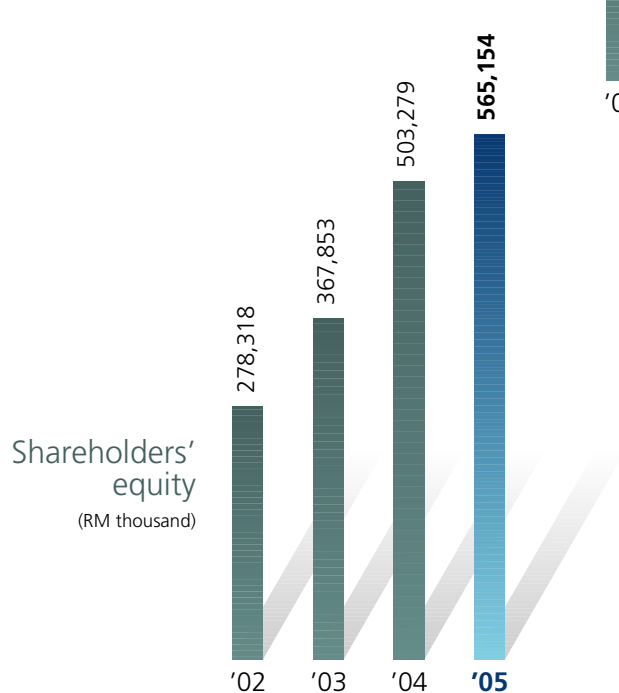
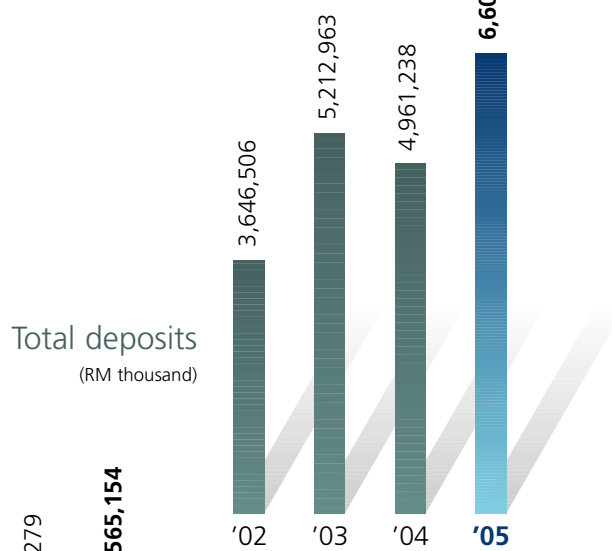
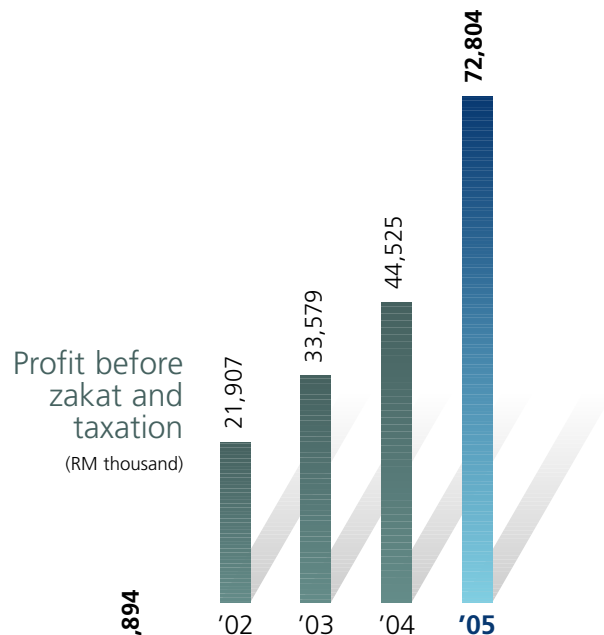
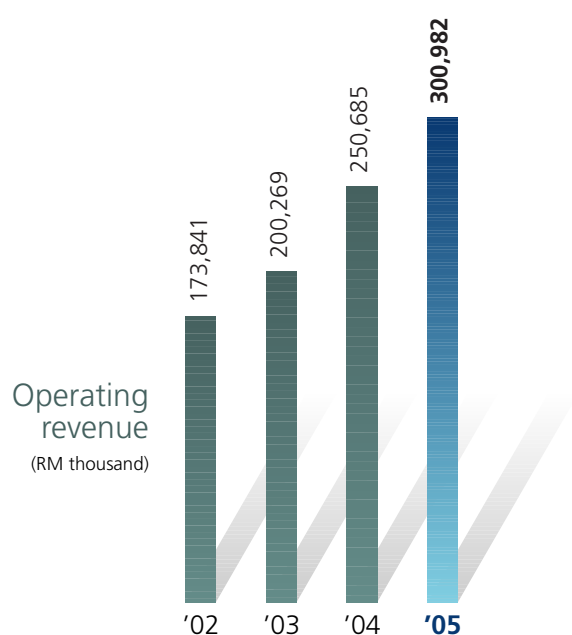
financial highlights

	2005 ¹ RM'000	2004 ² RM'000	2003 ² RM'000	2002 ² RM'000
RESULTS				
Operating revenue	300,982	250,685	200,269	173,841
Net income	142,544	92,657	68,670	50,459
Profit before zakat and taxation	72,804	44,525	33,579	21,907
BALANCE SHEETS				
Shareholders' equity	565,154	503,279	367,853	278,318
Total assets	7,623,666	6,213,078	6,000,921	4,288,217
Financing and advances	3,400,411	3,754,579	2,793,342	1,997,131
Total deposits	6,605,894	4,961,238	5,212,963	3,646,506
RATIOS				
Return on average equity (%)	13.62	8.85	9.13	7.87
Return on average assets (%)	1.05	0.72	0.56	0.51
Risk Weighted Capital Ratio (%)	18.73	14.20	12.40	14.60
Core Capital Ratio (%)	16.49	12.20	10.80	13.00

Note:

- 1 Islamic Banking window up to 15 March 2005 and RHB ISLAMIC Bank thereafter.
- 2 Islamic Banking window.

financial highlights



internal control statement

INTRODUCTION

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

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

RESPONSIBILITY OF THE BOARD

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

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

RISK MANAGEMENT FRAMEWORK

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

The Board has established a Risk Management Committee since the inception of the Bank to further strengthen the Bank's risk management process. The Risk Management Committee meets regularly with the objective of assisting the Board in carrying out its responsibilities in relation to managing the Bank's range of inter-related risks in an integrated manner.

OTHER KEY ELEMENTS OF INTERNAL CONTROL

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

- The management of the Bank is delegated to the chief executive officer, whose role and responsibilities and authority limits are set by the Board. Appointment of chief executive officer requires the approval of the Board;
- Specific responsibilities have been delegated to the relevant Board committees, all of which have written terms of reference. These committees have the authority to examine all matters within their scope of responsibility and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters however lies with the entire Board;

- Delegation of authority including authorisation limits at various levels of management and those requiring the Board's approval are documented and designed to ensure accountability and responsibility;
- Policies and procedures manuals for key processes are documented and regularly reviewed and updated for application across the Bank;
- There is clear procedure for investment appraisal, including equity investment or divestment and capital expenditure;
- There are proper guidelines for hiring and termination of staff, training programmes for staff, annual performance appraisal and other relevant procedures in place to achieve the objective of ensuring staff are competent to carry out their responsibilities;
- Regular and comprehensive information is provided to management for monitoring of performance against the strategic plan approved by the Board, covering all key financial and operational indicators;
- A detailed budgeting process is established requiring all key operating units in the Bank to prepare budgets annually, which are discussed and approved by the Board. Effective reporting system on actual performance against approved budgets is in place and significant variances are followed up by management and reported at the Board;
- Ongoing reviews of the internal control system are carried out by the internal auditors. Results of such reviews are reported to the Audit Committee. The work of the internal auditors is focused on areas of priority as identified by risk analysis and in accordance with the annual internal audit plan approved by the Audit Committee. The head of internal audit function reports to the Audit Committee; and
- The Audit Committee holds regular meetings to deliberate on findings and recommendations for improvement by both the internal and external auditors on the state of the internal control system. The minutes of the Audit Committee meetings are tabled to the Board.
- The Bank has in place its Management Audit Committee (MAC), comprising of senior management, that meets regularly to act on the Bank Negara Malaysia (BNM), Internal and External Auditors and other regulatory bodies' findings and lapses of the RHB ISLAMIC Bank. The minutes of MAC meetings are tabled to the Audit Committee.

audit committee report

AUDIT COMMITTEE REPORT

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

Composition Of The Committee Current Members

No. Of Meeting Attended Whilst In Office

1. Dato' Mohd Salleh Hj. Harun – Appointed on 17/3/2005 <i>(Chairman / Independent Non-Executive Director)</i>	7 out of 7 meetings
2. Dato' Othman Jusoh – Appointed on 17/3/2005 <i>(Member / Non-Independent Non-Executive Director)</i>	6 out of 7 meetings
3. Prof. Balachandran A. Shanmugam – Appointed on 22/7/2005 <i>(Member / Independent Non-Executive Director)</i>	4 out of 4 meetings
Previous Member	
4. Encik Vaseehar Hassan Abdul Razack – Appointed on 17/3/2005 and resigned on 21/7/2005 <i>(Member / Non-Independent Non-Executive Director)</i>	3 out of 3 meetings

On 22 July 2005, Prof. Balachandran A. Shanmugam, an Independent Non-Executive Director, was appointed as the member of the Committee in place of Vaseehar Hassan Abdul Razack who has resigned as the member of the Committee on 21 July 2005.

The Committee reviewed the unaudited quarterly and half-year results, and the audited financial statements of the Bank prior to their approval by the Board. The Committee also reviewed the new accounting standards applicable in the preparation of the financial statements.

The Committee reviewed with the external auditors, the nature and scope of their engagement and audit plan, their fees as well as the findings emanating from their examination of the annual financial statements. It also considered the reappointment of the external auditors for recommendation to the Board and the shareholders for their approval.

The Committee reviewed the scope and adequacy of the internal audit plans, including resource needs. It also reviewed the results of the risk-based audit work carried out by the internal auditors and the status of completion of the internal audit plans on the Bank. Where necessary, the Committee directed actions to be taken by management to rectify and improve the system of internal controls and procedures. During the 7-month period to 31 December 2005, all internal audit reports were tabled to the Committee.

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

INTERNAL AUDIT FUNCTION

The internal audit function is outsourced to the RHB Bank Berhad's Group Internal Audit Division and is guided by its Audit Charter and reports to the Committee. Its primary role is to assist the Committee to discharge its duties and

responsibilities by independently reviewing and reporting on the adequacy and integrity of the Group's system of internal controls.

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

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

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

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

Objectives

1. To review the financial condition and performance of the RHB ISLAMIC Bank.
2. To review the adequacy and integrity of RHB ISLAMIC Bank's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

3. To review the findings of the internal auditors, and to recommend appropriate remedial action.
4. To reinforce the independence of the external auditors and thereby help assure that they will have free rein in the audit process and to provide, by way of regular meetings, a line of communication between the Board and the external auditors.

Primary Responsibilities

1. Ensure that the accounts are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies, and bad and doubtful debts. Review the balance sheet and profit and loss account for submission to the board of directors and ensure the prompt publication of annual accounts;
2. Review internal controls, including the scope of the internal audit programme, the internal audit findings, and recommend action to be taken by management. The reports of internal auditors and Audit Committee should not be subject to the clearance of the chief executive or executive directors. The Audit Committee should also evaluate the performance and decide on the remuneration package of the internal auditors;
3. Review with the external auditors, the scope of their audit plan, the system of internal accounting controls, the audit reports, the assistance given by the management and its staff to the auditors and any findings and action to be taken. The Audit Committee should also select external auditors for appointment by the board each year and recommend their fees to the Board for approvals;

4. Review any related party transactions that may arise within the RHB Bank Berhad's Group; and
5. To perform any other functions as defined by the Board.

Authority

1. The Committee is authorised by the Board to investigate any matter within its terms of reference, to obtain the resources which it needs, and to have full and unrestricted access to information. It is also authorised to seek any information it requires from any employee of the Bank to co-operate with any request made by the Committee.
2. The Committee shall have direct communication channels with the external and internal auditors.
3. The Committee is authorised by the Board to obtain independent professional or other advice at RHB ISLAMIC Bank's expense and to invite outsiders with relevant experience and expertise to attend meetings if it considers this necessary.

Meetings

1. Meetings shall be held at least four (4) times a year with a quorum of two (2) members and the majority of members present shall be Independent Non-Executive Directors. Additional meetings may be called at any time at the discretion of the Chairman of the Committee.
2. The head of internal audit shall be in attendance at meetings of the Committee. The Committee may invite the external auditors, the chief financial officer, any other directors or members of the management and employees of the Group to be in attendance during meetings to assist in its deliberations.

3. At least once a year, the Committee shall meet with the external auditors without any executive Board member present and upon the request of the external auditors, the Chairman of the Committee shall convene a meeting to consider any matter which the external auditors believe should be brought to the attention of the Board or shareholders.
4. The RHB ISLAMIC Bank's Secretary shall be the Secretary of the Committee.
5. The minutes of each Committee meeting shall be tabled to the Board by the Chairman of the Committee.

Composition

1. The Committee shall be appointed by the Board from amongst its number and shall comprise not less than three (3) members, none of whom should be full-time executives of RHB ISLAMIC Bank. The majority of the Committee members should be Independent Non-Executive Directors.
2. The Chairman of the Committee shall be an Independent Non-Executive Director appointed by the Board.
3. No alternate director shall be appointed as a member of the Committee.
4. The term of office and performance of the Committee and each of its members must be reviewed by the Board at least once every two (2) years.
5. If a member of the Committee resigns or for any other reason ceases to be a member with the result that the number of members is reduced to below three (3), the Board shall within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.

corporate & social activities



1	1
2	3
3	4

1. **Official Launching of RHB Bank Berhad Islamic Banking Subsidiary**
1 March 2005, RHB Centre, Jalan Tun Razak, Kuala Lumpur
2. **Assar Senari Group and RHB Group Project Financing Signing Ceremony**
27 July 2005, Kuching, Sarawak
3. **Official Opening Ceremony of RHB ISLAMIC Bank Kota Bharu Marketing Centre**
25 October 2005, Kota Bharu, Kelantan
4. **RHB Group Shariah Committee Press Conference**
23 September 2005, Auditorium, Menara Yayasan Tun Razak, Kuala Lumpur



5	5
6	5
5	5

5. Hari Raya Aidilfitri Gathering

18 November 2005, Auditorium, Menara Yayasan Tun Razak, Kuala Lumpur

6. Official Opening Ceremony of RHB ISLAMIC Bank Main Branch

16 March 2005, RHB Centre, Jalan Tun Razak, Kuala Lumpur

directors' report

The directors hereby present their report together with the audited financial statements of the Bank for the financial period 2 February 2005 (date of incorporation) to 31 December 2005.

PRINCIPAL ACTIVITIES

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

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

RESULTS

	RM'000
Profit before zakat and taxation	60,154
Zakat	(920)
Taxation	(17,750)
	<hr/>
Net profit for the financial period	41,484
Transfer to statutory reserves	(20,742)
	<hr/>
Retained profit carried forward	20,742
	<hr/>

DIVIDEND

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

SHARE CAPITAL

The ordinary shares of RM1.00 each issued and fully paid are as follows:-

Date	No of shares
2 February 2005	2
16 March 2005	455,642,000
27 April 2005	67,782,000
	<hr/>
	523,424,002
	<hr/>

The 2 ordinary shares of RM1.00 each were subscribers' shares. On 16 March 2005, 455,642,000 ordinary shares of RM1.00 each were allotted pursuant to the Business Transfer Agreement ("BTA") between RHB Bank Berhad ("RHB Bank") and the Bank for the transfer of the Islamic Banking business of RHB Bank to the Bank, being the Provisional Consideration Sum for the value of assets less liabilities of the Islamic Banking business as at 30 June 2004.

Subsequently, 67,782,000 ordinary shares of RM1.00 each were allotted on 27 April 2005, pursuant to the BTA, being the net assets of the Islamic Banking business as at 15 March 2005 less the Provisional Consideration Sum above.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial period other than those disclosed in the financial statements.

NON-PERFORMING FINANCING

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

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

directors' report

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 financings, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Bank, had been written down to an amount which they might be expected so to realise.

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 METHODS

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

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 period 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 period 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 period which, in the opinion of the directors, will or may substantially affect the ability of the Bank to meet their obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Bank for the financial period have not been substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial period 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 period in which this report is made.

SIGNIFICANT EVENTS DURING THE FINANCIAL PERIOD

Significant events during the financial period are disclosed in Note 31 to the financial statements.

DIRECTORS OF THE BANK

The directors of the Bank who have held office during the period since the date of incorporation are:

Encik Vaseehar Hassan Abdul Razack	Non-Executive Chairman (appointed since incorporation)
Dato Sri Sulaiman Abdul Rahman Taib	Non-Independent Non-Executive Director (appointed since incorporation)
Dato Abdullah Mat Noh	Non-Independent Non-Executive Director (appointed on 22 February 2005)
Dato' Mohd Salleh Haji Harun	Independent Non-Executive Director (appointed on 22 February 2005)
Dato' Othman Jusoh	Non-Independent Non-Executive Director (appointed on 22 February 2005)
Prof Balachandran A. Shanmugam	Independent Non-Executive Director (appointed on 22 July 2005)

In accordance with Article 68 of the Bank's Articles of Association, all the directors shall retire from office at the first annual general meeting and being eligible, offer themselves for re-election.

directors' report

DIRECTORS' INTERESTS IN SECURITIES

According to the register of directors' shareholding, the interests of the directors in office at 31 December 2005 in the securities of related corporations were as follows:

	As at 2.2.2005/ Date of appointment	Number of Ordinary Shares Bought	of RM1 each Sold	As at 31.12.2005
Ultimate Holding Company				
Rashid Hussain Berhad				
Encik Vaseehar Hassan Abdul Razack – Indirect ¹	238,127,000	–	–	238,127,000
Dato Sri Sulaiman Abdul Rahman Taib – Indirect ¹	238,127,000	–	–	238,127,000
Penultimate Holding Company				
RHB Capital Berhad				
Encik Vaseehar Hassan Abdul Razack – Indirect ²	1,182,896,459	–	–	1,182,896,459
Dato Sri Sulaiman Abdul Rahman Taib – Indirect ²	1,182,896,459	–	–	1,182,896,459
Dato' Mohd Salleh Hj. Harun – Direct	15,000	–	–	15,000
Holding Company				
RHB Bank Berhad				
Encik Vaseehar Hassan Abdul Razack – Indirect ³	2,729,980,366	–	–	2,729,980,366
Dato Sri Sulaiman Abdul Rahman Taib – Indirect ³	2,729,980,366	–	–	2,729,980,366
	As at 2.2.2005	Number of Bought	Warrants 2001/2007 Sold	As at 31.12.2005

Ultimate Holding Company				
Rashid Hussain Berhad				
Encik Vaseehar Hassan Abdul Razack – Indirect ¹	8,000,000	–	–	8,000,000
Dato Sri Sulaiman Abdul Rahman Taib – Indirect ¹	8,000,000	–	–	8,000,000

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

	As at 2.2.2005	Nominal Amount (RM) of 2002/2012 0.5% Irredeemable Convertible Unsecured Loan Stocks of RM1 each nominal value ("RHB ICULS-A") Bought	Converted/Sold	As at 31.12.2005
Ultimate Holding Company				
Rashid Hussain Berhad				
Encik Vaseehar Hassan Abdul Razack – Indirect ¹	449,206,479	–	–	449,206,479
Dato Sri Sulaiman Abdul Rahman Taib – Indirect ¹	449,206,479	–	–	449,206,479

Each RHB ICULS-A entitles the registered holder of the RHB ICULS-A to convert into one (1) new ordinary share of RM1.00 each in Rashid Hussain Berhad ("New Share") at the conversion price of RM1.00 per New Share ("Conversion Price") at any time within a period of ten (10) years from the date of issue on 24 December 2002 in accordance with the Trust Deed constituting the RHB ICULS-A dated 24 December 2002. The Conversion Price shall be satisfied by surrendering for conversion into New Shares such nominal value of RHB ICULS-A equal to the Conversion Price

directors' report

DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)

	Nominal Amount (RM) of 2002/2012 3.0% Irredeemable Convertible Unsecured Loan Stocks of RM1 each nominal value ("RHB ICULS-B")			
	As at 2.2.2005	Bought	Converted/Sold	As at 31.12.2005
Ultimate Holding Company				
Rashid Hussain Berhad				
Encik Vaseehar Hassan Abdul Razack – Indirect ¹	403,471,898	–	–	403,471,898
Dato Sri Sulaiman Abdul Rahman Taib – Indirect ¹	403,471,898	–	–	403,471,898

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

Notes:

1. Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of his indirect substantial interest in Utama Banking Group Berhad ("UBG").
2. Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of his indirect substantial interest in Rashid Hussain Berhad.
3. Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of his indirect substantial interest in RHB Capital Berhad.

By virtue of their indirect substantial interests in the shares of Rashid Hussain Berhad ('RHB'), Dato Sri Sulaiman Abdul Rahman Taib and Encik Vaseehar Hassan Abdul Razack are also deemed to have indirect substantial interests in the securities of the Bank and the subsidiary companies of RHB to the extent RHB has an interest.

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

DIRECTORS' BENEFITS

No director has received or become entitled to receive a benefit (other than directors' remuneration as disclosed in the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, other than the contracts mentioned in Note 23 of the financial statements.

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

DISCLOSURE OF COMMITTEES

NOMINATING COMMITTEE

A Nominating Committee was established on 17 March 2005. During the financial period ended 31 December 2005, a total of 1 meeting was held. The Nominating Committee comprises the following members and details of attendance of each member at the Nominating Committee meetings held during the period are as follows:-

Composition of the Nominating Committee	Attendance at the committee meetings
Current Members:	
1. Dato' Mohd Salleh Hj. Harun (Chairman / Independent Non-Executive Director) – Appointed on 22 February 2005	1 out of 1 meeting
2. Dato Abdullah Mat Noh (Member / Non-Independent Non-Executive Director) – Appointed on 22 February 2005	1 out of 1 meeting
3. Dato' Othman Jusoh (Member / Non-Independent Non-Executive Director) – Appointed on 22 February 2005	1 out of 1 meeting

directors' report

DISCLOSURE OF COMMITTEES (CONTINUED)

Composition of the Nominating Committee

Attendance at the committee meetings

Current Members:

- | | |
|---|--------------------|
| 4. Encik Vaseehar Hassan Abdul Razack
(Member / Non-Independent Non-Executive Director)
– Appointed on 2 February 2005 | 1 out of 1 meeting |
| 5. Dato Sri Sulaiman Abdul Rahman Taib
(Member / Non-Independent Non-Executive Director)
– Appointed on 2 February 2005 | 1 out of 1 meeting |

The Nominating Committee is responsible for assessing existing directors and identifying, nominating and orientating new directors to enhance corporate governance.

The directors bring together to the Board a wide range of business management skills and banking, financial and legal experience required for the management of the Bank.

REMUNERATION AND HUMAN RESOURCE COMMITTEE

The Remuneration and Human Resource Committee was established on 17 March 2005. During the financial period ended 31 December 2005, a total of 2 meetings were held. The Remuneration and Human Resource Committee comprises the following members and details of attendance of each member at the Remuneration and Human Resource Committee meetings held during the period are as follows:-

Composition of the Remuneration and Human Resource Committee

Attendance at the committee meetings

Current Members:

- | | |
|---|---------------------|
| 1. Prof Balachandran A. Shanmugam
(Chairman / Independent Non-Executive Director)
– Appointed on 22 July 2005 | 2 out of 2 meetings |
| 2. Encik Vaseehar Hassan Abdul Razack
(Member / Non-Independent Non-Executive Director)
– Appointed on 2 February 2005 | 2 out of 2 meetings |
| 3. Dato Sri Sulaiman Abdul Rahman Taib
(Member / Non-Independent Non-Executive Director)
– Appointed on 2 February 2005 | 0 out of 2 meetings |

The Remuneration and Human Resource Committee is responsible to evaluate the performance and remuneration of the directors and senior management and to recommend on the policies and framework in relation to rewards and benefits.

RISK MANAGEMENT COMMITTEE

A Risk Management Committee was established on 17 March 2005. During the financial period 31 December 2005, a total of 3 meetings were held. The Risk Management Committee comprises the following members and details of attendance of each member at the Risk Management Committee meetings held during the period are as follows:-

Composition of the Risk Management Committee

Attendance at the committee meetings

Current Members:

- | | |
|--|---------------------|
| 1. Dato' Mohd Salleh Hj. Harun
(Chairman / Independent Non-Executive Director)
– Appointed on 22 February 2005 | 3 out of 3 meetings |
| 2. Dato' Othman Jusoh
(Member / Non-Independent Non-Executive Director)
– Appointed on 22 February 2005 | 3 out of 3 meetings |
| 3. Dato Abdullah Mat Noh
(Member / Non-Independent Non-Executive Director)
– Appointed on 22 February 2005 | 3 out of 3 meetings |

directors' report

DISCLOSURE OF COMMITTEES (CONTINUED)

RISK MANAGEMENT COMMITTEE (CONTINUED)

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

A Statement on the Bank's Risk Management Framework is set out in Note 28 of the financial statements for the financial period ended 31 December 2005.

CORPORATE GOVERNANCE STATEMENT

Introduction

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

BOARD OF DIRECTORS

The Board

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

Composition of the Board

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

Name of Director	Designation
Encik Vaseehar Hassan Abdul Razack	Non-Independent Non-Executive Chairman
Dato Sri Sulaiman Abdul Rahman Taib	Non-Independent Non-Executive Director
Dato Abdullah Mat Noh	Non-Independent Non-Executive Director
Dato' Othman Jusoh	Non-Independent Non-Executive Director
Dato' Mohd Salleh Hj. Harun	Independent Non-Executive Director
Prof. Balachandran A. Shanmugam	Independent Non-Executive Director

Pursuant to the Revised BNM/GP1-i, each Islamic bank must appoint at least two independent directors to its board.

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

There are clear division of responsibilities between the Board and the Chief Executive Officer ("CEO") to ensure the balance of power and authority. The CEO's primary responsibilities are to manage the Bank's day-to-day operations and together with the Non-Executive Directors ensure that the strategies are fully discussed and examined, and taking into account the long term interests of the various stakeholders including shareholders, employees, customers, suppliers and the various communities in which the Bank conducts its business. In addition to the role and guidance of the Independent Non-Executive Directors, each director nevertheless brings an independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

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

Board Meetings

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

directors' report

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board Meetings (continued)

The Board met 11 times during the financial period ended 31 December 2005. The attendance of each director in office at the end of the financial period on the aforesaid board meetings are set out below:-

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
Encik Vaseehar Hassan Abdul Razack	11/11	100
Dato Sri Sulaiman Abdul Rahman Taib	6/11	55
Dato Abdullah Mat Noh	11/11	100
Dato' Mohd Salleh Haji Harun	10/11	91
Dato' Othman Jusoh	10/11	91
Prof. Balachandran A. Shanmugam*	5/5	100

Notes:-

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

Pursuant to the BNM/GP1-i, a Non-Executive Director who has attended less than 75% of the Board meetings without valid reason for two(2) consecutive years shall be discharged without any termination benefits

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

In addition, the directors may also seek independent professional advice, at the Bank's expense, if required. Directors may also consult with the Chairman and other board members prior to seeking any independent professional advice.

BOARD COMMITTEES

Audit Committee

The Board has established an Audit Committee since 17 March 2005. The Committee presently comprises two (2) Independent Non-Executive Directors of whom one (1) is the Chairman and one (1) Non-Independent Non-Executive Director:-

1. Dato' Mohd Salleh Hj. Harun (Chairman)
2. Prof. Balachandran A. Shanmugam
3. Dato' Othman Jusoh

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

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

Terms of Reference of the Audit Committee

Objectives

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

directors' report

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

Audit Committee (continued)

Primary Responsibilities

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

Authority

- The Committee is authorised by the Board to investigate any matter within its terms of reference, to obtain the resources which it needs, and to have full and unrestricted access to information. It is also authorised to seek any information it requires from any employee of the Bank to co-operate with any request made by the Committee.
- The Committee shall have direct communication channels with the external and internal auditors.
- The Committee is authorised by the Board to obtain independent professional or other advice at the Bank's expense and to invite outsiders with relevant experience and expertise to attend meetings if it considers this necessary.

Meetings

- Meetings shall be held at least four (4) times a year with a quorum of two (2) members and the majority of members present shall be Independent Non-Executive Directors. Additional meetings may be called at any time at the discretion of the Chairman of the Committee.
- The head of internal audit shall be in attendance at meetings of the Committee. The Committee may invite the external auditors, the chief financial officer, any other directors or members of the management and employees of the Group to be in attendance during meetings to assist in its deliberations.
- At least once a year, the Committee shall meet with the external auditors without any executive board member or management present and upon the request of the external auditors, the Chairman of the Committee shall convene a meeting to consider any matter which the external auditors believe should be brought to the attention of the Board or shareholders.
- The Bank's Secretary shall be the Secretary of the Committee.
- The minutes of each Committee meeting shall be tabled to the Board by the Chairman of the Committee.

Composition

- The Committee shall be appointed by the Board from amongst its number and shall comprise not less than three (3) members, none of whom should be full-time executives of the Bank. The majority of the Committee members should be Independent Non-Executive Directors.
- The Chairman of the Committee shall be an Independent Non-Executive Director appointed by the Board.
- No alternate director shall be appointed as a member of the Committee.
- The term of office and performance of the Committee and each of its members must be reviewed by the Board at least once every two (2) years.
- If a member of the Committee resigns or for any other reason ceases to be a member with the result that the number of members is reduced to below three (3), the Board shall within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.

Relationship with the Auditors

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

directors' report

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

Audit Committee (continued)

Terms of Reference of the Internal Audit and Internal Control Activities

Objectives

- The management of the Bank is delegated to the Chief Executive Officer, whose role and responsibilities and authority limits are set by the board. Appointment of such officer at the Bank requires the approval of the board;
- Specific responsibilities have been delegated to the Audit Committee which has written terms of reference. The Audit Committee has the authority to examine all matters within their scope of responsibility and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters however lies with the entire board;
- Delegation of authority including authorisation limits at various levels of management and those requiring the Board's approval are documented and designed to ensure accountability and responsibility;
- Policies and procedures manuals for key processes are documented and regularly updated for application at the Bank. These are supplemented by operating standards set by the Bank, as required for the type of business or geographical location of the Bank;
- There is clear procedure for investment appraisal, including equity investment or divestment and capital expenditure;
- There are proper guidelines for hiring and termination of staff, training programmes for staff, annual performance appraisal and other relevant procedures in place to achieve the objective of ensuring staff are competent to carry out their responsibilities;
- Regular and comprehensive information is provided to management for monitoring of performance against the strategic plan approved by the Board, covering all key financial and operational indicators;
- A detailed budgeting process is established requiring all key operating divisions in the Bank to prepare budgets annually, which are discussed and approved by the Board. Effective reporting system on actual performance against approved budgets is in place and significant variances are followed up by management and reported at the Board;
- Ongoing reviews of the internal control system are carried out by the internal auditors. Results of such reviews are reported to the Audit Committee. The work of the internal auditors is focused on areas of priority as identified by risk analysis and in accordance with the annual internal audit plan approved by the Audit Committee. The head of internal audit function reports to the Audit Committee;
- The Audit Committee holds regular meetings to deliberate on findings and recommendations for improvement by both the internal and external auditors on the state of the internal control system. The minutes of the Audit Committee meetings are tabled to the Board; and
- A Management Audit Committee (MAC), headed by the Chief Operating Officer (COO) was established to track and act on all the findings and lapses highlighted by BNM, Internal and External Auditors, and other regulatory bodies in their audit reports to ensure timely resolution. The status of audit findings and actions taken are to be tabled to the Audit Committee for review.

Nominating Committee

The Board has established the Nominating Committee since 17 March 2005. The Committee currently comprises one (1) Independent Non-Executive Director as the Chairman, and four (4) Non-Independent Non-Executive Directors:-

1. Dato' Mohd Salleh Hj. Harun (Chairman)
2. Dato Abdullah Mat Noh
3. Dato' Othman Jusoh
4. Encik Encik Vaseehar Hassan Abdul Razack
5. Dato Sri Sulaiman Abdul Rahman Taib

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

Terms of Reference of the Nominating Committee.

Objectives

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

directors' report

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

Nominating Committee (continued)

Roles and Responsibilities

The nominating committee is responsible for:-

- Establishing minimum requirements for the Board i.e. required mix of skills, experience, qualification and other core competencies required of a director. The committee is also responsible for establishing minimum requirements for the key senior management officers. The requirements and criteria should be approved by the Board;
- Recommending and assessing the nominees for directorship, board committee members as well as for key senior management officers. This includes assessing directors for reappointment, before an application for approval is submitted to Bank Negara Malaysia. The actual decision as to who shall be nominated should be the responsibility of the Board;
- Overseeing the overall composition of the Board, in terms of the appropriate size and skills, and the balance between executive directors, non-executive directors and independent directors through annual reviews;
- Recommending to the Board the removal of a director/key senior management officers from the Board/Management if the director/ key senior management officers is ineffective, errant and negligent in discharging his responsibilities;
- Establishing a mechanism for the formal assessment on the effectiveness of the Board as a whole and, the contribution of each director to the effectiveness of the Board, the contribution of the Board's various committees and the performance of the key senior management officers. Annual assessment should be conducted based on an objective performance criterion. Such performance criteria should be approved by the Board;
- Ensuring that all directors receive an appropriate continuous training program in order to keep abreast with the latest developments in the industry;
- Overseeing the appointment, management succession planning and performance evaluation of key senior management officers;
- Recommending to the Board the removal of key senior management officers if they are ineffective, errant and negligent in discharging their responsibilities;
- ^a Assessing, on an annual basis, that the directors and key senior management officers are not disqualified under section 23 of the Islamic Banking Act 1983 (IBA); and
- To perform any other functions as defined by the Board.

Authority

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

Meetings

- The Committee should meet as and when required, at least once a year with a quorum of three (3) members and at least one (1) member present shall be an Independent Non-Executive Director. Additional meetings may be called at the discretion of the Chairman of the Committee
- The Committee may invite any other director or members of management and employees of the Company to be in attendance during meetings to assist in its deliberations.
- Meetings of the Committee shall be governed by the provisions of the Company's Articles of Association relating to board meetings except in so far as the same are amended in these terms of reference.
- The Company Secretary shall be the Secretary of the Committee.
- Minutes of each Committee meeting shall be kept and distributed to all Committee members. The minutes of the Committee meeting shall be presented at the Board Meeting and the Chairman of the Committee shall report on each Committee meeting to the Board.

directors' report

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

Nominating Committee (continued)

Composition

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

Disclosure

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

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

Remuneration and Human Resource Committee

The Board has established the Remuneration and Human Resource Committee since 17 March 2005. The Committee currently comprises one (1) Independent Non-Executive Director as the Chairman and two (2) Non-Independent Non-Executive Directors:-

1. Prof. Balachandran A. Shanmugam (Chairman)
2. Encik Encik Vaseehar Hassan Abdul Razack
3. Dato Sri Sulaiman Abdul Rahman Taib

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

Terms of Reference of the Remuneration and Human Resource Committee.

Objectives

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

Roles and Responsibilities

The Remuneration and Human Resource Committee is responsible for:-

- Recommending a framework of remuneration for directors, Chief Executive Officer and key senior management officers for the Board's approval. The remuneration framework should support the Bank's culture, objectives and strategies and should reflect the responsibilities and commitment, which goes with board membership and responsibilities of the Chief Executive Officer and senior management officers. There should be a balance in determining the remuneration package, which should be sufficient to attract and retain directors of calibre, and yet not excessive to the extent the Bank's funds are used to subsidise the excessive remuneration packages. The framework should cover all aspects of remuneration including director's fee, salaries, allowance, bonuses, options and benefit-in-kind; and
- Recommending specific remuneration packages for Executive Directors and the Chief Executive Officer. The remuneration package should be structured such that it is competitive and consistent with the Bank's culture, objectives and strategy. Salary scales drawn up should be within the scope of the general business policy and not be dependant on short-term performance to avoid incentives for excessive risk-taking. As for non-executive directors and independent directors, the level of remuneration should be linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board.
- To recommend to the Board the remuneration of members of the senior management team.
- To ensure the establishment of a formal and transparent procedure for developing policies, strategies and framework for the remuneration of directors, management and staff.
- To review the succession planning programme and leadership framework.
- To perform any other functions as defined by the Board.

directors' report

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

Remuneration and Human Resource Committee (continued)

Authority

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

Meetings

- The Committee shall meet at least once a year with a quorum of two (2) members and at least one (1) member present shall be an Independent Non-Executive Director, to review the remuneration packages of the directors, Chief Executive Officer and key senior management officers. Additional meetings are to be held as and when necessary.
- Minutes of each meeting shall be kept and distributed to all members of the Remuneration and Human Resource Committee. The Chairman of the Committee shall report on each meeting to the Board.
- The Secretary to the Committee shall be the Bank's Company Secretary

Composition

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

Disclosure

The activities of the committee should be briefly disclosed in the Directors' report of the Bank's annual report as follows:-

- Membership of the committee;
- Responsibilities of the committee; and
- Number of committee meetings. The Bank is encouraged to disclose information on the number of meetings attended by each member of the committee.

Risk Management Committee

The Board has established the Risk Management Committee since 17 March 2005. Currently, the Committee comprises one (1) Independent Non-Executive Director as the Chairman and two (2) Non-Independent Non-Executive Directors:-

1. Dato' Mohd Salleh Hj. Harun (Chairman)
2. Dato' Othman Jusoh
3. Dato Abdullah Mat Noh

The Committee meets monthly with the objective of assisting the Board in carrying out its responsibilities in relation to managing the Bank's range of inter-related risks in an integrated manner.

Terms of Reference of the Risk Management Committee.

Objective

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

directors' report

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES (CONTINUED)

Risk Management Committee (continued)

Roles and Responsibilities

The Risk Management Committee is responsible for:-

- Reviewing and recommending risk management strategies, policies and risk tolerance for board's approval;
- Reviewing and assessing adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively;
- Ensuring infrastructure, resources and systems are in place for risk management i.e. ensuring that the staff responsible for implementing risk management systems perform those duties independently of the Bank's risk taking activities; and
- Reviewing management's periodic reports on risk exposure, risk portfolio composition and risk management activities.
- To review and recommend the following to the Board for approval:-
 - (a) delegation of discretionary powers which represents the maximum discretion which the Board is prepared to vest to any single individual or committee.
 - (b) procedures for the delegation and monitoring of discretionary financing authority given to (a) above.

Composition

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

Meetings

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

Disclosure

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

- Membership of the committee;
- Responsibilities of the committee;
- Number of committee meetings. The Bank is encouraged to disclose information on the number of meetings attended by each member of the committee; and
- A statement on the licensed institution's risk management framework.

DISCLOSURE OF SHARIAH ADVISOR

The Bank has engaged the services of a Group Shariah Committee, which comprise of five (5) qualified local and foreign Shariah Professionals; an assortment of knowledge, experience and approach from these mixed Shariah Professionals are needed to put up the Bank's operations and products to be globally accepted. Their main duties and responsibilities are: -

- i) Advising the Bank on all Shariah matters in order to ensure that the business operations of the Bank comply with Shariah principles;
- ii) Endorse the Shariah Meeting Minutes and resolutions to make sure that all of the resolutions are stated in clear and specific manners based on correct Shariah foundations;
- iii) Endorse the relevant Manual(s), which specify the manner in which a submission or request for advice be made to the Group Shariah Committee, the conduct of the Group Shariah Committee meeting and the manner of compliance with any decision thereof;

directors' report

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

DISCLOSURE OF SHARIAH ADVISOR (CONTINUED)

- iv) Endorsement and validation of the following relevant documentation: -
 - a) the terms and conditions contained in the proposal form, contract, agreement or other legal documentation used in executing the transactions;
 - b) the product manual, marketing advertisements, sales illustrations and brochures used to describe the product; and
 - c) providing assistance to related parties of the Bank such as its legal counsel, auditor or consultant on Shariah matters to ensure compliance with Shariah principles;
- v) Preparation of written Shariah opinions particularly in the following circumstances: -
 - a) Where the Bank submits applications to Bank Negara Malaysia ("BNM") or National Shariah Advisory Council ("NSAC") for new product approval in accordance with guidelines on product approval issued by BNM and NSAC; and
 - b) Explanation on the Shariah issues involved, and the recommendations for a decision, which must be supported by relevant Shariah jurisprudential literature from the established sources to assist the National Shariah Advisory Council on any matters referred by the Bank and to ensure that all Group Shariah Committee decisions are properly implemented by the Bank;
- vi) Provide educational talks for both in-house Shariah training and external lecture sessions to the Bank's staffs and the public (when arrange by the Bank) in order to equip them with related Shariah knowledge.

The Shariah Committee member profiles are set out in the audited financial statements on pages 69 to page 70.

HOLDING AND ULTIMATE HOLDING COMPANY

RHB Bank Berhad and Rashid Hussain Berhad, both companies incorporated in Malaysia, are the holding and ultimate holding company respectively.

2006 BUSINESS PLAN AND OUTLOOK

The Bank recognises that the market place is becoming highly competitive for Islamic banking in Malaysia. This is good for customers since it brings in price, service and produce competition. Since Islamic banking is growing at over 19% per annum, there is ample opportunity for all Islamic banks to grow. In fact, Financial Services Master Plan of Bank Negara Malaysia ("BNM") foresees Islamic banks to have a market share of 20% by 2010. This is going to lead to an annual growth of over 20% for coming 5 years. The Bank is well positioned to play a key role in this overall goal.

The Bank utilizes all possible marketing channels to reach out to the potential and existing customers with the focus that is directed at knowledge and education of Islamic banking products and services.

Apart from having point-of-sale methods as a marketing tool, the Bank is a strong supporter of knowledge based programs and can be seen via its devotion and participation in various seminars/conventions/events spearheaded by BNM and the Association of Islamic Banking Institutions Malaysia (AIBIM), other events such as the Islamic Banking and Takaful Week Expos, and other International/Local Islamic Banking & Finance conferences.

Going forward we see the momentum of current results to continue. We see new information technology, new products and new delivery channels. We also see tougher conditions as liquidity shrinks and rates rise. We also see contribution from new products to complement existing revenue streams.

We are continuously striving to be "A Better Bank".

AUDITORS

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

In accordance with the resolution of the Board of Directors dated 27 February 2006.

ENCIK VASEEHAR HASSAN ABDUL RAZACK
CHAIRMAN

DATO ABDULLAH MAT NOH
DIRECTOR

Kuala Lumpur

balance sheet

as at 31 December 2005

	Note	31.12.2005 RM'000
ASSETS		
Cash and short-term funds	2	1,939,598
Deposits and placements with banks and other financial institutions	3	450,000
Securities held for trading	4	633,284
Securities available-for-sale ("AFS")	5	147,997
Securities held-to-maturity	6	811,981
Financing and advances	7	3,400,411
Other assets	8	28,743
Deferred taxation assets	9	22,743
Statutory deposits	10	182,329
Property, plant and equipment	11	6,580
TOTAL ASSETS		7,623,666
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits from customers	12	5,511,645
Deposits and placements of banks and other financial institutions	13	1,094,249
Bills and acceptances payable		34,037
Other liabilities	14	415,600
Provision for taxation and zakat		2,981
		7,058,512
Ordinary share capital	15	523,424
Reserves	16	41,730
Shareholders' equity		565,154
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		7,623,666
COMMITMENTS AND CONTINGENCIES	27	1,664,446

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

income statement

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

	Note	From 2.2.2005 to 31.12.2005 RM'000
Income derived from investment of depositors' funds	17	211,193
Income derived from investment of shareholders' funds	18	34,036
Allowance for losses on financing and advances	19	(3,622)
Profit equalisation reserve	14	(8,002)
Total distributable income		<u>233,605</u>
Income attributable to the depositors	20	<u>(113,455)</u>
Total net income		<u>120,150</u>
Personnel expenses	21	(14,642)
Other overheads and expenditures	22	(45,354)
Profit before zakat and taxation		<u>60,154</u>
Zakat		(920)
Taxation	24	(17,750)
Net profit for the financial period		<u>41,484</u>
Earning per ordinary share		
– Basic earnings per 100 sen share	25	<u>7.93</u>

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

statement of changes in Islamic banking funds

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

	Note	Share Capital RM'000	Statutory Reserve RM'000	AFS Reserves RM'000	Retained Profits RM'000	Total RM'000
Issued during the period	15	523,424	–	–	–	523,424
Unrealised net gain on revaluation of securities available-for-sale		–	–	342	–	342
Deferred taxation	9	–	–	(96)	–	(96)
Net profit for the financial period		–	–	–	41,484	41,484
Transfer to statutory reserves		–	20,742	–	(20,742)	–
Balance as at 31.12.2005		<u>523,424</u>	<u>20,742</u>	<u>246</u>	<u>20,742</u>	<u>565,154</u>

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

cash flow statement

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

	Note	From 2.2.2005 to 31.12.2005 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation and zakat for the financial period		60,154
Adjustments for:		
Depreciation of property, plant and equipment		499
Income from:		
Investment on securities available-for-sale		(344)
Investment on securities held-to-maturity		(6,939)
Net gain on sale of securities available-for-sale		(3,895)
Accretion of discount less amortisation of premium		(16,764)
Unrealised gain from securities held for trading		(1,971)
Allowance for losses on financing and advances		(3,622)
Profit equalisation reserve		8,002
Operating profit before working capital changes		<u>35,120</u>
Decrease in deposits and placements with financial institutions		(251,000)
Financing and advances		146,938
Investment on securities held for trading		24,375
Other assets		(16,592)
Statutory deposits with Bank Negara Malaysia		(61,155)
Deposits from customers		833,436
Deposits and placements of banks and other financial institutions		85,677
Bills and acceptances payable		(310,092)
Other liabilities		<u>350,618</u>
Cash generated from operating activities		837,325
Taxation paid		(17,250)
Zakat paid		(97)
Net cash generated from operating activities		<u>819,978</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment		(6,471)
Income received:		
Investment on securities available-for-sale		118
Investment on securities held-to-maturity		7,360
Net purchased of:		
Investment on securities available-for-sale		(142,905)
Investment on securities held-to-maturity		(11,859)
Net cash used in investing activities		<u>(153,757)</u>
ANALYSIS OF CASH AND CASH EQUIVALENT		
Net increase in cash and cash equivalents		666,221
Cash and cash equivalent vested over from RHB Bank	31	1,273,377
Cash and cash equivalent carried forward	2	<u>1,939,598</u>

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

summary of significant accounting policies

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

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

1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

The Bank had early adopted Guidelines on Financial Reporting for Licensed Islamic Banks ("BNM/GP8-i") to be consistent with the RHB Bank Group financial reporting. BNM has granted indulgence to the Bank from complying with the requirement on the impairment of financing under the revised BNM/GP8-i. The Bank will be deemed to be in compliance with the requirement on the impairment of financing under the revised BNM/GP8-i if the allowance for non-performing financing are computed based on BNM/GP3 requirement.

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

2 INCOME RECOGNITION

- (i) Finance income is recognised on an accruals basis. Income earned on cashline, housing and term financing, and hire purchase/AITAB is accounted for by reference to the rest periods as stipulated in the financing agreement.

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

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

3 ALLOWANCE FOR NON-PERFORMING FINANCING

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

A general allowance based on a percentage of the financing portfolio is also made to cover possible losses which are not specifically identified. These percentages are reviewed periodically in the light of past experience and prevailing circumstances and an adjustment is made on the overall general allowance, if necessary.

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

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

4 OTHER PROVISIONS

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

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

summary of significant accounting policies

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

5 SECURITIES

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

(i) SECURITIES HELD FOR TRADING

Securities are classified as held for trading if it acquired or incurred principally for the purpose of selling or repurchasing it in the near term or it is part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. Securities held for trading are stated at fair value at initial recognition. Any gain or loss arising from a change in the fair value are recognised in the income statements.

(ii) SECURITIES HELD-TO-MATURITY

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

(iii) SECURITIES AVAILABLE-FOR-SALE

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

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

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

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

6 PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

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

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

Renovations	7.5% to 10%
Office equipment and furniture	7.5% to 20%
Computer equipment and software	20% to 33 1/3%
Motor vehicles	20%

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

7 IMPAIRMENT OF ASSETS

Property, plant and equipment and other non-current assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

The impairment loss is charged to the income statement. Any subsequent increase in recoverable amount is recognised in the income statement.

summary of significant accounting policies

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

8 IMPAIRMENT OF SECURITIES PORTFOLIO

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

i) Securities carried at amortised cost

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

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

ii) Securities carried at fair value

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

9 BILLS AND ACCEPTANCES PAYABLE

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

10 RECOURSE OBLIGATION ON FINANCING SOLD TO CAGAMAS BHD ("CAGAMAS")

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

11 CURRENCY CONVERSION AND TRANSLATION

The financial statements are presented in Ringgit Malaysia.

Transactions in foreign currencies are converted into Ringgit Malaysia at exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities outstanding at balance sheet date are translated into Ringgit Malaysia at exchange rates prevailing at the balance sheet date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

The principal closing rates used in translation of foreign currency amounts were as follows:

	31.12.2005
Foreign currency	RM
1 US Dollar	3.78

12 INCOME TAXES AND ZAKAT

Current tax expense is the expected amount of income taxes payable in respect of the taxable profit for the financial period and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

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

summary of significant accounting policies

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

12 INCOME TAXES AND ZAKAT (CONTINUED)

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

Zakat is payable by the Bank to comply with the principles of Shariah.

13 CASH AND CASH EQUIVALENTS

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

14 DIVIDENDS

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

15 EMPLOYEE BENEFITS

Short-term employee benefits

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

Defined contribution plans

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

Termination benefits

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

16 PROFIT EQUALISATION RESERVE ("PER")

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

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

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, is principally engaged in Islamic banking business and the provision of related services.

The Bank commenced its business operations on 16 March 2005, upon vesting of the assets and liabilities of Islamic banking business of RHB Bank Berhad existing on 15 March 2005, with net assets worth RM523.4 million, which constitute the issued and paid up share capital of the Bank at RM1 per share.

There are no comparative figures as this is the first year of operations.

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

The directors regard RHB Bank Berhad (“RHBB”) and Rashid Hussain Berhad (“RHB”), both companies incorporated in Malaysia as the holding and ultimate holding company respectively. The registered office of RHBB and RHB is similar to the Bank.

2 CASH AND SHORT-TERM FUNDS

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

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31.12.2005 RM'000
Licensed banks	50,000
Bank Negara Malaysia	400,000
	<u>450,000</u>

4 SECURITIES HELD FOR TRADING

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

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

5 SECURITIES AVAILABLE-FOR-SALE

	31.12.2005 RM'000
At fair value	
Money market instruments:	
Quoted	
Cagamas mudharabah bonds	14,990
Unquoted	
Malaysian government treasury bills	32,857
Bank Negara Malaysia negotiable notes	99,575
	<u>147,422</u>
At cost	
Unquoted securities in Malaysia	
Shares	575
Total securities available-for-sale	<u>147,997</u>

6 SECURITIES HELD-TO-MATURITY

	31.12.2005 RM'000
At amortised cost	
Money market instruments:	
Quoted	
Cagamas mudharabah bonds	80,599
Khazanah bonds	585,764
Unquoted	
Private debt securities	145,618
Total securities held-to-maturity	<u>811,981</u>

7 FINANCING AND ADVANCES

(i) By type

	31.12.2005 RM'000
Cashline	58,430
Term financing	
– housing financing	1,199,672
– syndicated term financing	519,453
– hire purchase receivables	72,250
– other term financing	721,521
Bills receivable	498,346
Trust receipts	15,237
Staff financing	1,740
Revolving financing	445,064
	<u>3,531,713</u>
Less: Unearned income	(7,340)
Gross financing and advances	<u>3,524,373</u>
Less : Allowance for bad and doubtful financing :	
– general	(73,692)
– specific	(50,270)
Net financing and advances	<u>3,400,411</u>

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

7 FINANCING AND ADVANCES (CONTINUED)

(ii) By type of customer

	31.12.2005 RM'000
Domestic non-bank financial institutions	
– Others	34,826
Domestic business enterprises	
– Small medium enterprises	208,876
– Others	2,012,196
Individuals	1,251,630
Other domestic entities	16,124
Foreign entities	721
	<u>3,524,373</u>

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

	31.12.2005 RM'000
Bai' Bithaman Ajil	2,500,884
Ijarah Muntahia Bittamlik / AITAB	64,842
Murabahah	958,647
	<u>3,524,373</u>

(iv) By profit rate sensitivity

	31.12.2005 RM'000
Fixed rate	
– Housing financing	1,199,155
– Hire purchase receivables	64,842
– Other fixed rate financing	1,243,299
Variance rate	
– Others	1,017,077
	<u>3,524,373</u>

(v) By sector

	31.12.2005 RM'000
Agriculture, hunting, forestry and fishing	274,188
Mining and quarrying	2,222
Manufacturing	588,990
Electricity, gas and water	183,898
Construction	70,005
Real estate	204,621
Purchase of landed property:	
– Residential	1,229,250
– Non-residential	41,813
Wholesale & retail trade and restaurant & hotels	224,058
Transport, storage and communication	53,872
Finance, insurance and business services	214,831
Purchase of securities	343,174
Purchase of transport vehicles	5
Others	93,446
	<u>3,524,373</u>

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

7 FINANCING AND ADVANCES (CONTINUED)

(vi) Movement in non-performing financing

	31.12.2005 RM'000
Amount vested over from RHB Bank	258,040
Classified as non-performing during the period	215,710
Reclassified as performing during the period	(219,582)
Amount recovered	(9,955)
Amount written off	(33,556)
	<hr/>
Balance as at 31.12.2005	210,657
Specific allowance	(50,270)
	<hr/>
Net non-performing financing and advances	160,387
	<hr/>
Ratio of net non-performing financing and advance to net financing and advances	4.7%

(vii) Movement in allowance for bad and doubtful financing

	31.12.2005 RM'000
General allowance	
Amount vested over from RHB Bank	77,059
Net allowance written back during the period	(3,367)
	<hr/>
Balance as at 31.12.2005	73,692
	<hr/>
As % of gross financing and advances less specific allowance	2.12%
	<hr/>
Specific allowance	
Amount vested over from RHB Bank	75,661
Allowance made during the period	8,724
Amount recovered	(1,706)
Amount written off	(32,409)
	<hr/>
Balance as at 31.12.2005	50,270

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

	31.12.2005 RM'000
Agriculture, hunting, forestry and fishing	97
Manufacturing	5,870
Electricity, gas and water	10
Construction	712
Real estate	2,370
Purchased of landed property:	
– Residential	154,561
– Non-residential	1,429
Wholesale & retail trade and restaurant & hotels	4,099
Transport, storage and communication	29,076
Finance, insurance and business services	10,344
Purchase of securities	74
Purchase of transport vehicles	3
Others	2,012
	<hr/>
	210,657

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

8 OTHER ASSETS

	31.12.2005 RM'000
Other debtors, deposits and prepayments	23,370
Income receivable	5,373
	28,743

9 DEFERRED TAXATION

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

	31.12.2005 RM'000
Deferred tax assets	23,652
Deferred tax liabilities	(909)
	22,743

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

Deferred tax assets/(liabilities) 31.12.2005

	Property, plant & equipment RM'000	Securities available- for-sale RM'000	General allowance on financing and advances RM'000	Other temporary difference RM'000	Total RM'000
Amount vested over from RHB Bank (Charged)/credited to income statement	– (813)	– –	21,577 (943)	– 3,018	21,577 1,262
Charged to equity	–	(96)	–	–	(96)
Balance as at 31.12.2005	(813)	(96)	20,634	3,018	22,743

10 STATUTORY DEPOSITS

	31.12.2005 RM'000
Statutory deposits with Bank Negara Malaysia	182,329

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

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

11 PROPERTY, PLANT AND EQUIPMENT

31.12.2005	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
<u>Cost</u>					
Amount vested over from RHB Bank as at 15.3.2005	264	450	1,393	232	2,339
Additions	2,525	145	3,211	591	6,472
Transfers	-	-	(5)	(173)	(178)
Disposals/written off	-	-	(5)	-	(5)
	2,789	595	4,594	650	8,628
Less : <u>Accumulated depreciation</u>					
Amount vested over from RHB Bank as at 15.3.2005	204	429	873	225	1,731
Charge for the period	22	22	408	47	499
Transfers	-	-	(4)	(173)	(177)
Disposals/written off	-	-	(5)	-	(5)
	226	451	1,272	99	2,048
Net book value as at 31.12.2005	2,563	144	3,322	551	6,580

12 DEPOSITS FROM CUSTOMERS

	31.12.2005 RM'000
Non-Mudharabah Funds:	
Demand deposits	1,124,827
Savings deposits	466,709
Negotiable certificates of deposit	141,924
	1,733,460
Mudharabah Funds:	
Demand deposits	302,721
General investment deposits	1,026,773
Special investment deposits	2,448,691
	5,511,645
Total deposits	5,511,645
(i) The deposits are sourced from the following classes of customers:	
Government and statutory bodies	945,290
Business enterprises	3,864,254
Individuals	702,101
	5,511,645

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

13 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	31.12.2005 RM'000
Non-Mudharabah Funds:	
Licensed Islamic banks	9,754
Other financial institutions	789,485
Mudharabah Fund:	
Licensed Islamic banks	59,000
Other financial institutions	236,010
	<u>1,094,249</u>

14 OTHER LIABILITIES

	31.12.2005 RM'000
Sundry creditors	16,243
Profit equalisation reserve (see below)	17,279
Amount due to related companies	297,708
Other accruals and payables	84,370
	<u>415,600</u>
Profit equalisation reserve:	
Amount vested over from RHB Bank	9,277
Net amount transferred in the financial period	8,002
	<u>17,279</u>
Balance as at 31.12.2005	<u>17,279</u>

15 ORDINARY SHARE CAPITAL

	'000	31.12.2005 RM'000
Authorised:		
Ordinary shares of RM1.00 each		
As at beginning/end of financial period	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
Ordinary shares of RM1.00 each		
As at beginning/end of financial period	<u>523,424</u>	<u>523,424</u>

16 RESERVES

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

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

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

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

17 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

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

	From 2.2.2005 to 31.12.2005 RM'000
Income derived from investment of:-	
(i) General investment deposits	58,555
(ii) Other deposits	152,638
	<u>211,193</u>
(i) Income derived from investment of general investment deposits	 RM'000
Finance income and hibah:	
Financing and advances	38,447
Securities held for trading	2,437
Securities available-for-sale	87
Securities held-to-maturity	1,864
Money at call and deposit with financial institutions	8,686
	<u>51,521</u>
Amortisation of premium less accretion of discount	4,347
	<u>55,868</u>
Total finance income and hibah	55,868
Other operating income (note a-c)	2,687
	<u>58,555</u>
a) Fee income :	
Commission	315
Guarantee fees	20
	<u>335</u>
b) Net gain from sale of :	
– Securities held for trading	812
– Securities available-for-sale	1,016
	<u>1,828</u>
c) Net unrealised gain on revaluation of securities held for trading	524
	<u>2,687</u>
Total other operating income	<u>2,687</u>

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

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

	From 2.2.2005 to 31.12.2005 RM'000
Finance income and hibah:	
Financing and advances	100,882
Securities held for trading	7,450
Securities available-for-sale	228
Securities held-to-maturity	4,816
Money at call and deposit with financial institutions	21,761
	<hr/>
	135,137
Amortisation of premium less accretion of discount	11,023
	<hr/>
Total finance income and hibah	146,160
Other operating income (note a-c)	6,478
	<hr/>
	152,638
	<hr/>
a) Fee income :	
Commission	810
Guarantee fees	52
	<hr/>
	862
	<hr/>
b) Net gain from sale of :	
– Securities held for trading	1,780
– Securities available-for-sale	2,554
	<hr/>
	4,334
	<hr/>
c) Net unrealised gain on revaluation of securities held for trading	1,282
	<hr/>
Total other operating income	6,478
	<hr/>

18 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS

	From 2.2.2005 to 31.12.2005 RM'000
Finance income and hibah:	
Financing and advances	12,562
Securities held for trading	868
Securities available-for-sale	29
Securities held-to-maturity	604
Money at call and deposit with financial institutions	2,768
	<hr/>
	16,831
Amortisation of premium less accretion of discount	1,394
	<hr/>
Total finance income and hibah	18,225
Other operating income (note a-c)	15,811
	<hr/>
	34,036
	<hr/>

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

18 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDERS' FUNDS (CONTINUED)

	RM'000
a) Fee income :	
Commission	102
Service charges and fees	13,141
Guarantee fees	7
Underwriting fees	1,015
Other fee income	815
	<hr/>
	15,080
b) Net gain from sale of :	
– Securities held for trading	241
– Securities available-for-sale	325
	<hr/>
	566
c) Net unrealised gain on revaluation of securities held for trading	<hr/>
	165
Total other operating income	<hr/>
	15,811

19 ALLOWANCES FOR LOSSES ON FINANCING AND ADVANCES

	From 2.2.2005 to 31.12.2005 RM'000
Allowance for bad and doubtful financing on financing and advances	
Specific allowance	
– Made during the financial period	8,724
– Written back	(1,706)
General allowance	
– Written back	(3,367)
Bad debts on financing recovered	(29)
	<hr/>
	3,622

20 INCOME ATTRIBUTABLE TO DEPOSITORS

	From 2.2.2005 to 31.12.2005 RM'000
Deposits from customers:	
– Mudharabah funds	70,491
– Non-mudharabah funds	14,609
Deposits and placements of banks and other financial institutions:	
– Mudharabah funds	1,457
– Non-mudharabah funds	26,898
	<hr/>
	113,455

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

21 PERSONNEL EXPENSES

	From 2.2.2005 to 31.12.2005 RM'000
Personnel cost	
– Salaries, allowances and bonuses	11,915
– Contributions to Employee Provident Fund	1,573
– Other staff related cost	1,154
	<hr/> 14,642

22 OTHER OVERHEADS AND EXPENDITURES

	From 2.2.2005 to 31.12.2005 RM'000
Establishment cost	
– Depreciation	499
– Rental of premises	743
– Rental equipment	34
– Deposit insurance	200
– Other business related insurance	74
– Water and electricity	82
– Repair and maintenance	86
– Information technology expenses	160
– Security and escort expenses	790
– Others	186
	<hr/> 2,854
Marketing expenses	
– Advertisement and publicity	3,518
– Travelling expenses	538
– Motor vehicle expenses	197
– Others	33
	<hr/> 4,286
Administration and general expenses	
– Cost sharing fees	33,783
– Auditors fees	120
– Non audit work	167
– Professional fees (mainly consists of professional fees relating to pre-operating expenses)	1,055
– Printing, stationery and postages	1,455
– Telecommunication expenses	329
– Others	1,305
	<hr/> 38,214
	<hr/> 45,354

Included on the administration and general expenses of the Bank are director's remuneration totalling RM305,000 as disclosed in Note 23.

The number of employees as at the end of the financial period is 223.

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

23 REMUNERATION OF CHIEF EXECUTIVE OFFICER ("CEO") AND DIRECTORS

Forms of remuneration in aggregate for all directors charged to the income statement during the financial period are as follows:

	From 2.2.2005 to 31.12.2005 RM'000
Non-Executive Directors	
– Fees	94
– Others	211
	<hr/> 305
Chief Executive Officer ("CEO")	
– Salary and other remuneration, including meeting allowance	1,000
Shariah Committee members fees	141
	<hr/> 1,446

The remuneration of the directors is within the following bands:

RM Non-Executive

	2005 Number of Directors
0 – 50,000	2
50,000 – 100,000	3

The Directors of the Bank in office since the incorporation date are:

CEO

Khalid Mahmood Bhaimia

(Appointed on 1 March 2005)

Non-Executive Directors

Encik Vaseehar Hassan Abdul Razack (Chairman)

(Appointed since incorporation)

Dato Sri Sulaiman Abdul Rahman Taib

(Appointed since incorporation)

Dato Abdullah Mat Noh

(Appointed on 22 February 2005)

Dato' Mohd Salleh Haji Harun

(Appointed on 22 February 2005)

Dato' Othman Jusoh

(Appointed on 22 February 2005)

Prof. Balachandran A. Shanmugam

(Appointed on 22 July 2005)

24 TAXATION

	From 2.2.2005 to 31.12.2005 RM'000
Malaysian income tax:	
– Current period	19,012
Deferred taxation:	
– Relating to originating and reversal of temporary differences (Note 9)	(1,262)
	<hr/> 17,750

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

	From 2.2.2005 to 31.12.2005 %
Malaysian tax rate of 28%	28.0
Tax effect of:	
Expenses not deductible for tax purposes	1.5
Average effective tax rate	<hr/> 29.5

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

25 EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share

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

	From 2.2.2005 to 31.12.2005 RM'000
Earnings per ordinary share are calculated as follows:	
Basic/Diluted: Net profit for the financial period	<u>41,484</u>
Weighted average number of ordinary shares in issue ('000)	<u>523,424</u>
Basic earnings per share (sen)	<u>7.93</u>

26 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

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

Other related companies comprise the other companies in the Rashid Hussain Berhad Group.

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

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

27 COMMITMENTS AND CONTINGENCIES

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

Risk weighted exposures of the Bank are as follows:

	31.12.2005		
	Principal Amount RM'000	Credit Equivalent Amount * RM'000	Risk Weighted Amount RM'000
Transaction-related contingent items	50,374	25,187	23,619
Short-term self-liquidating trade-related contingencies	109,130	21,826	21,826
Obligations under underwriting agreements	50,000	25,000	25,000
Housing financing sold directly and indirectly to Cagamas with recourse	44,062	44,062	22,031
Irrevocable commitments to extend credit :			
– maturity more than one year	168,319	84,160	64,231
– maturity less than one year	1,224,395	–	–
Miscellaneous	18,166	–	–
Total	<u>1,664,446</u>	<u>200,235</u>	<u>156,707</u>

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

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

OVERVIEW

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

The Risk Management Committee of the Board provides oversight and management of all risks in an integrated way. Risk Management Division ("RMD") of RHB Bank Berhad is independent and reports directly to this committee. RMD through Risk Management Committee assists the Board to formulate risk related policies, advises the Board on the risk impact of business strategies, and reviews compliance by the management to the risk policy framework that is approved by the Board.

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

MARKET RISK MANAGEMENT

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

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

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

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

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

PROFIT RATE RISK

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

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

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

31.12.2005	Non-trading book						Trading book RM'000	Total RM'000	Effective Profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000			
Assets									
Cash and short term funds	1,870,000	-	-	-	-	69,598	-	1,939,598	2.90
Deposits and placements with financial institutions	250,000	200,000	-	-	-	-	-	450,000	2.92
Securities held for trading	-	-	-	-	-	-	633,284	633,284	2.98
Securities available-for-sale	-	99,575	47,847	-	-	575	-	147,997	2.93
Securities held-to-maturity	-	59,743	43,700	637,350	71,188	-	-	811,981	3.90
Financing and advances									
- performing*	507,576	361,637	376,035	1,055,805	1,012,663	-	-	3,313,716	5.34
- non-performing*	-	-	-	-	-	86,695	-	86,695	-
Other assets	-	-	-	-	-	28,743	-	28,743	-
Deferred taxation assets	-	-	-	-	-	22,743	-	22,743	-
Statutory deposits	-	-	-	-	-	182,329	-	182,329	-
Property, plant and equipment	-	-	-	-	-	6,580	-	6,580	-
Total assets	2,627,576	720,955	467,582	1,693,155	1,083,851	397,263	633,284	7,623,666	

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

31.12.2005	Non-trading book						Trading book RM'000	Total RM'000	Effective Profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000			
Liabilities									
Deposits from customers	3,543,556	533,524	606,266	146,122	3,865	678,312	-	5,511,645	2.31
Deposits and placements of banks and other financial institutions	427,751	124,566	248,197	293,735	-	-	-	1,094,249	2.83
Bills and acceptances payable	18,614	10,061	5,362	-	-	-	-	34,037	2.76
Taxation and zakat	-	-	-	-	-	2,981	-	2,981	-
Other liabilities	-	-	-	-	-	415,600	-	415,600	-
Total liabilities	3,989,921	668,151	859,825	439,857	3,865	1,096,893	-	7,058,512	
Total shareholders equity	-	-	-	-	-	-	-	565,154	
	3,989,921	668,151	859,825	439,857	3,865	1,096,893	-	7,623,666	
Total profit-sensitivity gap	(1,362,345)	52,804	(392,243)	1,253,298	1,079,986	(699,630)	-	-	

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

LIQUIDITY RISK

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

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

CREDIT RISK MANAGEMENT

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

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

The credit policy is to develop a strong credit culture with the objective of maintaining a well diversified, evaluated and current portfolio, fully satisfied for credit risk, giving no concern for unexpected losses and which ensures a reliable and satisfactory risk weighted return. This policy, the bedrock of credit risk management, is in the form of a written statement of credit standards, principles and guidelines, which is distributed bank-wide and used as a common source of reference. In the first half of 2005, the credit policy has been updated and revised to incorporate further market best practices.

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

A risk rating system is used to categorize the risk of individual credits and determine whether the Bank is adequately compensated. Client accounts are reviewed at regular intervals and weakening credits are transferred to the Loan Recovery Division of RHB Bank (under the purview of Cost Sharing Agreement) for more effective management.

Together with RHB Bank Bhd, the Bank is committed to its Basel 2 journey as well as implementation of Islamic Financial Services Board ("IFSB") exposure.

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

	Short-term funds and deposits & placements with financial institutions 31.12.2005 RM'000	Securities held-for-trading RM'000	Securities available-for-sale RM'000	Securities held-to-maturity RM'000	Advances and financing # RM'000	Other financial assets * RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Agriculture	-	-	-	-	274,188	-	274,188	110,080
Mining and quarrying	-	-	-	-	2,222	-	2,222	192
Manufacturing	-	84,146	-	-	588,990	-	673,136	543,277
Electricity, gas and water	-	49,930	-	-	183,898	-	233,828	30,350
Construction	-	4,912	-	-	70,005	-	74,917	62,303
Real estate	-	-	-	17,094	204,621	-	221,715	3,522
Purchase of landed property	-	-	-	-	1,245,619	3,350	1,248,969	129,068
General commerce	-	-	-	-	224,059	-	224,059	405,295
Transport, storage and communication	-	-	-	-	53,873	-	53,873	637
Finance, insurance and business service	2,320,000	29,073	14,989	666,381	214,832	12,965	3,258,240	73,323
Government and government agencies	-	465,223	132,433	-	-	1,705	599,361	-
Purchase of securities	-	-	-	-	343,174	-	343,174	14
Purchase of transport vehicles	-	-	-	-	4	-	4	-
Consumption credit	-	-	-	-	25,443	-	25,443	-
Others	-	-	-	128,506	93,445	956	222,907	306,385
	2,320,000	633,284	147,422	811,981	3,524,373	18,976	7,456,036	1,664,446
Assets not subject to credit risk	69,598	-	575	-	-	9,767	79,940	-
	2,389,598	633,284	147,997	811,981	3,524,373	28,743	7,535,976	1,664,446

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

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

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

OPERATIONAL RISK

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

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

The Bank has its ongoing business continuity planning ("BCP") programme for its major critical business operations and activities at the Head Office, Datacentre, and branches locations. The BCP programme is subject to regular testings to ensure efficacy, reliability and functionality.

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

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

INFORMATION TECHNOLOGY ("IT") RISK

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

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

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

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

29 CAPITAL ADEQUACY

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

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

29 CAPITAL ADEQUACY (CONTINUED)

	31.12.2005	
	Principal RM'000	Risk Weighted RM'000
The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:		
(i) Credit Risk		
0%	3,282,205	–
10%	95,589	9,559
20%	109,440	21,888
50%	1,093,138	546,569
100%	2,675,107	2,675,107
	<u>7,255,479</u>	<u>3,253,123</u>
(ii) Market Risk Capital Adequacy Framework #		<u>36,007</u>
		<u>3,289,130</u>

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

30 SEGMENT INFORMATION

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

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

Primary reporting format - by business segment

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

Corporate banking

Corporate banking refers to financing and managing relationship of corporate customers including public listed corporations and its related entities, multinational corporations, Government and state owned entities.

Commercial banking

Commercial banking refers to financing the needs of small and medium enterprises. The products and services offered to customers include term financing, revolving financing and hire purchase financing.

Consumer banking

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

Transaction banking

Transaction banking establishes, retain and grow relationship with Federal and State Governments including their respective agencies, financial institutions 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.

Others

Other business segments in the Bank include corporate finance and automobile divisions where results are immaterial to the Bank. Therefore, results are reported in aggregate. Corporate finance division generates fee-based income from private debt securities issuances, debt restructuring and syndication as well as general and project advisory services. Automobile division is accountable and responsible for the performance of Islamic automobile financing business and will commence business in 2006.

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

30 SEGMENT INFORMATION (CONTINUED)

31.12.2005	Corporate Banking RM'000	Commercial Banking RM'000	Consumer Banking RM'000	Treasury & Money Market RM'000	Transaction Banking RM'000	Others RM'000	Elimination RM'000	Total RM'000
External revenue	65,712	22,780	67,722	77,170	7,348	875	-	241,607
Inter-segment revenue/(expense)	(23,933)	(6,962)	(9,488)	2,445	37,938	-	-	-
Total revenue	41,779	15,818	58,234	79,615	45,286	875	-	241,607
Depositors' payout	(12,695)	(2,526)	(11,326)	(62,037)	(24,871)	-	-	(113,455)
Net income	29,084	13,292	46,908	17,578	20,415	875	-	128,152
Operating overheads	(5,442)	(12,033)	(28,594)	(4,624)	(8,693)	(610)	-	(59,996)
Segmental results	23,642	1,259	18,314	12,954	11,722	265	-	68,156
Segmental results								68,156
Profit equalisation reserve								(8,002)
Profit before zakat and taxation								60,154
Zakat and taxation								(18,670)
Net profit for the financial period								41,484
	Corporate Banking RM'000	Commercial Banking RM'000	Consumer Banking RM'000	Treasury & Money Market RM'000	Transaction Banking RM'000	Others RM'000	Elimination RM'000	Total RM'000
Other information								
Segment assets	1,633,156	549,771	1,274,929	4,294,774	1,416,911	-	(1,649,525)	7,520,016
Deferred taxation assets	-	-	-	-	-	-	-	22,743
Unallocated assets	-	-	-	-	-	-	-	80,907
Total assets	1,633,156	549,771	1,274,929	4,294,774	1,416,911	-	(1,649,525)	7,623,666
Segment liabilities	1,510,593	498,363	1,200,712	3,691,399	1,405,853	-	(1,649,525)	6,657,395
Taxation and zakat	-	-	-	-	-	-	-	2,981
	1,510,593	498,363	1,200,712	3,691,399	1,405,853	-	(1,649,525)	7,058,512
Other segment items								
Capital expenditure	10	2	169	173	-	-	-	354
Allocated capital expenditure	623	934	2,988	872	809	-	-	6,226
Depreciation	48	71	239	79	62	-	-	499
Financing loss provision	(613)	629	3,607	-	-	-	-	3,622
Net accretion of discount	-	-	-	(16,795)	-	-	-	(16,795)

31 SIGNIFICANT EVENTS DURING THE FINANCIAL PERIOD

(a) ESTABLISHMENT OF RHB ISLAMIC BANK BERHAD

On 2 February 2005, RHB Capital Berhad ("RHBC") announced the incorporation of RHB ISLAMIC Bank Berhad ("the Bank"), a wholly owned subsidiary of RHB Bank Berhad ("RHB Bank"), which in turn is a 70% subsidiary of RHBC.

On 1 March 2005, the Bank received its licence to transact Islamic Banking business with effect from 1 March 2005.

On 10 March 2005, RHBC announced that a vesting order has been obtained from the High Court of Malaya on 8 March 2005 which gave full effect to a business transfer agreement executed between the Bank and RHB Bank on 4 March 2005 for the transfer and vesting of the Islamic Banking business of RHB Bank to the Bank ("vesting") subsisting as of 15 March 2005 ("cut-off date"). The vesting took effect on 16 March 2005 and the Bank commenced its operation on the same date.

The said business transfer agreement was executed after receipt of approval from the Minister of Finance.

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31 SIGNIFICANT EVENTS DURING THE FINANCIAL PERIOD (CONTINUED)

(a) ESTABLISHMENT OF RHB ISLAMIC BANK BERHAD (CONTINUED)

In consideration of the said vesting, the Bank had issued ordinary shares of RM 1.00 each equal to the net book value of the assets less the liabilities of the Islamic Banking business of RHB Bank as at the cut-off date ("Final Transfer Consideration").

On 27 April 2005, the Final Transfer Consideration has been determined at RM523,424,000, after the statement of assets and liabilities of the Islamic Banking business of RHB Bank as at the cut-off date was prepared and finalised in accordance with the terms of the business transfer agreement and satisfied in two tranches with the first tranche of RM455,642,000 ordinary shares issued at par on 16 March 2005 and the second and final tranche of RM67,782,000 ordinary shares issued on the date of the said announcement.

The first tranche represents the net book value of the assets less liabilities of the Islamic Banking business of RHB Bank as at 30 June 2004 ("Provisional Transfer Consideration") whilst the second and final tranche is equal to the difference between the Provisional Transfer Consideration and the Final Transfer Consideration.

The Bank now has a total issued share capital of RM523,424,002 ordinary shares of RM1.00 each, all of which has been credited as fully paid-up.

The assets and liabilities of RHB Bank's Islamic Banking Business which were transferred to the Bank are set out below:

Assets transferred	RM'000
Cash and short term funds	1,273,377
Deposits and placements with financial institutions	199,000
Dealing securities	655,688
Investment securities	784,213
Financing and other advances	3,543,727
Other assets	12,348
Statutory deposits with Bank Negara Malaysia	121,174
Property, plant and equipment	608
Deferred taxation asset	21,577
	<hr/>
	6,611,712
	<hr/>
Liabilities transferred	
Deposits from customers	4,678,209
Deposits and placements of banks and financial institutions	1,008,572
Bills and acceptances payable	344,129
Zakat	398
Amount due to head office	22,135
Other liabilities	34,845
	<hr/>
Total liabilities	6,088,288
	<hr/>
Net assets transferred	523,424

(b) VESTING OVER OF ISLAMIC FINANCE BUSINESS FROM RHB DELTA FINANCE BERHAD

On 12 September 2005, RHBC announced that RHB Bank, has submitted a comprehensive and detailed joint application with RHB Delta Finance Berhad ("RHB Delta"), a wholly owned subsidiary of RHB Bank, to Bank Negara Malaysia ("BNM") for the proposed merger of the operations of RHB Delta with that of RHB Bank.

On 12 December 2005, RHBC announced that the transfer of finance company business of RHB Delta to RHB Bank have been approved by Minister of Finance.

The vesting order from the High Court for the transfer and vesting of the assets and liabilities, with the exception of the Islamic assets and liabilities of RHB Delta to RHB Bank has been obtained on 29 November 2005, and which vesting is to take effect on 1 January 2006 ("Effective Date"). From the Effective Date, amongst others, RHB Leasing Sdn Bhd will become a direct subsidiary of RHB Bank.

RHB Delta Finance is a wholly-owned subsidiary of RHB Bank which in turn is a 70% owned subsidiary of RHBC.

With the granting of the said vesting order, all assets and liabilities of RHB Delta with the exception of the Islamic assets and liabilities, were transferred to RHB Bank with effect from the Effective Date. Hence, with the said vesting, all businesses and operations of RHB Delta will be conducted through RHB Bank.

With effect from the Effective Date, all Islamic assets and liabilities of RHB Delta were transferred to the Bank.

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

31 SIGNIFICANT EVENTS DURING THE FINANCIAL PERIOD (CONTINUED)

(b) VESTING OVER OF ISLAMIC FINANCE BUSINESS FROM RHB DELTA FINANCE BERHAD (CONTINUED)

With effect from 3 January 2006, four of the RHB Delta's branches will be merged to the Bank's nearest branches and provide fully integrated bank and finance company services. Another four of the RHB Delta's branches in Limbang, Kapit, Marudi, and Sri Aman will be re-categorised as the Bank's branches.

The assets and liabilities of the RHB Delta's Islamic finance business which were transferred to the Bank are set out below:

Assets transferred

Net Book Value of Islamic assets and liabilities

RM'000

728

32 DISCLOSURE OF SHARIAH ADVISOR

The Bank has engaged the services of a Group Shariah Committee, which comprise of five (5) qualified local and foreign Shariah Professionals; an assortment of knowledge, experience and approach from these mixed Shariah Professionals are needed to put up the Bank's operations and products to be globally accepted. Their main duties and responsibilities are: -

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

The Shariah Committee Member Profiles

Professor Dr. Hj. Abdul Samat Musa (Chairman Of The Committee)

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

Sheikh Sir Dr. Mohamed Aboulkhair Zaki Badawi

Educated at University of Al-Azhar, Dr. Mohamed obtained the degree of Al-A'liyah equivalent of BA First Class in 1945 and the degree of AL-Alimiyah (MA) in 1947. Dr. Mohamed received the King Fuad First Prize for best graduate and King Farouk First Prize for best post-graduate student. He later obtained a BA Hons Degree in Psychology from University College London (1954) and a PHD from London University in Modern Muslim Thought. Apart from having lectured at Al-Azhar University, University of Malaya (Singapore) and University of Malaya (Kuala Lumpur), Dr. Mohamed was also a professor at Ahmadu Bello University (Nigeria), Bayero University and the Hajj Research Centre. He is a member of various organizations and companies i.e High Council of Islamic Affairs (Egypt), The World Call Member of the World Islamic Congress (Pakistan), The Board of Religious Advisors to the Malaysian Government, Chairman of the Shariah (Muslim Law) Board of Labuan Offshore Financial Services Authority (Malaysia) and Chairman of The Abrahamic Forum (an international organization). At present, Dr. Mohamed is a Director in the Directors' Office of the Muslim College in London, England.

notes to the financial statements

for the financial period from 2 February 2005 (date of incorporation) to 31 December 2005

32 DISCLOSURE OF SHARIAH ADVISOR (CONTINUED)

The Shariah Committee Member Profiles (continued)

Dr. Ahmed Mohieddin Ahmed

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

Associate 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. Dr. Joni Tamkin is an Associate Professor at the Department of Shariah & Economics, Academy of Islamic Studies, University Malaya.

Professor Dr. Mohd Ma'sum Billah

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

33 APPROVAL OF FINANCIAL STATEMENTS

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

statement by directors

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

We, Encik Vaseehar Hassan Abdul Razack and Dato Abdullah Mat Noh, being two of the directors of RHB ISLAMIC Bank Berhad state that, in the opinion of the directors, the financial statements set out on pages 41 to 70 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2005 and of the results and cash flows of the Bank for the financial period ended on that date in accordance with the MASB approved accounting standards in Malaysia, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

On behalf of the Board in accordance with a resolution of the Board of directors dated 27 February 2006.

ENCIK VASEEHAR HASSAN ABDUL RAZACK
CHAIRMAN

DATO ABDULLAH MAT NOH
DIRECTOR

Kuala Lumpur

statutory declaration

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

I, Khalid Mahmood Bhaimia, 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 41 to 70 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.

KHALID MAHMOOD BHAIMIA

Subscribed and solemnly declared by the abovenamed Khalid Mahmood Bhaimia at Kuala Lumpur in Wilayah Persekutuan on 27 February 2006.

Before me:

COMMISSIONER FOR OATHS
Kuala Lumpur

report of the auditors

We have audited the financial statements set out on pages 41 to 70. These financial statements are the responsibility of the Bank's directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with the Section 174 of the Companies Act 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

In our opinion:

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

PRICEWATERHOUSECOOPERS

(No.AF:1146)
Chartered Accountants

Kuala Lumpur
27 February 2006

UTHAYA KUMAR S/O K. VIVEKANANDA

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

RHB ISLAMIC BANK BERHAD (680329-V)
Level 11, Menara Yayasan Tun Razak
200, Jalan Bukit Bintang
55100 Kuala Lumpur
Tel : 603-21715000 Fax : 603-21715001
Call Centre : 603-92068118
rhbislamicbank.com.my