ANNUAL REPORT 2011

RHB Islamic Bank Berhad

Contents

Board of Directors

Standing from left to right:

- **DATUK HAJI FAISAL SIRAJ**
  Independent Non-Executive Director
- **DATO' MOHD ALI MOHD TAHIR**
  Independent Non-Executive Director
- **CHOONG TUCK OON**
  Independent Non-Executive Director
- **HAJI ABD RANI LEBAI JAAFAR**
  Chief Executive Officer/Managing Director
- **CHARLES LEW FOON KEONG**
  Independent Non-Executive Director

Seated from left to right:

- **HAJI KHAIRUDDIN AHMAD**
  Independent Non-Executive Chairman
- **HAJI MD JA'FAR ABDUL CARRIM**
  Senior Independent Non-Executive Director

Profile of The Board of Directors

HAJI KHAIRUDDIN AHMAD

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

Haji Khairuddin Ahmad ("Haji Khairuddin") was appointed as an Independent Non-Executive Director of RHB Islamic Bank on 1 December 2011, and thereafter appointed as Chairman on 1 January 2012. He serves as the Chairman of Group Risk Management Committee as well as a Member of the Group Credit Committee.

Haji Khairuddin Ahmad began his career in the banking industry and was previously with Citibank N.A., Southern Bank Berhad, Bank of Commerce Berhad and Arab Malaysian Finance Berhad. He attended the Advance Management Course at Columbia Business School in New York, USA.

Haji Khairuddin's other directorships in public companies include RHB Bank Berhad.

HAJI MD JA'FAR ABDUL CARRIM

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

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

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

Haji Ja'far's other directorship in a public company is at RHB Insurance Berhad, where he was appointed as Chairman with effect from 1 January 2012.

DATUK HAJI FAISAL SIRAJ

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

Datuk Haji Faisal Siraj ("Datuk Faisal") was appointed as an Independent Non-Executive Director of RHB Islamic on 3 December 2007, and appointed as the Chairman on 15 January 2008. He relinquished his position as Chairman of RHB Islamic Bank with effect from 1 January 2012 but remained on the Board as an Independent Non-Executive Director. Datuk Faisal also serves as the Chairman of the Group Nominating Committee and Group Remuneration and Human Resource Committee, as well as a Member of the Risk Management Committee of RHB Islamic Bank.

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

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

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

CHARLES LEW FOON KEONG

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

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

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

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

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

Profile of The Board of Directors (continued)

CHOONG TUCK OON

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

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

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

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

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

DATO' MOHD ALI MOHD TAHIR

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

Dato' Mohd Ali Mohd Tahir ("Dato' Ali") was appointed as an Independent Non-Executive Director of RHB Islamic Bank on 1 January 2011. Dato' Ali is also a Member of Group IT & Transformation Strategy Committee and Group Audit Committee.

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

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

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

HAJI ABD RANI LEBAI JAAFAR

(54 years of age – Malaysian)
Chief Executive Officer/Managing Director

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

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

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

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

Apart from the special appointment as "Pakar Industry Negara" and a Committee Member for the Finance, Banking and Insurance sector by the Human Resource Ministry and a member of the Cluster Working Group for Biotechnology Industry by the Science, Technology and Environmental Ministry, Haji Abd Rani is also an Adjunct Professor at Management & Science University (MSU).

Corporate Information

BOARD OF DIRECTORS

Haji Khairuddin Ahmad
Independent Non-Executive Chairman

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

Datuk Haji Faisal Siraj
Independent Non-Executive Director

Charles Lew Foon Keong
Independent Non-Executive Director

Choong Tuck Oon
Independent Non-Executive Director

Dato' Mohd Ali Mohd Tahir
Independent Non-Executive Director

Haji Abd Rani Lebai Jaafar
Chief Executive Officer/Managing Director

BOARD COMMITTEES

RISK MANAGEMENT COMMITTEE
Haji Md Ja'far Abdul Carrim - Chairman
Datuk Haji Faisal Siraj
Dato' Mohd Ali Mohd Tahir

GROUP RISK MANAGEMENT COMMITTEE
Haji Khairuddin Ahmad - Chairman
Patrick Chin Yoke Chung
Haji Md Ja'far Abdul Carrim
Choong Tuck Oon
Dato' Saw Choo Boon

GROUP NOMINATING COMMITTEE
Datuk Haji Faisal Siraj - Chairman
Dato' Mohamed Khadar Merican
Dato' Teo Chiang Liang
Dato' Saw Choo Boon
Haji Md Ja'far Abdul Carrim
Choong Tuck Oon

GROUP REMUNERATION AND HUMAN RESOURCE COMMITTEE
Datuk Haji Faisal Siraj - Chairman
Dato' Mohamed Khadar Merican
Dato' Teo Chiang Liang
Dato' Saw Choo Boon
Haji Md Ja'far Abdul Carrim
Choong Tuck Oon

GROUP AUDIT COMMITTEE *
Ong Seng Pheow - Chairman
Dato' Othman Jusoh
Haji Md Ja'far Abdul Carrim
Dato' Saw Choo Boon
Dato' Mohd Ali Mohd Tahir

GROUP CREDIT COMMITTEE *
Dato' Mohamed Khadar Merican - Chairman
Haji Khairuddin Ahmad
Abdul Aziz Peru Mohamed
Patrick Chin Yoke Chung

GROUP RECOVERY COMMITTEE *
(Dissolved with effect from 31 December 2011 and the Discretionary Powers and responsibilities of the Group Recovery Committee have been vested to Group Credit Committee)

GROUP IT & TRANSFORMATION STRATEGY COMMITTEE*
Choong Tuck Oon - Chairman
Ong Seng Pheow
Dato' Mohd Ali Mohd Tahir
Johari Abdul Muid
Kellee Kam Chee Khiong

COMPANY SECRETARY
Azman Shah Md Yaman

The Committee resides at RHB Capital Berhad and is shared with the relevant subsidiaries of the Group.
* The Committee resides at RHB Bank Berhad and is shared with the relevant subsidiaries of the Group.

Corporate Information (continued)

GROUP SENIOR MANAGEMENT

Kellee Kam Chee Khiong
Group Managing Director

Johari Abdul Muid
Managing Director, RHB Bank Berhad

Haji Abd Rani Lebai Jaafar
Managing Director, RHB Islamic Bank Berhad

Mike Chan Cheong Yuen
Officer In Charge, RHB Investment Bank Berhad/Director, Corporate & Investment Banking

Kong Shu Yin
Managing Director, RHB Insurance Berhad

Sharifatul Hanizah Said Ali
Managing Director, RHB Investment Management Sdn Bhd

Norazzah Sulaiman
Director, Group Corporate Services

Michael Lim Kheng Boon
Director, Treasury and Transaction Services

Vince Au Yoong See Weng
Director, Retail Banking (Acting)

Amy Ooi Swee Lian
Director, Business Banking

Azaharin Abd Latiff
Director, Group Human Resource (Acting)

Patrick Ho Kwong Hoong
Head, Group Risk Management

Wong Yih Yin
Chief Internal Auditor

Azman Shah Md Yaman
Company Secretary

REGISTERED OFFICE
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RHB Centre
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Fax : 603-9280 6507

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55100 Kuala Lumpur
Malaysia

Or

P.O. Box No. 10145
50907 Kuala Lumpur
Tel : 603-2171 5000
Fax : 603-2171 5001
Swift : RHBAMYKL
Call Centre : 603-9206 8118
(Peninsular Malaysia – 24 hours)
082-276118
(Sabah & Sarawak – 7 a.m. to 7 p.m.)

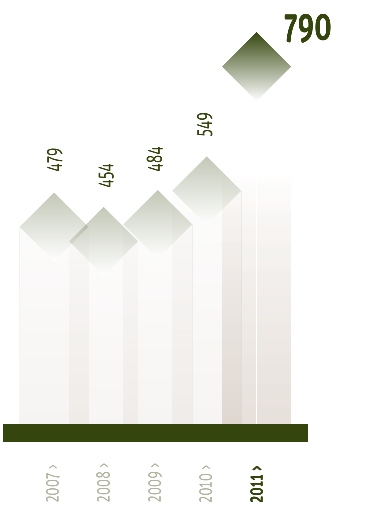
AUDITORS
PricewaterhouseCoopers
Chartered Accountants
Level 8-15, 1 Sentral
Jalan Travers
Kuala Lumpur Sentral
P.O. Box 10192
50706 Kuala Lumpur
Malaysia
Tel : 603-2173 1188
Fax : 603-2173 1288

Financial Highlights

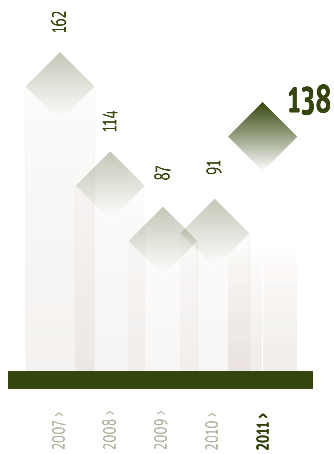
	2011	2010	2009	2008	2007
RESULTS (RM'000)					
Operating revenue	790,142	548,746	483,741	454,203	479,466
Net income	293,572	236,055	237,010	239,138	271,506
Profit before taxation	137,790	90,625	86,594	114,421	162,146
STATEMENT OF FINANCIAL POSITION (RM'000)					
Shareholders' equity	1,332,236	984,665	895,462	843,396	739,434
Total assets	22,641,412	13,111,820	11,205,509	9,369,580	8,404,436
Financing and advances	12,720,722	8,713,761	5,842,302	5,351,744	4,514,812
Total deposits	20,811,963	12,013,575	9,958,802	8,229,041	7,227,727
RATIOS (%)					
Return on average equity (%)	8.45	7.18	7.30	10.85	17.00
Return on average assets (%)	0.55	0.56	0.62	0.97	1.43
Risk Weighted Capital Ratio (%)	13.95	13.56	13.78	13.54	17.89
Core Capital Ratio (%)	12.65	12.23	12.50	12.07	16.03

Financial Highlights (continued)

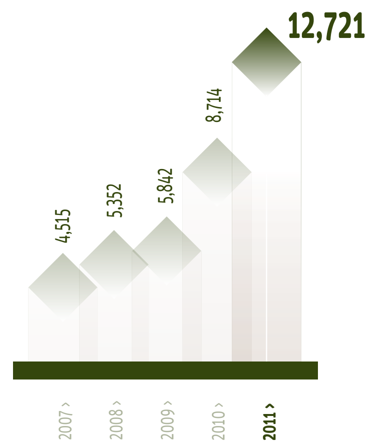
Operating Profit
(RM Million)



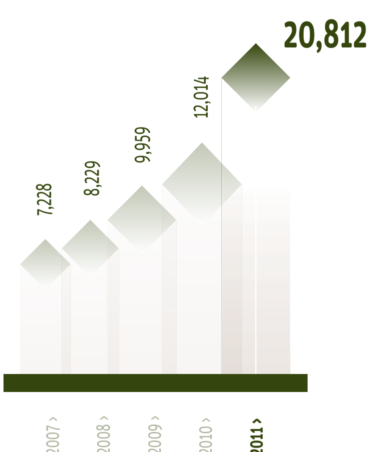
Profit Before Taxation
(RM Million)



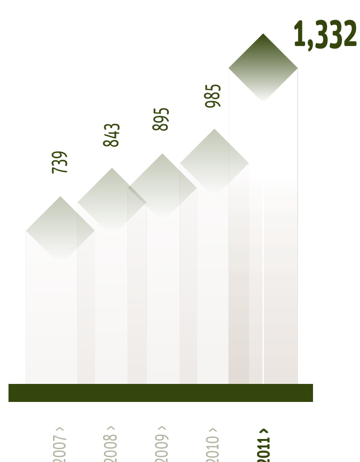
Financing and Advances
(RM Million)



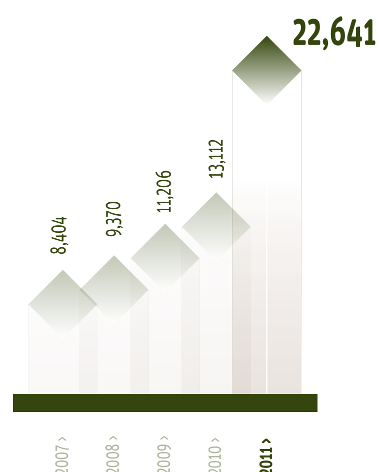
Total Deposits
(RM Million)



Shareholder's Equity
(RM Million)



Total Assets
(RM Million)



RHB Capital Berhad Group Structure

as at 13 February 2012

RHB Capital Berhad

Commercial Banking Group

RHB Bank Berhad

- RHB Islamic Bank Berhad
- RHB Bank (L) Ltd
  - RHB International Trust (L) Ltd
    - RHB Corporate Services Sdn Bhd
- RHB Leasing Sdn Bhd
- RHB Capital Nominees (Tempatan) Sdn Bhd
  - RHB Capital Nominees (Asing) Sdn Bhd
- RHB Capital Properties Sdn Bhd
- Utama Assets Sdn Bhd
- RHB Bank Nominees Pte Ltd *(Singapore)*
- Banfora Pte Ltd *(Singapore)*
- RHB Investment Ltd *(Singapore)*
- RHB Trade Services Limited *(Hong Kong)*
- Utama Gilang Sdn Bhd (9)
- UMBC Sdn Bhd
- RHB Delta Sdn Bhd (9)

Notes:
The subsidiary companies are wholly-owned unless otherwise stated.

- Dormant company
- Jointly Controlled Entity

(1) With effect from 1 July 2001, the company's activities relate primarily to recovery of outstanding debts.
(2) The company has ceased operations from the close of business on 10 December 2001.
(3) The company became a wholly-owned subsidiary of RHB Capital Berhad on 16 October 2009.
(4) The company became a wholly-owned subsidiary of RHB Capital Berhad on 2 November 2009.
(5) The company became a wholly-owned subsidiary of RHB Hartanah Sdn Bhd on 26 May 2010.
(6) The company became a wholly-owned subsidiary of RHB Hartanah Sdn Bhd on 16 July 2010.
(7) The company became a wholly-owned subsidiary of RHB Private Equity Holdings Sdn Bhd on 30 September 2010.
(8) The company became a wholly-owned subsidiary of RHB Investment Management Sdn Bhd on 14 October 2010.
(9) The company has commenced members' voluntary winding up on 16 February 2011.

Country of incorporation is in Malaysia unless otherwise indicated in italics

RHB Capital Berhad Group Structure
as at 13 February 2012 (continued)

Investment Banking Group

RHB Investment Bank Berhad

- RHB Investment Management Sdn Bhd
  - RHB Islamic Asset Management Sdn Bhd [8]
- RHB Research Institute Sdn Bhd
- RHB Merchant Nominees (Tempatan) Sdn Bhd
  - RHB Merchant Nominees (Asing) Sdn Bhd
- RHB Private Equity Holdings Sdn Bhd
  - RHB Private Equity Management Ltd
  - RHB Private Equity Fund Ltd *(Cayman Islands)* [7]
- RHB Nominees Sdn Bhd
- RHB Nominees (Tempatan) Sdn Bhd
- RHB Nominees (Asing) Sdn Bhd
- RHB Excel Sdn Bhd
- RHB Progressive Sdn Bhd
- RHB Marketing Services Sdn Bhd [9]
- RHB Unit Trust Management Berhad
- Vietnam Securities Corporation (49%)

RHB Insurance Berhad

- RHB Insurance Berhad (94.7%)

Others

- RHB Equities Sdn Bhd [1]
  - KYB Sdn Bhd
- RHB Capital *(Jersey)* Limited
  - Rashid Hussain Securities *(Philippines)*, Inc. *(Philippines)* [2]
- RHB Hartanah Sdn Bhd
  - Positive Properties Sdn Bhd [5]
  - RHB Property Management Sdn Bhd [6]
- Straits Asset Holdings Sdn Bhd
  - SSSB Services (Melaka) Sdn Bhd
  - SFSB Services (Melaka) Sdn Bhd
- RHBF Sdn Bhd
  - KYF Sdn Bhd
- RHB Venture Capital Sdn Bhd [3]
- RHB Kawal Sdn Bhd [4]

Profile of The New RHB Group Shariah Committee ("GSC")

(For the term beginning 1 April 2011 to 31 March 2013)

DR GHAZALI JAAPAR
Chairman of the GSC

Dr. Ghazali was educated at Universiti Malaya, Kuala Lumpur where he obtained his B.A Shariah (Hons.) (1995), subsequently, his Master of Comparative Law, IIUM, Kuala Lumpur (1998) and his Ph.D. from University of Birmingham, United Kingdom (2005).

Dr. Ghazali started his career as a lecturer in 2007 at Ahmad Ibrahim Kulliyyah of Laws, IIUM and still attached with the university, has teaching several subjects such as Islamic Legal System and Usul al-Fiqh for LLB course (Undergraduate), Siyasah Syar'iyyah for LLM (Administration of Islamic Law) student, also Islamic Legal Maxims for Certificate in Islamic Law (Bank Negara and Standard & Chartered).

He has written various journals and articles on Islamic Legal System, Principles of Islamic Jurisprudence (Usul al-Fiqh), Islamic Legal Maxims, Siyasah Shar'iyyah (Shariah-oriented policy) for forums and seminars.

He was previously a Director at the Harun M. Hashim Law Centre, IIUM and is currently serving as Assistant Professor of Ahmad Ibrahim Kulliyyah of Laws, IIUM.

PROFESSOR DR. JONI TAMKIN BORHAN
Member of the GSC
(Registered Shariah Individual under Securities Commission for Islamic Unit Trust Schemes)

Prof. Dr. Joni Tamkin was educated at University of Malaya where 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 Ph.D in Islamic Banking from Edinburgh, Scotland in 1997.

Prof. Dr. Joni Tamkin was a member of the National Shariah Advisory Council on Islamic Banking and Takaful ("NSAC") (1999 - 2004), Fellow at the Religious Department at Victoria University of Wellington (2002), Fellow at the University of Leiden, Holland (June – September 2004), Visiting Professor of Edinburgh University (January – October 2010) and also a member of Shariah Committee of MAA Takaful (2006 – current).

Prof. Dr. Joni Tamkin was appointed as Professor in 2007 and served as Deputy Director of Undergraduate Degree, Academy of Islamic Studies, University of Malaya from September 2006 until August 2007.

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. He is currently serving as Head of Department of Syariah And Economics, Academy of Islamic Studies, University of Malaya.

DR AKHTARZAITE ABD. AZIZ
Member of the GSC

Dr. Akhtarzaite was educated at International Islamic University Malaysia (IIUM), Kuala Lumpur where she obtained her LLB (1994) and LLBs (Shariah) (1995), subsequently, his Master and Ph.D in Fiqh and Usul Fiqh at the same university, (2000 & 2005).

Dr. Akhtarzaite was a Shariah Committee member of EONCAP Islamic Bank Berhad (2005-2011), Working Committee of IIUM Institute of Islamic Banking and Finance (IIiBF), Module Writer for Islamic Capital Market Graduate Training Scheme (ICMGTS), Securities Commission Malaysia, Shariah Committee Member of Great Eastern Takaful, Committee Member (Treasurer) - Association of Shariah Advisors in Islamic Finance (ASAS), Moderator for IBFIM Fundamental Certificate in Islamic Banking and Finance.

She has written various books and articles on Islamic Banking, Principles of Islamic Jurisprudence (Usul al-Fiqh), Islamic Legal Maxims, and presented several papers in forums and seminars.

She also has supervised Ph.D and Master Students in Islamic Banking as well as Usul Fiqh thesis. She is currently serving as Assistant Professor at Department of Fiqh and Usul Al-Fiqh, Kulliyyah of Islamic Revealed Knowledge, IIUM.

Profile of The New RHB Group Shariah Committee ("GSC")
(For the term beginning 1 April 2011 to 31 March 2013) (continued)

DR AMIR SHAHARUDDIN
Member of the GSC

Dr. Amir was educated at Al-Azhar University, Egypt where he obtained his B.A Shariah (Hons.) (2001), subsequently, his Master of Business Administration (MBA) in Islamic Banking & Finance, IIUM, Kuala Lumpur (2005) and his Ph.D in Islamic Studies from Exeter University, United Kingdom (2010).

Dr. Amir started his career as a tutor in 2003 at Faculty of Economic & Muamalat, Universiti Sains Islam Malaysia (USIM), Negeri Sembilan and still attached with the university as a senior lecturer, has teaching several subjects such as Islamic Financial Institutions and Markets, Principles and Practice of Islamic Banking, Halaqah Studies, Credit Management, Qawaid Fiqhiyyah, Islamic Capital Market.

He is also appointed as a Deputy Dean (Academic & Research), Faculty of Economic & Muamalat, Universiti Sains Islam Malaysia (USIM) since January 2011.

He has published a number of articles in refereed journals including the Journal of Muamalat and Islamic Finance Research (JMIFR), Jurnal Syariah and ISRA International Journal of Islamic Finance. He also has presented academic papers in various international seminars such as in Indonesia, Bahrain, United Kingdom and Italy.

He has written various journals and articles in Islamic Banking & Finance, Zakat, Islamic Law Principles of Islamic Jurisprudence (Usul al-Fiqh), Islamic Legal Maxims, Siyasah Shar'iyyah (Shariah-oriented policy) for forums and seminars.

DR MARJAN MUHAMMAD
Member of the GSC

Dr. Marjan Muhammad is currently a Researcher at the International Shari'ah Research Academy for Islamic Finance (ISRA). Prior to joining ISRA in 2010, she was a tutor at the Faculty of Law and Syari'ah, Islamic Science University of Malaysia (USIM) from 2001-2005. She holds Bachelor (1998), Masters (2001) and Ph.D degrees (2006) in Fiqh and Usul al-Fiqh from the International Islamic University Malaysia (IIUM).

She also serves as a Shariah Committee member of Malaysia Building Society Berhad (MBSB) (September 2010 – now).

Her areas of interest are on Issues of Ijtihad (Intellectual Reasoning), Islamic Jurisprudence (Usul al-Fiqh), Islamic Law of Transaction (Fiqh al-Mu'amalat) and Islamic Criminal Laws (Fiqh al-Jinayah).

She has written various articles and research papers in the area of Islamic banking and finance, Islamic law of transaction and Islamic jurisprudence.

Corporate Governance Statement

Introduction

"Corporate governance is the process and structure used to direct and manage the business and affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interest of other stakeholders."

High Level Finance Committee Report 1999

"The 'licence to operate' of a company invariably involves the responsibility to operate with genuine concern and understanding of interactions between sustainability and business, and to incorporate those considerations into the daily operations of the company."

Securities Commission Corporate Governance Blueprint 2011

OUR COMMITMENT TO GOOD CORPORATE GOVERNANCE

The Board of Directors ("Board") of RHB Islamic Bank Berhad ("RHB Islamic Bank" or "the Islamic Bank") recognises that good corporate governance is and has been fundamental to the success of our business. Not only has it helped establish the Islamic Bank's credibility and bolster our corporate reputation, it has also enhanced our shareholder value, provided assurance to investors, strengthened customers' trust in our businesses and improved the overall RHB Banking Group's competitive positioning.

Given the Group's vision "to be a Leading Multi-National Financial Group" as well as the five new customer-centric core values with the acronym PRIDE (i.e. Professional, Respectful, Integrity, Dynamic and Excellence), the Board also placed an emphasis on the corporate governance, tenets of transparency, accountability, integrity and corporate performance as prerequisites of a responsible corporate entity.

To ensure the highest standards of integrity, business ethics and professionalism are upheld across our organisation, we have adopted best market practices to establish accountability and transparency within the Islamic Bank and Group as well as upheld the integrity of the Board and Management. RHB Banking Group's corporate governance structure is principally based on the following:

(i) Revised Malaysian Code on Corporate Governance ("the Code");

(ii) Bank Negara Malaysia's ("BNM") Guidelines on Corporate Governance for Licensed Institutions ("BNM's CG Guidelines");

(iii) Bursa Malaysia Securities Berhad's ("Bursa Securities") Main Market Listing Requirements ("MMLR") and Corporate Governance Guide ("CG Code"); and

(iv) Minority Shareholders Watchdog Group ("MSWG") Corporate Governance Best Practices.

While stringent corporate governance practices and internal controls are already in place, we believe there is always room for improvement and are always exploring new avenues and measures to enhance the Islamic Bank's and Group's system of governance. In doing so, the Board not only pays attention to ethical conduct, value enrichment and the implementation of best practices, but also makes a significant effort to understand and manage stakeholders' expectations. Such understanding is essential to ensure that our position and reputation as a financial institution is held in good stead. Moreover, this understanding enables us to fulfil the evolving needs of our stakeholders and supports the Group's efforts to compete at the global arena.

Corporate Governance Statement (continued)

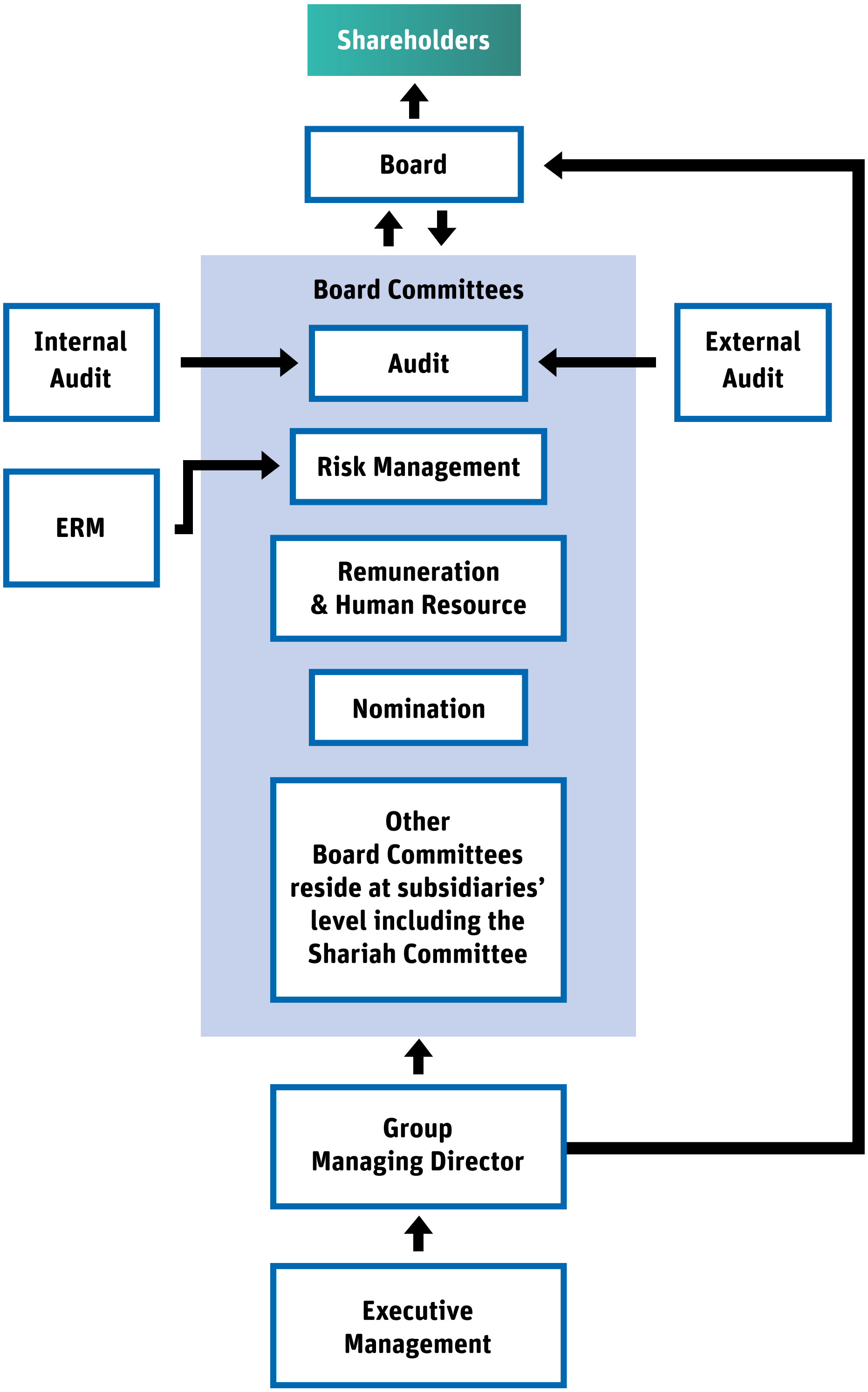
As a testament to our strong commitment and practice of good corporate governance, RHB Banking Group was the proud recipient of the numerous awards:

- RHB Capital Berhad - Enterprise Governance Award - Merit Malaysian Business-CIMA Enterprise Governance Awards 2011
- RHB Capital Berhad - Best Return to Shareholders - Second Runner Up Malaysian Business-CIMA Enterprise Governance Awards 2011
- RHB Capital Berhad - Best Investor Relations in Malaysia – 8th rank FinanceAsia Best Managed Companies Awards 2011 in Malaysia
- RHB Bank Berhad - RHB Now : Best Security Initiative from Asian Banking & Financial Retail Banking Awards 2011
- RHB Bank Berhad - RHB Reflex Online Cash Management: Best Cash Management Bank in Malaysia 2011 from The Asian Banker Transaction Banking Awards 2011
- RHB Bank Berhad - Easy by RHB : Asia Pacific, the Middle East, Central Asia and Africa - Best Business Model from The Asian Banker International Excellence in Retail Financial Services Awards 2011
- RHB Bank Berhad - Easy by RHB: Asia Pacific - Special Citation Award for Operational Efficiency from Financial Insights Innovation Awards 2011
- RHB Bank Berhad - Easy by RHB: Best Brands in Financial Services – Retail Banking from The BrandLaureate Awards 2010-2011 for Product Branding
- RHB Bank Berhad - Easy by RHB : Asia Pacific - Service Excellence Award from Banking & Payments Asia Trailblazer Awards 2011
- RHB Bank Berhad - Easy by RHB : Best Brand Strategy Advertising + Marketing Magazine Awards 2011
- RHB Islamic Bank Berhad - Malaysia Service to Care Award 2011 from Philip Kotler Centre for ASEAN Marketing & MarkPlus Inc.
- RHB Investment Bank - Best Country Deal From Asia Money
- RHB Investment Bank - Islamic Deal of the Year from Asset Asian Awards 2011
- RHB Investment Bank - Best Deal/Most Innovative Deal of the Year in Southeast Asia from Southeast Asia
- RHB Investment Bank - Blueprint Award- Malaysian Innovation of the Year from RAM Rating Services Berhad
- RHB Research Institute Sdn Bhd - The Edge Malaysia's Best Call Awards Top Strategist and Best Plantation Sector Call from The Edge Malaysia

Corporate Governance Statement (continued)

GOVERNANCE MODEL

RHB Banking Group's Governance Model conforms to the relevant regulatory requirements as well as best market practices. The Governance Model is continuously reviewed by the Board to ensure it remains relevant and is able to meet future challenges.

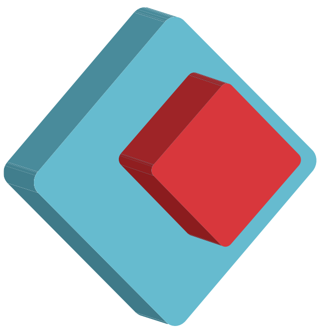


Board Of Directors

Board Composition and Balance

The Board currently has seven Members, with an Independent Non-Executive Chairman, five Independent Non-Executive Directors ("NEDs") and the Managing Director ("MD"). The structure and composition of the Board comply with the Code and BNM's CG Guidelines. The number of Independent Directors exceeds the requirement of one-third of the Board Members to be independent as set out in the Code and BNM's CG Guidelines. The presence of the six Independent NEDs ensures there is an effective check and balance in the functioning of the Board. These Independent NEDs fulfil the criteria of independence as defined in BNM's CG Guidelines. They are not involved in the day-to-day management of the Islamic Bank, nor do they participate in any business dealings of the Islamic Bank. This ascertains that they remain free of any conflict of interest and can undertake their roles and responsibilities as Independent NEDs in an effective manner.

Composition of Board



- Independent
- Non-Independent

RHB Banking Group is also in the midst of identifying suitable female candidates for appointment as Directors of the Group considering that gender diversity is also one of the important attributes of a well-functioning Board and an essential measure of good governance.

Directors' Qualification and Experience

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

Our Directors bring on board a wealth of knowledge and experience in business development, finance, accounting/audit, IT and transformation management and general management skills that are drawn from the relevant industry that they operate in and the regulatory environment in which the Group operates. A brief profile of each member of the Board outlining their qualifications, experience and skills is presented on pages 004 to 007 of this Annual Report.

Duties and Responsibilities of the Board

The Board recognise the importance of having the 6 basic principles as dicated below to form a good governance Board:

Leadership and Stewardship

- Ensuring strategic direction and planning
- Planning for succession
- Overseeing risk management and internal control

Continuous Learning and Growth

- Promoting a culture of innovation and change
- Developing executives and employees
- Training Directors

Empowerment and Accountability

- Delegating authority
- Allocating responsibilities
- Establishing effective accountability mechanisms

PRINCIPLE-BASED GOVERNANCE

Accomplishment and Measurement

- Monitoring and overseeing management
- Selecting corporate performance measures
- Evaluating the Board, individual Directors and Senior Management

Communication and Transparency

- Determining information flows
- Communicating with all stakeholders
- Reporting to shareholders and others

Service and Fairness

- Setting an example in corporate social responsibility
- Providing ethical leadership
- Promoting environmental sustainability

Corporate Governance Statement (continued)

The Board is responsible for governing the business and affairs of the Islamic Bank and for exercising all such powers pursuant to the Articles of Association of the Islamic Bank. While carrying out their duties and responsibilities, the Board is committed to ensuring that the highest corporate governance standards are adhered to. The overall principle responsibilities of Board are as follows:

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

Roles of the Chairman, Managing Director, Non-Executive Director and Senior Independent Non-Executive Director

Chairman

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

The Chairman, Tuan Haji Khairuddin Ahmad presides over Board and General Meetings of the Islamic Bank. He ensures that the Board is well informed and effective; that Members, individually and as a group, have the opportunity to air differences, explore ideas and generate the collective views and wisdom necessary for the proper decision making of the Board and the Islamic Bank. Additionally, the Chairman has to ensure that General Meetings are conducted efficiently and in accordance with the requirement of the Companies Act 1965, and that the shareholder has adequate opportunity to air its views and obtain answers to its queries.

In furtherance thereto, the Chairman also has these responsibilities:

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

The Chairman, Tuan Haji Khairuddin Ahmad has over 40 years' experience in financial and general management. He started his career in banking as the Vice President/Group Head of Citibank N.A. where he gained various experiences in the field of operations, marketing and training. He was appointed as an Executive Director of Arab Malaysian Finance Berhad in 1999. Tuan Haji Khairuddin Ahmad was appointed as a director of the Group on 28 June 2004 and he has served the Group for almost 8 years.

Managing Director ("MD")

The MD, Tuan Haji Abd Rani Lebai Jaafar who has extensive financial experience and knowledge, is responsible for the day-to-day management of the business and operations of the Islamic Bank and in ensuring the successful implementation of policies and directions as formulated by the Board. The distinct and separate duties and responsibilities of the MD and the Chairman ensure the balance of power and authority in relation to the establishment of a fully effective Board.

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

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

In carrying out his tasks, the MD is supported by a Management Committee ("Manco") which comprises the MD as the Chairman and other Senior Management of the Islamic Bank. The Manco is governed by its terms of reference and has several objectives, among others to monitor and review the Islamic Bank's performance and formulate as well as discuss policies, strategies and activities of the Islamic Bank and in relevant circumstances, for recommendation to the Board of the Islamic Bank.

Non-Executive Directors

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

In discharging their responsibilities, the Independent Directors engage with the Management as well as internal and external auditors, plus participate in Board Committees within the Group. This is particularly so in the case of Tuan Haji Khairuddin Ahmad who is the Chairman of Group Risk Management Committee; YBhg Datuk Haji Faisal Siraj who is the Chairman of Group Nominating Committee and Group Remuneration and Human Resource Committee; Tuan Haji Md Ja'far Abdul Carrim who is the Chairman of Risk Management Committee of RHB Islamic Bank; and Mr Choong Tuck Oon who is the Chairman of the Group IT & Transformation Strategy Committee.

RHB Islamic Bank does not have any Non-Independent Non-Executive Directors on its Board of Directors.

Senior Independent Non-Executive Director

The Board has appointed Tuan Haji Md Ja'far Abdul Carrim as the Senior Independent Non-Executive Director ("SINED"), to whom concerns pertaining to the Group may be conveyed by the shareholder and the public.

Tuan Haji Md Ja'far Abdul Carrim has been an Independent Non-Executive Director of RHB Islamic Bank since 10 August 2009 and was appointed as its SINED since 25 November 2009. A civil engineer by training, Tuan Haji Md Ja'far Abdul Carrim's career of some 32 years includes a stint in the public sector as well as a broad range of activities in the corporate sector as Chief Executive Officer and at the board of directors level. Tuan Haji Md Ja'far Abdul Carrim also served on the Curriculum Development Board for Polytechnics at the Ministry of Higher Education, Malaysia and was Chairman of the Human Resources Consultative Panel at the Malaysian Productivity Corporation. He is also a Council Member for the Chair on Financial Planning for Old Age at University Malaya.

Senior Independent Non-Executive Director (continued)

The SINED has the following additional responsibilities:

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

All concerns relating to the Islamic Bank can be channelled to the SINED's email address, jafarcarrim@rhb.com.my.

BOARD CHARTER

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

CODE OF ETHICS AND BUSINESS CONDUCT

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

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

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

COMPANY SECRETARY

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

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

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

BOARD MEETINGS AND ACCESS TO INFORMATION

Board Meetings for the ensuing financial year are scheduled in advance before the end of the current financial year so that the Directors are able to plan ahead and accommodate the next year's Board Meetings into their respective meeting schedules.

The Board meets on a monthly basis to discuss business strategy, financial performance, potential strategic acquisition and alliances, matters pertaining to compliance and governance as well as reports on matters deliberated by Board Committees and their recommendations thereto. The Board also reviews regular management reports and information on corporate and business issues to assess performance against business targets and objectives. Special meetings are held where any direction or decisions are required expeditiously from the Board between the scheduled meetings. Scheduled Board meetings are structured with a pre-set agenda.

As part of the integrated risk management initiatives, the Board is informed of the decisions and salient issues deliberated by the Board Committees and main Management Committees through minutes of these Committees. At each Meeting, the Board also receives updates from the respective Chairmen/ representatives of the Group Audit Committee and Group Risk Management Committee on matters that have been deliberated at both Committees' Meetings, as well as on matters that require attention. This practice also applies for the rest of the entities of the Group.

To facilitate productive and meaningful deliberations, the proceedings of the Board Meetings are conducted in accordance with a structured agenda. The structured agenda together with comprehensive management reports are furnished to the Directors at least seven days prior to the scheduled Board Meeting date. This is to allow the Members of the Board to digest the issues at hand, seek clarification from the Management or the Company Secretary, if required and formulate opinions on matters to be deliberated at the meetings. Confidential papers or urgent proposals are presented and tabled at the Board Meetings under other business of Agenda upon consent of the Chairman being obtained.

The RHB Banking Group is firmly committed to embedding technological innovation throughout the length and breadth of our organisation, especially those elements that strengthen productivity, bolster stakeholder relationships and protect our environment. We are proud to be one of the first organisations in Malaysia to embark on the use of iPADs and eBooks at Board/Board Committee Meetings. This initiative also forms part of the Group's ongoing Boardroom Modernisation Project. The benefits of circulating encrypted Board and Board Committee papers electronically and use of iPAD in place of paper have resulted in mobility, faster movements of the documents, cost and time savings, greater convenience, better security and positive impact on the environment.

The RHB Banking Group firmly believes that "technology" is integral to the Group's business growth and as such is committed to leveraging technological innovation to elevate the competitive edge of the Group in all aspects.

Directors who are unable to attend the Board Meeting physically are allowed to participate in the deliberations and discussions via telephone or video-conferencing. All deliberations at Board Meetings, including dissenting views, are duly minuted as records of proceedings. Relevant Board's decisions are communicated to the Management within one working day from the Board's approval to enable Board decisions and directions to be executed on a timely basis. The draft minutes are circulated to the Directors and Management concerned for their review and comments before the final minutes are tabled for confirmation at the next Board Meeting. Management takes immediate action on all matters arising from the Board Meeting and updates the Board on the status of these matters at the next Board Meeting (where possible) or if deemed urgent via circulation of memorandum.

The Directors have a duty to declare immediately to the Board should they be interested in any transaction to be entered into directly and indirectly by the Islamic Bank and Group. An interested Director is required to abstain from deliberations and decisions of the Board on the transaction.

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

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

Corporate Governance Statement (continued)

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

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

The adoption of the above guidelines is in line with the various regulatory requirements and best practices.

The Board convened fifteen meetings for the financial year ended 31 December 2011. The attendance of each Director in office at the end of the financial year at the aforesaid Board meetings is set out below:

Name of Director	No. of Meetings Attended	Total Percentage of Attendance (%)
Tuan Haji Khairuddin Ahmad [1#]	3/3	100
Tuan Haji Md Ja'far Abdul Carrim	15/15	100
YBhg Datuk Haji Faisal Siraj [2]	15/15	100
Mr Charles Lew Foon Keong	13/15	87
Mr Choong Tuck Oon	15/15	100
YBhg Dato' Mohd Ali Mohd Tahir	14/15	93
Tuan Haji Abd Rani Lebai Jaafar	13/14	93

Notes:
[1] Appointed as the Director on 1 December 2011 and as Chairman on 1 January 2012.
[2] Relinquished position as Chairman on 31 December 2011.
[#] Based on the number of Board meetings attended since his appointment to the Board.
[*] Based on the number of Board meetings attended during his tenure of appointment in 2011.

YBhg Dato Abdullah Mat Noh, Mr Arul Kanda Kandasamy and Encik Johari Abdul Muid resigned from the Board of RHB Islamic Bank on 1 March 2011, 10 May 2011 and 14 November 2011, respectively.

Pursuant to the BNM's CG Guidelines, individual directors must attend at least 75% of the Board Meetings held in each financial year. For the year under review, all Directors complied with the attendance requirement as stipulated by BNM.

During the financial year, RHB Islamic Bank held a Brainstorming/ Strategy Retreat in July 2011 to gather ideas and formulate strategies in moving forward. A Group Board Strategy Retreat was also held in the fourth quarter to deliberate specifically on strategic aspects (including the Group's long term corporate strategies and business plans) and performance targets of the Group. During the Retreat, the Board and Senior Management of the Group collectively agreed on the Mission, Vision and Core Values as well as long-term strategies.

APPOINTMENTS AND RE-ELECTION TO THE BOARD

RHB Islamic Bank is governed by BNM's CG Guidelines in relation to the appointment of new Directors and the re-appointment of its existing Directors upon the expiry of their respective tenures of office as approved by BNM.

While the Board is responsible for the appointment of new Directors, the Group Nominating Committee is delegated with the role of reviewing and assessing the appointments/ re-appointments of Directors. For the appointment of new Directors, a thorough and comprehensive evaluation of the background, skills, knowledge and experience of the nominee is undertaken by the Group Nominating Committee before a recommendation is made to the Board for approval. The Group Nominating Committee will also meet up with candidates, where possible. As for the re-appointment of existing Directors, the Group Nominating Committee also refers to the results of the individual assessments conducted via the Board Effectiveness Evaluation. The application for the appointment/re-appointment of Directors will be submitted to BNM for consideration once the same is approved by the Board.

The Group has in place an internal guideline on the Tenure of Appointment and Re-appointment of Independent Directors with the main objective of preserving the independence of Independent Directors. Generally, the tenure of appointment or re-appointment of Independent Directors within the Group is for a two-year term with a maximum service tenure of ten years. Independent Directors over seventy years of age will not be eligible for appointment or re-appointment on the Board of any of the companies within the RHB Capital Group and shall retire at the next Annual General Meeting of the company concerned.

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

TRAINING & DEVELOPMENT

All newly appointed Directors are required to attend an induction programme organised by the Management of the Group, to provide the Directors with in-depth information of the industry as well as an overview of the business operations of the Group. During the induction programme, the relevant Management will brief the newly appointed Directors on the functions and areas of responsibility of their respective divisions. This enables Directors to familiarise themselves with the operations and organisational structure of the Group. It also provides them with a platform to establish effective channels of communication and interaction with Management.

Each new Director receives a comprehensive Director's induction kit to assist them in building a detailed understanding of the Group's operations, the longer term direction and the statutory obligations.

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

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

- to ensure consistency throughout the RHB Banking Group in developing an in-house orientation and continuing education programme for its Directors to familiarise themselves with the industry and the Islamic Bank/ Group; and

- to provide Directors with a better understanding of the nature of business, corporate strategy, risks of the business, financial overview, risk management strategy, legal requirements, duties, responsibilities and rights from the legal viewpoint, moral and ethical obligations as well as good corporate governance in the ever-changing economic climate.

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

The Company Secretary facilitates the organisation of internal training programmes and Directors' attendance of external programmes, and keeps a complete record of the training received and attended by the Directors.

Corporate Governance Statement (continued)

Conferences, seminars and training programmes attended by each Director of the Company in 2011 encompassed various topics, including the following:

Directors	Training Programmes
Tuan Haji Khairuddin Ahmad	Managing Risk in Mortgage Financing
	Briefing by Messrs PricewaterhouseCoopers on Goods and Services Tax
	Implementation of IRB and Management of Risk Going Forward
	Strategic IT Workshop for Board of Directors and Top Management
	FIDE: Board Risk Management Committee: Managing Risk in Banks
	Anti-Money Laundering/ Counter Financing of Terrorism Training for Directors
YBhg Datuk Haji Faisal Siraj	Directors Duties & Governance Conference 2010
	Performance Pays - The Report on Non-Executive Directors Remuneration
	Internal Capital Adequacy Assessment Process
	Strategic IT Workshop for Board of Directors and Top Management
	FIDE: Nomination/ Remuneration Committee Programme
	Anti-Money Laundering/ Counter Financing of Terrorism Training for Directors
	Walkthrough for Board Members Online/ Mobile, Reflex and Cards
Tuan Haji Md Ja'far Abdul Carrim	Improving Board Effectiveness : Best Practices and Challenges
	Internal Capital Adequacy Assessment Process
	Bank 2.0 – How Customer Behaviour & Technology Is Changing Banking Forever
	Managing Risk in Mortgage Financing
	Islamic Banking & Finance Fundamentals
	Briefing by Messrs PricewaterhouseCoopers on Goods and Services Tax
	Presentation on State of Financial Services
	(i) The Understanding of the Financial Reporting Standard 139 – Financial Instruments : Recognition and Measurement; and (ii) Revised Bank Negara Malaysia GP3: Classification & Impairment Provisions for Loans/ Financing
	Strategic IT Workshop for Board of Directors and Top Management
Mr Choong Tuck Oon	1-day In-house Orientation Programme
	MICG Directors Duties & Governance 2011
	Internal Capital Adequacy Assessment Process
	FIDE Core 2011: Risk Management Committee - Risk Management in Islamic Finance
	Strategic IT Workshop for Board of Directors and Top Management
	Anti-Money Laundering/Counter Financing of Terrorism Training for Directors
	Walkthrough for Board Members Online/Mobile, Reflex and Cards
	FIDE: Board IT Governance & Risk Management: Breaking the Technology Code
YBhg Dato' Mohd Ali Mohd Tahir	ICGN 2011 Mid-Year Conference Asian Corporate Governance – The Future Steps
	MICG Directors Duties & Governance 2011
	Implementation of IRB and Management of Risk Going Forward
	Internal Capital Adequacy Assessment Process
	FIDE on Risk Management Committee: Managing Risks in Financial Institutions (Insurance)
	FIDE: Board Risk Management Committee: Managing Risk in Banks

BOARD PERFORMANCE EVALUATION

The Board has since 2006 undertaken the Board Effectiveness Evaluation ("BEE") exercise on the Board and Board Committees with the objective of assessing the effectiveness of the Board and Board Committees as a whole, as well as the individual Directors. The BEE is designed to maintain cohesion of the Board, and to improve the Board's effectiveness as well as draw the Board's attention to key areas that need to be addressed.

The performance indicators on which the Board's effectiveness is evaluated are as follows:

Part A: Board Effectiveness Assessment

1. Board Responsibilities
2. Board Processes
3. Board Administration Tools
4. Board Composition
5. Board Conduct
6. Board Interaction and Communication
7. Chairman Evaluation
8. Chief Executive Officer Evaluation

Part B: Board of Directors - Self/ Peer Assessment

1. Board Dynamics and Participation
2. Integrity and Independence
3. Technical Competencies
4. Recognition

Part C: Board Committees Assessment

1. Committee Evaluation
   a. Structure and Processes
   b. Accountability and Responsibilities

2. Individual Committee Members' Self/ Peer Assessment Questions on attributes and quality aspects relating to:
   a. Participation levels and contribution
   b. Technical competencies

The BEE is based on a combination of self and peer assessment methodologies performed via a customised questionnaire. To ensure integrity and independence of the appraisal process, Messrs PricewaterhouseCoopers Advisory Services Sdn Bhd ("PwCAS") was engaged to collate and tabulate the results of the evaluation. The BEE also includes interviews with Directors by PwCAS for more in-depth analysis of results. PwCAS will discuss the detailed BEE results with the Chairman of the Board as well as the Chairman of the Group Nominating Committee. A summarised report will be presented to the Group Nominating Committee as well as the Board of the Islamic Bank to enable the Board to identify areas for improvement. The Board will then analyse the gaps and put in place appropriate measures to ensure the overall effectiveness of the Boards within RHB Banking Group.

BOARD PROFESSIONALISM

Directorships in Other Companies

The Directors of the Islamic Bank acknowlege the importance of allocating sufficient time to attend to the affairs of the Islamic Bank and at the same time continuously ensure their full commitment towards the business needs of the Islamic Bank, within the parameters of the governing laws and regulations.

Insider Trading

In accordance with the MMLR of Bursa Securities and the relevant provisions of the Capital Markets & Services Act 2007, Directors, key Management personnel and principal officers of RHB Banking Group are prohibited from trading in securities or any kind of property based on price sensitive information and knowledge which have not been publicly announced. Notices on the closed period for trading in RHB Capital Berhad securities are circulated to Directors, key Management personnel and principal officers of RHB Banking Group who are deemed to be privy to any price sensitive information and knowledge, in advance of whenever the closed period is applicable.

Directors' and Officers' ("D&O") Insurance

Directors and officers of RHB Banking Group are covered against liabilities arising from holding office as Directors, by virtue of the D&O insurance coverage. The insurance does not, however, provide coverage in the event that a Director or a Member of management is proven to have acted fraudulently or dishonestly. The Directors contribute towards the premium payment for this policy.

GROUP BOARD COMMITTEES

To enable the Board to devote more time for strategic and critical matters, the Board has delegated specific responsibilities to the following Board Committees, residing either at the Islamic Bank, at RHB Bank Berhad or at RHB Capital Berhad level:

At RHB Capital Berhad level

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

At RHB Bank Berhad level

- **Group Audit Committee;**
- **Group Credit Committee;**
- **Group Recovery Committee ("GRC")** *(dissolved with effect from 31 December 2011 and the Discretionary Powers and responsibilities of the GRC have been vested to Group Credit Committee); and*
- **Group IT & Transformation Strategy Committee.**

At RHB Islamic Bank Berhad level

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

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

The relevant minutes/extract minutes of meetings of all Group Board Committees/Risk Management Committee are tabled before the respective Boards for notation. On matters reserved for the Board and where Board Committees have no authority to make decisions, proposals will be submitted for Board's consideration.

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

Group Nominating Committee

The Group Nominating Committee solely comprises Independent NEDs. Meetings of the Group Nominating Committee are held as and when required but the Group Nominating Committee often meets on monthly basis. The Group Nominating Committee met thirteen times during financial year 2011.

The composition of the Group Nominating Committee and the attendance of the members at meetings held in 2011 are as follows:

Name of Directors	Attendance at Meetings
YBhg Datuk Haji Faisal Siraj (Independent Non-Executive Director/ Chairman)	13/13 (100%)
YBhg Dato' Mohamed Khadar Merican (Independent Non-Executive Director)	13/13 (100%)
YBhg Dato' Saw Choo Boon (Independent Non-Executive Director)	13/13 (100%)
YBhg Dato' Teo Chiang Liang (Independent Non-Executive Director)	11/13 (85%)
Mr Choong Tuck Oon [1#] (Independent Non-Executive Director)	1/1 (100%)
Tuan Haji Md Ja'far Abdul Carrim [1#] (Independent Non-Executive Director)	1/1 (100%)
Previous Member: Encik Johari Abdul Muid [2*] (Non-Independent Non-Executive Director)	8/12 (67%)

Notes:
[1] Appointed as a Member on 14 November 2011.
[2] Ceased as a Member on 14 November 2011.
[#] Based on the number of meetings attended since his appointment as a Member in 2011
[*] Based on the number of meetings attended during his tenure of appointment in 2011

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

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

Corporate Governance Statement (continued)

Group Remuneration and Human Resource Committee

The Group Remuneration and Human Resource Committee solely comprises Independent NEDs. Meetings of the Group Remuneration and Human Resource Committee are held as and when required but the Group Remuneration and Human Resource Committee often meets on monthly basis. The Committee met fourteen times during financial year 2011.

The composition of the Group Remuneration and Human Resource Committee and the attendance of the members at meetings held in 2011 are as follows:

Name of Directors	Attendance at Meetings
YBhg Datuk Haji Faisal Siraj (Independent Non-Executive Director/ Chairman)	14/14 (100%)
YBhg Dato' Mohamed Khadar Merican (Independent Non-Executive Director)	14/14 (100%)
YBhg Dato' Saw Choo Boon (Independent Non-Executive Director)	14/14 (100%)
YBhg Dato' Teo Chiang Liang (Independent Non-Executive Director)	12/14 (86%)
Mr Choong Tuck Oon [1#] (Independent Non-Executive Director)	2/2 (100%)
Tuan Haji Md Ja'far Abdul Carrim [1#] (Independent Non-Executive Director)	2/2 (100%)
Previous Member: Encik Johari Abdul Muid [2*] (Non-Independent Non-Executive Director)	9/12 (75%)

Notes:
[1] Appointed as a Member on 14 November 2011.
[2] Ceased as a Member on 14 November 2011.
[#] Based on the number of meetings attended since his appointment as a Member in 2011
[*] Based on the number of meetings attended during his tenure of appointment in 2011

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

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

Group Risk Management Committee

The Group Risk Management Committee comprises solely Independent NEDs. The Committee met thirteen times during financial year 2011.

The composition of the Committee and the attendance of the members at meetings held in 2011 are as follows:

Name of Directors	Attendance at Meetings
Tuan Haji Khairuddin Ahmad (Independent Non-Executive Director/ Chairman)	13/13 (100%)
Mr Patrick Chin Yoke Chung (Independent Non-Executive Director)	12/13 (92%)
Tuan Haji Md Ja'far Abdul Carrim (Independent Non-Executive Director)	13/13 (100%)
Mr Choong Tuck Oon [1#] (Independent Non-Executive Director)	13/13 (100%)
YBhg Dato' Saw Choo Boon [1#] (Independent Non-Executive Director)	2/2 (100%)
Previous Member: Encik Johari Abdul Muid [2*] (Non-Independent Non-Executive Director)	9/11 (82%)

Notes:
[1] Appointed as a Member on 14 November 2011.
[2] Ceased as a Member on 14 November 2011.
[#] Based on the number of meetings attended since his appointment as a Member in 2011
[*] Based on the number of meetings attended during his tenure of appointment in 2011

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

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

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

Group Audit Committee

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

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

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

The composition of the Group Audit Committee and the attendance of the Members thereof together with the terms of reference and activities of the Group Audit Committee during the financial year are set out in the Group Audit Committee Report at pages 046 to 052 of this Annual Report.

Group Credit Committee

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

The Committee met thirty-seven times during financial year 2011.

The composition of the Committee and the attendance of the Members at meetings held in 2011 are as follows:

Name of Directors	Attendance at Meetings
YBhg Dato' Mohamed Khadar Merican [1#] (Independent Non-Executive Director/ Chairman)	35/37 (95%)
Tuan Haji Khairuddin Ahmad (Independent Non-Executive Director)	34/37 (92%)
Encik Abdul Aziz Peru Mohamed [2#] (Independent Non-Executive Director)	31/33 (94%)
Mr Patrick Chin Yoke Chung [3#] (Independent Non-Executive Director)	4/4 (100%)
Previous Members: YBhg Dato Abdullah Mat Noh [4*] (Independent Non-Executive Director)	4/4 (100%)
Encik Johari Abdul Muid [5*] (Non-Independent Non-Executive Director)	26/33 (79%)

Notes:
[1] Appointed as Chairman on 1 March 2011.
[2] Appointed as a Member on 1 March 2011.
[3] Appointed as a Member on 14 November 2011.
[4] Ceased as Chairman on 1 March 2011.
[5] Ceased as a Member on 14 November 2011.
[#] Based on the number of meetings attended since his appointment as a Member in 2011
[*] Based on the number of meetings attended during his tenure of appointment in 2011

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

- to affirm, veto or impose additional conditions on all credit, stock/futures broking and debt and equity underwriting applications for amounts above the defined thresholds of the Central Credit Committee.
- to oversee the management of impaired loans/assets as well as monitor the recovery of impaired loans/assets to enhance the Committee's oversight of the loan/asset recovery functions.
- to oversee the performance of rescheduled and restructured accounts to minimise credit loss and maximise the recovery of such accounts.
- to endorse and recommend write-offs to the repective Boards for approval.
- to ensure that credits and underwriting approved by the Central Credit Committee adhere to the Group Credit Policy, stock/futures broking credit policy and the Underwriting Policy, Guidelines and Procedures of RHB Bank Bhd, RHB Bank (L) Ltd, RHB Investment Bank Bhd and RHB Islamic Bank Bhd.
- to endorse all policy loans/financing and loans/financing required by Bank Negara Malaysia to be referred to the respective Boards for approval.

Corporate Governance Statement (continued)

Group IT & Transformation Strategy Committee

The Group IT & Transformation Strategy Committee comprises three Independent NEDs, the Group MD and the MD of RHB Bank Berhad.

The Committee met thirteen times during financial year 2011.

The composition of the Committee and the attendance of the Members at meetings held in 2011 are as follows:

Name of Directors	Attendance at Meetings
Mr Choong Tuck Oon (Independent Non-Executive Director/ Chairman)	13/13 (100%)
Mr Ong Seng Pheow (Independent Non-Executive Director)	13/13 (100%)
YBhg Dato' Mohd Ali Mohd Tahir [1#] (Independent Non-Executive Director)	12/12 (100%)
Mr Kellee Kam Chee Khiong [2*] (Independent Non-Executive Director)	6/10 (60%)
Encik Johari Abdul Muid (Managing Director)	10/13 (77%)
Previous Members: YBhg Dato' Tajuddin Atan [3*] (Group Managing Director)	2/3 (67%)
Mr Renzo Christopher Viegas [4*] (Deputy Managing Director)	5/9 (56%)

Notes:
[1] Appointed as a Member on 1 February 2011
[2] Appointed as a Member on 16 March 2011
[3] Ceased as a Member on 31 March 2011
[4] Appointed as a Member on 16 March 2011 and ceased as a Member on 14 November 2011
[#] Based on the number of meetings attended since his appointment as a Member in 2011
[*] Based on the number of meetings attended during his tenure of appointment in 2011

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

Group Recovery Committee

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

The Committee was dissolved with effect from 31 December 2011 and the Discretionary Powers and responsibilities of the Committee have been vested to Group Credit Committee since then.

The Committee met eighteen times during financial year 2011.

The composition of the Committee and the attendance of the Members at meetings held in 2011 are as follows:

Name of Directors	Attendance at Meetings
Tuan Haji Khairuddin Ahmad (Senior Independent Non-Executive Director/Chairman)	18/18 (100%)
YBhg Dato' Mohamed Khadar Merican (Independent Non-Executive Director)	17/18 (95%)
YBhg Dato' Teo Chiang Liang (Independent Non-Executive Director)	15/18 (83%)
Previous Members: YBhg Dato' Mohd Ali Mohd Tahir [1*] (Independent Non-Executive Director)	12/12 (100%)
YBhg Dato Abdullah Mat Noh [2*] (Independent Non-Executive Director)	4/4 (100%)

Notes:
[1] Appointed as a Member on 1 March 2011 and ceased as a Member on 14 November 2011
[2] Ceased as a Member on 1 March 2011
[*] Based on the number of meetings attended during his tenure of appointment in 2011

Board Committee At RHB Islamic Bank Berhad level

Risk Management Committee

The Risk Management Committee comprises three Independent NEDs of whom one is the Chairman. During the financial year ended 31 December 2011, a total of fifteen meetings were held and details of attendance of each member at the Risk Management Committee Meetings held during the year as at 31 December 2011 are as follows:

Name of Directors	Attendance at Meetings
Tuan Haji Md Ja'far Abdul Carrim (Independent Non-Executive Director/Chairman)	15/15 (100%)
YBhg Datuk Haji Faisal Siraj (Independent Non-Executive Director)	15/15 (100%)
YBhg Dato' Mohd Ali Mohd Tahir [1#] (Independent Non-Executive Director)	13/14 (93%)
Previous members: YBhg Dato Abdullah Mat Noh [2*] (Independent Non-Executive Director)	2/2 (100%)
Encik Johari Abdul Muid [3*] (Independent Non-Executive Director)	12/13 (92%)

Notes:
[1] Appointed as a Member on 1 February 2011.
[2] Ceased as a Member on 1 March 2011.
[3] Ceased as a Member on 14 November 2011.
[#] Based on the number of meetings attended since his appointment as a Member in 2011
[*] Based on the number of meetings attended during his tenure of appointment in 2011

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

- to ensure that the management of risk exposures in the bank are aligned to the principles of Islamic Banking – absence of interest based transactions (Riba'), avoidance of economic activities involving speculation (Gharar), introduction of Islamic taxation (Zakat) & discouragement of production of goods and services which contradicts the value pattern of Islam (Haram);
- to ensure core risk policies are consistent with the RHB Group by setting tolerance level within prudent limits, facilitate the implementation of BNM's The New Capital Adequacy Framework for Islamic Banks, Internal Capital Adequacy Assessment Process (Pillar 2), Basel II Accord and Islamic Financial Services Board (IFSB) Standards;
- to oversee execution of risk policies and related decisions of the Board of Directors (BOD), as is appropriate;
- to provide oversight for major risk categories which are unique to Islamic finance such as
  a) Displaced Commercial Risk;
  b) Withdrawal Risk;
  c) Rate of Return Risk;
  d) Fiduciary Risk and Reputational Risk; and
- to ensure that prior to the launching of product, that risks unique to Islamic finance are identified and risk mitigation measures are in place.

Group Shariah Committee

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

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

- to advise the Group on all Shariah matters to ensure the business operations of the Group comply with Shariah Principles where applicable; and
- to advise the Group to consult the National Shariah Advisory Council ("NASC"), where relevant, on any Shariah matters which have not been resolved or endorsed by NASC.

Other Management Committees

Apart from the above Board Committees, the Group has established Management Committees to assist the Board and Management in managing the Group's businesses, activities and operations. Among the major Management Committees are:

- Group Management Committee
- Group Assets and Liabilities Committee
- Central Credit Committee
- Group Business Continuity Management Steering Committee
- Management Committees at the relevant subsidiary level
- Management Audit Committees at the relevant subsidiary level

DIRECTORS' REMUNERATION

In setting the remuneration of the NEDs, RHB Banking Group has established a common reference (incorporating the NEDs' Remuneration Framework) at levels which will enable the Group to effectively attract and retain Directors with the relevant experience and expertise required for the stewardship of the Group. For the NEDs, the level of remuneration reflects the level of responsibilities undertaken by the particular NED concerned within the Company and of the Group. The remuneration strategy takes into consideration the remuneration level of Directors within the industry and is reviewed at least once every two years.

This reference is also aimed at applying the overall guiding principles in respect of the remuneration of NEDs in ensuring that the remuneration levels are commensurate with the responsibilities, risks and time commitment of Boards/Board Committees, based on the adopted tiering system.

The remuneration package of the NEDs of the Islamic Bank comprises the following:

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

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

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

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

In order to remain competitive and consistent with the culture, objective and strategy of the Group, the remuneration framework of the NEDs are reviewed periodically to ensure that they remain competitive with the market. In 2011, the Group undertook a review of NEDs' remuneration to ensure that the remuneration is commensurate with responsibilities, risks and time commitment of NEDs. The proposed revised NEDs' remuneration pertaining to Directors' fees will be tabled at the forthcoming Annual General for shareholders' approval.

Further details on the aggregate remuneration of the Directors of the Islamic Bank (comprising remuneration received and/or receivable from the Islamic Bank during the financial year 2011) are disclosed under Note 25 of the Notes to the Financial Statements in this Annual Report.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Stakeholder Communications

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

The Group places strong emphasis on clear, comprehensive, timely and equitable dissemination of information on the Group's business activities, the milestones achieved, the developments that have taken place and our financial performance. Financial information is supplied continuously in annual reports, quarterly results, press releases as well as announcements to Bursa Securities.

All shareholder information is available electronically as soon as they are announced and published. For ease of reference, all relevant information on corporate and financial developments is posted on the Investor Relations section of the Group's corporate website at www.rhb.com.my.

Investor Relations

The investor relations' function is growing as it plays an important role in RHB Banking Group's corporate governance framework. With the Group's visibility escalating, the investor relations team increased its efforts to engage constantly with investors. As part of best investor relations practice, RHB Banking Group seeks to provide accurate, consistent and timely information about the Group, including its strategies and activities through a continuous and dynamic investor relations programme. The Group also maintains close rapport with analysts and fund managers, whose analysis and reports help investors make their investment decisions.

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

A Directors' Responsibility Statement for the Annual Audited Financial Statements of the Islamic Bank is set out on page 057 of this Annual Report.

Internal Control

The Board has overall responsibility for the Islamic Bank's internal control systems that include financial and operational control, risk management, and compliance with laws and regulations as well as internal policies and procedures. The size and complexity of the Islamic Bank's operations necessitate the managing of a wide and diversed spectrum of risks. The Islamic Bank's system of internal controls that is in place is designed to manage rather than eliminate the risk of failure to achieve the business objectives, and can only provide a reasonable and not absolute assurance against material misstatement or loss.

The Board considers that the Islamic Bank's risk management framework and system of internal control maintained by the Management and which was in place throughout the financial year and up to and as of the date of this report, is adequate to safeguard the shareholder's investment and the Group's assets.

An overview of the Islamic Bank's systems of internal control is contained in the Statement on Internal Control set out on pages 041 to 045 of this Annual Report.

Corporate Governance Statement (continued)

Relationship with External Auditors

The Board maintains a formal and transparent professional relationship with the External Auditors via the Group Audit Committee. The role of the Group Audit Committee in relation to the External Auditors is disclosed in the Group Audit Committee Report set out on pages 046 to 052 of this Annual Report.

Related Party Transactions

The Group has put in place a Policy on Related Party Transaction Review Process with the objective which serves as a guide for reviewing and reporting of all related party transactions. All related party transactions are reviewed by Group Legal before any submission is made to the Group Audit Committee for deliberation.

Details of these transactions are set out under Notes 29 to the Financial Statements on pages 118 to 121 of this Annual Report.

Whistle-Blowing Policy

The Group has also adopted a whistle-blowing policy in strengthening its governance practice. The policy will provide employees with accessible avenue to report on suspected fraud, corruption, dishonest practices or other similar circumstances. This policy is to encourage the reporting of such matters in good faith, with the confidentiality of the person making such reports being protected from reprisal, in the best possible manner. For the current year under review, two complaints pursuant to the Whistle Blowing Policy were received and both were investigated and pursued accordingly based on the requirement of the Policy.

The Group's internal control issues are administered by the following persons:-

(i) Puan Fazlina Mohamed Ghazalli
Head, Group Legal
Email: fazlina.ghazalli@rhb.com.my

(ii) Ms Wong Yih Yin
Head, Group Internal Audit
Email: wong_yih_yin@rhbbank.com.my

COMPLIANCE WITH THE CODE

The Board is satisfied that the Islamic Bank and Group have complied with the principles and best practices outlined in the Code as at 31 December 2011.

RHB Banking Group has mapped its current corporate governance practices with Securities Commission Malaysia Corporate Governance Blueprint 2011 ("SC Blueprint") and identified relevant gaps thereto. The Board is pleased to report that the Group is generally in compliance with the SC Blueprint.

This Statement of Corporate Governance was approved by the Board of Directors on 28 February 2012.

Statement on Internal Control

INTRODUCTION

The Board of Directors ("Board") recognises how important it is to maintain a sound system of internal control in RHB Islamic Bank Berhad (the "Islamic Bank") to ensure good corporate governance as well as to safeguard shareholders' investments and the Islamic Bank's assets. The system of internal control that we have in place enables us to drive our business operations in a more efficient and effective manner, ensures sound financial reporting and control procedures, as well as compliance with the relevant laws and regulations.

Set out below is the Board's Statement on Internal Control, which has been prepared in accordance with the "Guidance for Directors of Public Listed Companies" issued by Bursa Malaysia Securities Berhad.

RESPONSIBILITY

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

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

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

Management continuously assists the Board in the implementation of approved policies and procedures on risk and control for application/adherence across the Islamic Bank, and ensure that such policies and procedures are being continuously reviewed in order to meet the changing financial landscape.

KEY INTERNAL CONTROL PROCESSES

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

- **Risk Management Framework**

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

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

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

Statement on Internal Control (continued)

KEY INTERNAL CONTROL PROCESSES (CONTINUED)

- **Risk Management Framework (continued)**

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

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

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

  Amongst the other committees set up in the Group to manage specific areas of risk are the Group Assets & Liabilities Management Committee, Central Credit Committee, Group Credit Committee ("GCC"), Group Recovery Committee ("GRC"), Group IT and Transformation Strategy Committee, and Group Basel Committee. The GRC was dissolved on 31 December 2011 and that the Discretionary Powers and responsibilities held by the GRC have been incorporated into the Terms of Reference of GCC.

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

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

- **Internal Audit Function**

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

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

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

  With regard to Shariah audit, Group Internal Audit has established its own Shariah Audit Program, which was endorsed by the Group Shariah Committee, for guidance to the Group Internal Auditors in terms of auditing Shariah matters. Findings and recommendations arising from Shariah audits are communicated to the Group AC and Group Shariah Committee for notification and deliberation.

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

KEY INTERNAL CONTROL PROCESSES (CONTINUED)

- **Group Compliance Framework**

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

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

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

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

  In addition, an Islamic compliance function has been established in the Group in order to assist the Group compliance function in monitoring the Islamic banking activities of the Islamic Bank. The Islamic Bank's state of compliance is reported to the Risk Management Committee and Islamic Board on a monthly basis.

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

- **Shariah Compliant**

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

  The Shariah Framework for the Group has also been put in place which encompasses the concept of Shariah, Islamic banking business, governance and reporting structure, roles and responsibilities, Shariah compliance strategy, and Shariah approval procedures.

- **Board Committees**

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

  The Group Board Committees residing at RHB Bank Berhad are as follows:

  - Group Credit Committee;
  - Group Recovery Committee;
  - Group Audit Committee; and
  - Group IT and Transformation Strategy Committee.

  The followings are the Group Board Committees that reside at RHB Capital Berhad:

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

KEY INTERNAL CONTROL PROCESSES (CONTINUED)

- **Central Management Committee**

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

- **Authority Limits**

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

- **Internal Policies and Procedures**

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

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

- **Budgeting Process**

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

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

- **Performance Review**

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

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

KEY INTERNAL CONTROL PROCESSES (CONTINUED)

- **Human Capital Management**

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

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

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

- **Group Code of Ethics And Conduct**

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

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

- **Suspicious Transaction Reporting and Whistle Blowing**

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

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

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

- **Incident Management Framework**

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

Group Audit Committee Report

ACTIVITIES OF THE GROUP AUDIT COMMITTEE AND THE INTERNAL AUDIT FUNCTION DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

Activities Of Group Audit Committee

The Group Audit Committee ("Group AC") presently comprises five (5) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2011 ("year"), a total of twenty one (21) Group AC meetings were held and details of attendance of each member at the Group AC meetings held during the year are as follows:-

Composition of the Group AC	Attendance at Meetings
1. Ong Seng Pheow (Chairman/Independent Non-Executive Director)	21/21 (100%)
2. Dato' Othman Jusoh (Member/Independent Non-Executive Director)	21/21 (100%)
3. Tuan Haji Md Ja'far Abdul Carrim (Member/Independent Non-Executive Director)	20/21 (95%)
4. Dato' Saw Choo Boon (Member/Independent Non-Executive Director)	19/21 (90%)
5. Dato' Mohd Ali Mohd Tahir (Member/Independent Non-Executive Director) - Appointed as member on 14 November 2011	2/2 (100%)
6. Patrick Chin Yoke Chung (Member/Independent Non-Executive Director) - Ceased to be a member on 14 November 2011	19/19 (100%)

On 14 November 2011, Dato' Mohd Ali Mohd Tahir, an Independent Non-Executive Director, was appointed as a new member of the Group AC. Patrick Chin Yoke Chung, an Independent Non-Executive Director, ceased to be a member of the Group AC on 14 November 2011.

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

- Reviewed the unaudited quarterly and half-year financial results and the annual audited financial statements of RHB Islamic Bank Berhad prior to their approval by the Board. It also considered the accounting standards applicable in the preparation of the financial statements;
- Reviewed the related party transactions entered into by RHB Islamic Bank Berhad and its related parties;
- Reviewed the audit plan of the external auditors, the audit strategy and scope of work for the year, as well as the results of their annual audit;
- Met twice with the external auditors for discussion without the presence of the management;
- Reviewed the non-audit services rendered by the external auditors and the related fees;
- Evaluated the performance of the external auditors and made recommendations to the Board for their appointment and audit fees;

Activities Of Group Audit Committee (continued)

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

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

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

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

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

(a) Banking and Finance
  - Implementation of Internal Ratings Based Standards and Management of Risk Going Forward
  - Internal Capital Adequacy Assessment Process (ICAAP)
  - How Customer Behaviour & Technology is changing Banking forever
  - Strategy IT Workshop for Board of Directors and Top Management
  - BNM Financial Institutions Director Education Program (FIDE): Insurance Insights
  - Walkthrough for Board Members – Online/Mobile, Reflex and Cards
  - FIDE Core 2011

(b) Board and Corporate Governance
  - International Corporate Governance Network 2011 Mid Year Conference
  - Asian Corporate Governance – The Future Steps
  - Malaysian Institute of Corporate Governance Directors Duties & Governance 2011
  - Improving Board Effectiveness: Best Practices and Challenges
  - FIDE on Risk Management Committee: Managing Risks in Financial Institutions (Insurance)
  - FIDE: Board Risk Management Committee: Managing Risk in Banks
  - FIDE: Board IT Governance & Risk Management Breaking the Technology Code
  - Workshop on The Role of Corporate Governance in Creating Effective Boards

Internal Audit Function

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

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

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

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

TERMS OF REFERENCE OF THE GROUP AUDIT COMMITTEE

Objectives

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

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

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

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

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

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

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

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

Duties And Responsibilities

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

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

3. To ensure independent review of risk management and capital management process relating to the Internal Capital Adequacy Assessment Process (ICAAP) for their integrity, objectivity and consistent application, is conducted.

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

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

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

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

TERMS OF REFERENCE OF THE GROUP AUDIT COMMITTEE (CONTINUED)

Duties And Responsibilities (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TERMS OF REFERENCE OF THE GROUP AUDIT COMMITTEE (CONTINUED)

Duties And Responsibilities (continued)

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

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

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

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

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

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

Authority

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

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

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

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

TERMS OF REFERENCE OF THE GROUP AUDIT COMMITTEE (CONTINUED)

Meetings

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

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

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

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

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

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

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

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

TERMS OF REFERENCE OF THE GROUP AUDIT COMMITTEE (CONTINUED)

Membership

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

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

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

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

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

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

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

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

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

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

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

Financial Statements

Directors' Report

The directors submit herewith their report together with the audited financial statements of the Bank for the financial year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in the Islamic banking business and is committed to offer customers a comprehensive range of products and services in accordance with its Articles of Association and Shariah principles.

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

FINANCIAL RESULTS

	RM'000
Profit before taxation	137,790
Taxation	(39,936)
Net profit for the financial year	97,854

DIVIDENDS

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

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

RESERVES AND PROVISIONS

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

ISSUE OF SHARES

During the financial year, the Bank increased its issued and paid up share capital from RM523,424,000 to RM773,424,000 via the issuance of 250,000,000 new ordinary shares of RM1.00 each to RHB Bank Berhad, its immediate holding company.

The new ordinary shares issued during the financial year ranked *pari passu* in all respects with the existing ordinary share of the Bank.

NON-PERFORMING FINANCING AND ADVANCES

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

NON-PERFORMING FINANCING AND ADVANCES (CONTINUED)

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

CURRENT ASSETS

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

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

VALUATION METHOD

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

CONTINGENT AND OTHER LIABILITIES

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

(a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or

(b) any contingent liability of the Bank which has arisen since the end of the financial year other than in the ordinary course of business.

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

DIRECTORS OF THE BANK

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

Haji Khairuddin Ahmad	(Appointed on 1 December 2011)
Haji Md Ja'far Abdul Carrim	
Datuk Haji Faisal Siraj	
Charles Lew Foon Keong	
Choong Tuck Oon	
Dato' Mohd Ali Mohd Tahir	
Haji Abd Rani Lebai Jaafar	
Johari Abdul Muid	(Resigned on 14 November 2011)
Arul Kanda a/l Kandasamy	(Resigned on 10 May 2011)
Dato Abdullah Mat Noh	(Resigned on 1 March 2011)

Pursuant to Article 68 of the Bank's Articles of Association, Haji Md Ja'far Abdul Carrim and Mr Choong Tuck Oon retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Pursuant to Article 73 of the Bank's Articles of Association, Haji Khairuddin Ahmad who was appointed during the financial year, retire at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election.

DIRECTORS' BENEFITS

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

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

DIRECTORS' INTERESTS IN SECURITIES

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

	<------- Number of Ordinary Shares of RM1.00 each			------>
	As at 1.1.2011/date of appointment	Bought	Sold	As at 31.12.2011
Ultimate Holding Company RHB Capital Berhad				
Choong Tuck Oon -direct	1,000	30	-	1,030
Haji Khairuddin Ahmad -indirect *	18,552	-	-	18,552

* - Deemed interest by virtue of the shareholding held by spouse pursuant to Section 134 (12) (c) of the Companies Act, 1965.

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

RESPONSIBILITY STATEMENT BY THE BOARD OF DIRECTORS

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

It is the responsibility of the Directors to ensure that the financial reporting of the Bank present a true and fair view of the state of affairs of the Bank as at 31 December 2011 and of the financial results and cash flows of the Bank for the financial year ended 31 December 2011.

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

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

The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out in page 162 of the financial statements.

CORPORATE GOVERNANCE STATEMENT

Introduction

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

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

(A) BOARD OF DIRECTORS

Composition of the Board

The Board currently has seven (7) members, comprising an Independent Non-Executive Chairman, five (5) Independent Non-Executive Directors and a Chief Executive Officer/Managing Director, details of which are as follows:

Name of Director	Designation
Haji Khairuddin Ahmad	Independent Non-Executive Chairman
Haji Md Ja'far Abdul Carrim	Senior Independent Non-Executive Director
Datuk Haji Faisal Siraj	Independent Non-Executive Director
Charles Lew Foon Keong	Independent Non-Executive Director
Choong Tuck Oon	Independent Non-Executive Director
Dato' Mohd Ali Mohd Tahir	Independent Non-Executive Director
Haji Abd Rani Lebai Jaafar	Chief Executive Officer/Managing Director

Haji Khairuddin Ahmad was appointed as an Independent Non-Executive Director on 1 December 2011 and as Independent Non-Executive Chairman on 1 January 2012, respectively.

Datuk Haji Faisal Siraj relinquished his position as Independent Non-Executive Chairman on 1 January 2012 and was re-designated as Independent Director on the same date.

Johari Abdul Muid resigned as Non-Independent Non-Executive Director on 14 November 2011.

Arul Kanda a/l Kandasamy resigned as Non-Independent Non-Executive Director on 10 May 2011.

Dato Abdullah Mat Noh resigned as Independent Non-Executive Director on 1 March 2011.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Duties and responsibilities of the Board

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

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

The day-to-day management of the Bank is undertaken by the Chief Executive Officer/Managing Director ('CEO/MD') who assumed office on 14 February 2011.

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

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

Board Meetings

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

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

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

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

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

Directors' Report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Board Meetings (continued)

The Board convened fifteen (15) meetings for financial year ended 31 December 2011. The attendances of each director in office at the end of the financial year at the aforesaid Board Meetings are set out below:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Haji Khairuddin Ahmad (Chairman) [(1) *]	3/3	100
Haji Md Ja'far Abdul Carrim	15/15	100
Datuk Haji Faisal Siraj	15/15	100
Charles Lew Foon Keong	13/15	87
Choong Tuck Oon	15/15	100
Dato' Mohd Ali Mohd Tahir	14/15	93
Haji Abd Rani Lebai Jaafar [(2)*]	13/14	93
Previous Members:		
Johari Abdul Muid [(3) ^]	10/11	91
Arul Kanda a/l Kandasamy [(4) ^]	4/4	100
Dato Abdullah Mat Noh [(5) ^]	2/2	100

Notes:
[(1)] Appointed on 1 December 2011
[(2)] Appointed on 14 February 2011
[(3)] Resigned on 14 November 2011
[(4)] Resigned on 10 May 2011
[(5)] Resigned on 1 March 2011
* Based on the number of meetings attended since his appointment as a member in 2011
^ Based on the number of meetings attended during his tenure of appointment in 2011

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Audit Committee

The Group Audit Committee ('Group AC') comprises five (5) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2011, a total of twenty one (21) meetings were held and the details of attendance of each member at the Group AC Meetings held during the financial year ended 31 December 2011 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Ong Seng Pheow (Chairman)	21/21	100
Dato' Othman Jusoh	21/21	100
Haji Md Ja'far Abdul Carrim	20/21	95
Dato' Saw Choo Boon	19/21	91
Dato' Mohd Ali Mohd Tahir (1) *	2/2	100
Previous Member:		
Patrick Chin Yoke Chung (2) ^	19/19	100

Notes:
(1) Appointed on 14 November 2011
(2) Resigned on 14 November 2011
* Based on the number of meetings since his appointment as a member in 2011
^ Based on the number of meetings attended during his tenure of appointment in 2011

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Nominating Committee

The Group Nominating Committee ('Group NC') presently comprises six (6) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2011, a total of thirteen (13) meetings were held and the details of attendance of each member at the Group NC Meetings held during the financial year ended 31 December 2011 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Datuk Haji Faisal Siraj (Chairman)	13/13	100
Dato' Mohamed Khadar Merican	13/13	100
Dato' Saw Choo Boon	13/13	100
Dato' Teo Chiang Liang	11/13	85
Choong Tuck Oon (1) *	1/1	100
Haji Md Ja'far Abdul Carrim (1) *	1/1	100
Previous Member:		
Johari Abdul Muid (2) ^	8/12	67

Notes:
(1) Appointed on 14 November 2011
(2) Resigned on 14 November 2011*
* Based on the number of meetings since his appointment as a member in 2011
^ Based on the number of meetings attended during his tenure of appointment in 2011

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

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Remuneration and Human Resource Committee

The Group Remuneration and Human Resource Committee ('Group RHRC') presently comprises six (6) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2011, a total of fourteen (14) meetings were held and the details of attendance of each member at the Group RHRC Meetings held during the financial year ended 31 December 2011 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Datuk Haji Faisal Siraj (Chairman)	14/14	100
Dato' Mohamed Khadar Merican	14/14	100
Dato' Saw Choo Boon	14/14	100
Dato' Teo Chiang Liang	12/14	86
Choong Tuck Oon [(1) *]	2/2	100
Haji Md Ja'far Abdul Carrim [(1) *]	2/2	100
Previous Member:		
Johari Abdul Muid [(2) ^]	9/12	75

Notes:
(1) Appointed on 14 November 2011
(2) Resigned on 14 November 2011
* Based on the number of meetings since his appointment as a member in 2011
^ Based on the number of meetings attended during his tenure of appointment in 2011

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Risk Management Committee

The Risk Management Committee comprises three (3) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2011, a total of fifteen (15) meetings were held and details of attendance of each member at the Risk Management Committee Meetings held during the year as at 31 December 2011 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Haji Md Ja'far Abdul Carrim (Chairman)	15/15	100
Datuk Haji Faisal Siraj	15/15	100
Dato' Mohd Ali Mohd Tahir [(1) *]	13/14	93
Previous Members:		
Johari Abdul Muid [(2) ^]	12/13	92
Dato Abdullah Mat Noh [(3) ^]	2/2	100

Notes:
(1) Appointed on 1 February 2011
(2) Resigned on 14 November 2011
(3) Resigned on 1 March 2011
* Based on the number of meetings since his appointment as a member in 2011
^ Based on the number of meetings attended during his tenure of appointment in 2011

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Risk Management Committee

The Group Risk Management Committee ('Group RMC') presently comprises five (5) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2011, a total of thirteen (13) meetings were held and the details of attendance of each member at the Group RMC Meetings held during the financial year ended 31 December 2011 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Haji Khairuddin Ahmad (Chairman)	13/13	100
Patrick Chin Yoke Chung	12/13	92
Haji Md Ja'far Abdul Carrim	13/13	100
Choong Tuck Oon	13/13	100
Dato' Saw Choo Boon (1) *	2/2	100
Previous Member:		
Johari Abdul Muid (2) ^	9/11	82

Notes:
(1) Appointed on 14 November 2011
(2) Resigned on 14 November 2011
* Based on the number of meetings since his appointment as a member in 2011
^ Based on the number of meetings attended during his tenure of appointment in 2011

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group Credit Committee (continued)

The Group Credit Committee ('GCC') comprises four (4) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2011, a total of thirty seven (37) meetings were held and the details of attendance of each member at the GCC Meetings held during the financial year ended 31 December 2011 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Dato' Mohamed Khadar Merican (1)	35/37	95
Haji Khairuddin Ahmad	34/37	92
Abdul Aziz Peru Mohamed (2) *	31/33	94
Patrick Chin Yoke Chung (3) *	4/4	100
Previous Members:		
Johari Abdul Muid (4) ^	26/33	79
Dato Abdullah Mat Noh (Chairman) (5) ^	4/4	100

Notes:

(1) Appointed as Chairman on 1 March 2011
(2) Appointed on 1 March 2011
(3) Appointed on 14 November 2011
(4) Resigned on 14 November 2011
(5) Resigned on 1 March 2011
* Based on the number of meetings since his appointment as a member in 2011
^ Based on the number of meetings attended during his tenure of appointment in 2011

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

Group Recovery Committee

The Group Recovery Committee ('GRC') was dissolved on 31 December 2011. The Discretionary Powers and responsibilities of the GRC are now vested to GCC.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Group IT & Transformation Strategy Committee

The Group IT & Transformation Strategy Committee ('GI&TSC') comprises three (3) Independent Non-Executive Directors of whom one (1) is the Chairman, the Managing Director of RHB Bank Berhad and the Managing Director of RHB Capital Berhad. During the financial year ended 31 December 2011, a total of thirteen (13) meetings were held and the details of attendance of each member at the GI&TSC Meetings held during the financial year ended 31 December 2011 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Choong Tuck Oon (Chairman)	13/13	100
Ong Seng Pheow	13/13	100
Dato' Mohd Ali Mohd Tahir (1) *	12/12	100
Johari Abdul Muid	10/13	77
Kellee Kam Chee Khiong (2) *	6/10	60
Previous Members:		
Dato' Tajuddin Atan (3) ^	2/3	67
Renzo Christopher Viegas (4) ^	5/9	56

Notes:

(1) Appointed as Member on 1 February 2011
(2) Appointed as Member on 16 March 2011
(3) Relinquished membership on 31 March 2011
(4) Appointed as Member on 16 March 2011 and ceased as Member on 14 November 2011
* Based on the number of meetings since his appointment as a member in 2011
^ Based on the number of meetings attended during his tenure of appointment in 2011

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

(B) RISK MANAGEMENT FRAMEWORK

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

The Framework enshrines five fundamental principles that drive the philosophy of risk management. They are:

- Risk governance from the Board of Directors;
- Clear understanding of risk management ownership;
- Institutionalisation of a risk focused organisation;
- Alignment of risk management to business strategies; and
- Optimisation of risk adjusted economic and financial returns

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(B) RISK MANAGEMENT FRAMEWORK (CONTINUED)

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

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

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

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

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

(C) INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES

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

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

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

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

(D) MANAGEMENT REPORTS

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

DISCLOSURE OF SHARIAH COMMITTEE

The RHB Capital Group Shariah Committee ('GSC') comprises of five (5) qualified local Shariah scholars; an assortment of knowledge, experience and approach from these mixed Shariah scholars are needed to position the Bank's operations and products to be globally accepted.

During the financial year ended 31 December 2011 a total of eight (8) meetings were held and details of attendance of each member at the Group Shariah Committee Meetings held during the year as at 31 December 2011 are as follows:

Composition of the Group Shariah Committee Current Members:	Attendance at the Committee meetings
1. Professor Dr. Joni Tamkin Borhan	7 out of 8 meetings
2. Dr. Ghazali Jaapar (Chairman)	7 out of 7 meetings
3. Dr. Akhtarzaite Abdul Aziz	7 out of 7 meetings
4. Dr. Marjan Muhammad	7 out of 7 meetings
5. Dr. Amir Shaharuddin	6 out of 7 meetings

Notes:
* Appointed on 1 April 2011

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

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

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

iii) Endorse and validate the following documentation:

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

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

DISCLOSURE OF SHARIAH COMMITTEE (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

PERFORMANCE REVIEW FOR 2011

The year 2011 remains a challenging year for the banking sector amidst a challenging external environment due to continued weakness in the US and on-going debt crisis in the European economies. Despite the challenging environment, the Malaysian economy registered a stable growth due to stronger domestic demand. The robust domestic demand was driven by an expansion in both household and business spending as well as higher public sector expenditure. The domestic financial system remained resilient amidst a weaker global operating environment, and continued to support well the domestic economy. The monetary stance taken by Bank Negara Malaysia is consistent with the assessment of heightened uncertainties arising from global developments that have created greater downside risks to growth. The Overnight Policy Rate ('OPR') was raised by 25 basis points during the year to 3.00% and remains supportive of economic activity.

The Bank continued to build on the demand for Islamic financial services by focusing on building market share and launched new products such as the Ar-Rahnu-i. So as to cater for further business expansion of Islamic financial services, an additional RM250 million in capital was injected into RHB Islamic in 2011. RHB Islamic's total assets expanded by 73% to RM22.6 billion and it achieved a pre-tax profit of RM137.8 million.

Notwithstanding the challenging operating environment, the Bank has continued to perform satisfactorily with higher profitability and strong balance sheet growth.

2012 BUSINESS PLAN AND OUTLOOK

The global economic environment remains fragile with the Eurozone's sovereign debt crisis remaining unresolved, the Malaysian economy is expected to register lower growth in 2012, estimated at 3.7% GDP growth as compared with 5.1% in 2011.

We expect the Malaysian banking sector to remain resilient given the strong fundamentals. We are committed in our continued drive to build on our core businesses and develop leadership positions in targeted markets and product segments.

The Bank remains committed to building its core businesses, and achieving its leadership position in targeted markets and product segments. This is in line with the focus of the new Financial Sector Blueprint to reinforce Malaysia's position as a global financial hub for Islamic financial services.

Barring unforeseen circumstances, we expects to record a satisfactory performance for the financial year 2012.

Directors' Report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

RATINGS BY RATING AGENCY

During the financial year, the Bank was rated by the following external rating agency:

Agency	Date accorded	Ratings
RAM Rating Services Berhad ('RAM')	December 2011	Long Term Financial Institution Rating – AA2 Short Term Financial Institution Rating – P1

Description of the ratings accorded

(a) RAM

(i) Long term financial institution rating

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

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

(ii) Short term financial institution rating

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

IMMEDIATE HOLDING COMPANY AND ULTIMATE HOLDING COMPANY/BODY

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

AUDITORS

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

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

HAJI KHAIRUDDIN AHMAD
CHAIRMAN

HAJI ABD RANI LEBAI JAAFAR
CHIEF EXECUTIVE OFFICER/MANAGING DIRECTOR

Kuala Lumpur
28 February 2012

Report of The RHB Group Shariah Committee

REPORT OF THE RHB GROUP SHARIAH COMMITTEE

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

We, Dr. Ghazali Jaapar, Professor Dr. Joni Tamkin Borhan, Dr. Amir Shaharuddin, Dr. Akhtarzaite Abd. Aziz and Dr. Marjan Muhammad being five of members of Group Shariah Committee of RHB Islamic Bank Berhad, do hereby confirm on behalf of the members of the Committee, that we have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank during the financial year ended 31 December 2011.

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 assessed the work carried out by Shariah review and Shariah audit which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by the Bank.

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) the main sources of income of the Bank during the financial year ended 31 December 2011 that we have reviewed are in compliance with the Shariah (Islamic Law) rules and principles;
b) all investments that have been disclosed to us by the Bank conform to the basis that had been approved by us in accordance with Shariah rules and principles;
c) all earnings that have been realised from sources or by means prohibited by the Shariah principles have been considered for disposal to charitable causes;
d) the contracts and legal documents of the products used by the Bank that we reviewed are in compliance with the Shariah rules and principles;
e) the products proposals including concept used by the Bank which have been reviewed and advised by us are in compliance with the Shariah rules and principles; and
f) The Bank is not required to pay Zakat. This should be paid by shareholders on their shareholding.

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

Wassalamu Alaikum Wa Rahmatullahi Wa Barakatuh

Dr. Ghazali Jaapar
Chairman of the Committee

Prof. Dr. Joni Tamkin Borhan
Member of the Committee

Dr. Amir Shaharuddin
Member of the Committee

Dr. Akhtarzaite Abd. Aziz
Member of the Committee

Dr. Marjan Muhammad
Member of the Committee

Kuala Lumpur
28 February 2012

Statement of Financial Position
as at 31 December 2011

	Note	2011 RM'000	2010 RM'000
ASSETS			
Cash and short term funds	2	5,614,932	1,076,905
Deposits and placements with banks and other financial institutions	3	70,077	40,062
Financial assets held-for-trading	4	433,531	218,928
Financial investments available-for-sale	5	1,673,683	1,787,265
Financial investments held-to-maturity	6	1,398,138	1,073,159
Financing and advances	7	12,720,722	8,713,761
Other assets	8	87,194	42,830
Derivative assets	9	-	1,369
Statutory deposits with Bank Negara Malaysia	10	606,455	105,140
Deferred tax assets	11	6,737	30,854
Tax recoverable		8,702	-
Property, plant and equipment	12	21,241	21,547
Intangible assets	13	-	-
TOTAL ASSETS		22,641,412	13,111,820
LIABILITIES AND EQUITY			
Deposits from customers	14	17,050,096	9,946,582
Deposits and placements of banks and other financial institutions	15	3,761,867	2,066,993
Bills and acceptance payable		13,773	12,124
Derivative liabilities	9	36,659	-
Other liabilities	16	446,781	101,286
Taxation		-	170
TOTAL LIABILITIES		21,309,176	12,127,155
Ordinary share capital	17	773,424	523,424
Reserves	18	558,812	461,241
TOTAL EQUITY		1,332,236	984,665
TOTAL LIABILITIES AND EQUITY		22,641,412	13,111,820
COMMITMENTS AND CONTINGENCIES	30	7,283,588	3,519,220
CAPITAL ADEQUACY	35		
Core capital ratio		12.65%	12.23%
Risk-weighted capital ratio		13.95%	13.56%

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

Income Statement
For The Financial Year Ended 31 December 2011

	Note	2011 RM'000	2010 RM'000
Income derived from investment of depositors' funds	19	772,437	493,365
Income derived from investment of shareholder's funds	20	17,705	55,381
Allowance for impairment on financing and advances	21	(57,808)	(67,379)
Impairment losses on intangible assets	13	-	(24,945)
Profit equalisation reserve		(2,725)	(201)
Total distributable income		729,609	456,221
Income attributable to depositors	22	(436,037)	(220,166)
		293,572	236,055
Personnel expenses	23	(62,687)	(59,058)
Other overheads and expenditures	24	(93,095)	(86,372)
Profit before taxation		137,790	90,625
Taxation	26	(39,936)	(23,136)
Net profit for the financial year		97,854	67,489
Basic earnings per share (sen)	27	17.50	12.89

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

Statement of Comprehensive Income
For The Financial Year Ended 31 December 2011

	Note	2011 RM'000	2010 RM'000
Net profit for the financial year		97,854	67,489
Other comprehensive (loss)/income:			
Financial investments available-for-sale			
- Unrealised net gain on revaluation		19,137	6,040
- Net transfer to income statement on disposal or impairment		(19,467)	(5,674)
Income tax relating to components of other comprehensive loss/(income)	28	47	(107)
Other comprehensive (loss)/income for the financial year		(283)	259
Total comprehensive income for the financial year		97,571	67,748

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

Statement of Changes In Equity

For The Financial Year Ended 31 December 2011

	Note	Share capital RM'000	< - -Non-distributable- - > Statutory reserve RM'000	AFS reserve RM'000	Distributable Retained profits RM'000	Total RM'000
Balance as at 1 January 2011		523,424	231,484	7,386	222,371	984,665
Issuance of share	17	250,000	-	-	-	250,000
Net profit for the financial year		-	-	-	97,854	97,854
Other comprehensive (loss)/income:						
Financial investments available-for-sale						
- Unrealised net gain on revaluation		-	-	19,137	-	19,137
- Net transfer to income statements on disposal or impairment		-	-	(19,467)	-	(19,467)
Income tax relating to components of other comprehensive loss	28	-	-	47	-	47
Total comprehensive (loss)/income		-	-	(283)	97,854	97,571
Transfer to statutory reserves		-	48,927	-	(48,927)	-
Balance as at 31 December 2011		773,424	280,411	7,103	271,298	1,332,236

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

Statement of Changes In Equity

For The Financial Year Ended 31 December 2011 (continued)

	Note	Share capital RM'000	<--Non- distributable--> Statutory reserve RM'000	AFS reserve RM'000	Distributable Retained profits RM'000	Total RM'000
Balance as at 1 January 2010		523,424	197,739	7,127	188,627	916,917
Net profit for the financial year		-	-	-	67,489	67,489
Other comprehensive income/(loss):						
Financial investments available-for-sale						
- Unrealised net gain on revaluation		-	-	6,040	-	6,040
- Net transfer to income statements on disposal or impairment		-	-	(5,674)	-	(5,674)
Income tax relating to components of other comprehensive income	28	-	-	(107)	-	(107)
Total comprehensive income		-	-	259	67,489	67,748
Transfer to statutory reserves		-	33,745	-	(33,745)	-
Balance as at 31 December 2010		523,424	231,484	7,386	222,371	984,665

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

Statement of Cash Flows

For The Financial Year Ended 31 December 2011

	2011 RM'000	2010 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	137,790	90,625
Adjustments for:		
Depreciation of property, plant and equipment	4,233	3,771
Amortisation of intangible assets	-	4,600
Write off of property, plant and equipment	-	50
Impairment losses on intangible assets	-	24,945
Income from:		
- Investment on financial assets held-for-trading	(4,977)	(4,082)
- Investment on financial investments available-for-sale	(71,155)	(58,543)
- Investment on financial investments held-to-maturity	(51,362)	(47,707)
Net gain on sale of financial investment available-for-sale	(19,467)	(5,674)
Net gain on sale of financial assets held-for-trading	(8,487)	(2,731)
Unrealised loss/(gain) from revaluation of derivative	46,334	(1,369)
Unrealised loss/(gain) from financial assets held-for trading	179	(220)
Allowance for impairment on financing and advances	65,720	75,311
Charge for profit equalisation reserve	2,725	201
Operating profit before working capital changes	101,533	79,177
Increase/(decrease) in operating assets:		
Deposits and placements with banks and other financial institutions	(30,015)	265,000
Financing and advances	(4,072,681)	(2,918,163)
Financial assets held-for-trading	(201,318)	(180,739)
Other assets	(44,364)	7,701
Statutory deposits with Bank Negara Malaysia	(501,315)	(35,900)
	(4,748,160)	(2,782,924)
Increase/(decrease) in operating liabilities:		
Deposits from customers	7,103,514	1,851,026
Deposits and placements of banks and other financial institutions	1,694,874	249,829
Bills and acceptances payable	1,649	(13,104)
Amount due to immediate holding company	374,872	(232,140)
Other liabilities	(40,408)	(38,874)
Cash generated/(used in) from operations	4,386,341	(966,187)
Taxation paid	(24,644)	(28,367)
Net cash generated/(used in) from operating activities	4,361,697	(994,554)

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

Statement of Cash Flows
For The Financial Year Ended 31 December 2011 (continued)

	Note	2011 RM'000	2010 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(3,927)	(4,229)
Profit income received from:			
- Investment on financial investments available-for-sale		73,895	60,441
- Investment on financial investments held-to-maturity		44,419	43,997
Net proceeds from:			
- Sale/(purchase) of financial investments available-for-sale		129,979	(575,366)
- Purchase of financial investments held-to maturity		(318,036)	(15,849)
Net cash used in investing activities		(73,670)	(491,006)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of ordinary shares		250,000	-
Net cash generated from financing activities		250,000	-
Net increase/(decrease) in cash and cash equivalents		4,538,027	(1,485,560)
Cash and cash equivalents at beginning of the financial year		1,076,905	2,562,465
Cash and cash equivalents at end of the financial year	2	5,614,932	1,076,905

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

Summary of Significant Accounting Policies And Critical Accounting Estimates And Assumptions

For The Financial Year Ended 31 December 2011

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1 Basis of preparation

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

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

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

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

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

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

The relevant new accounting standards, the amendments and improvements to published standards and interpretations that are effective for the Bank's financial year beginning on or after 1 January 2011 are as follows:

- Revised FRS 1 "First-time adoption of Financial Reporting Standards"
- Revised FRS 3 "Business Combinations"
- Revised FRS 127 "Consolidated and Separate Financial Statements"
- Amendment to FRS 7 "Financial instruments: Disclosures - improving disclosures about financial instruments"
- Amendments to FRS 1 "First-time adoption of Financial Reporting Standards"
- Amendment to FRS 132 "Financial instruments: Presentation – Classification of rights issues"
- IC Interpretation 4 "Determining whether an arrangement contains a lease"
- IC Interpretation 17 "Distributions of Non-cash Assets to Owners"
- Amendments to IC Interpretation 9 "Reassessment of Embedded Derivatives"
- Improvements to FRSs (2010)

The adoption of the above standards, amendments to published standards and interpretations to existing standards does not give rise to any material financial impact to the Bank.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

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

On 19 November 2011, the Malaysian Accounting Standards Board formally announced that Malaysian reporting entities would be required to comply with the new IFRS-compliant framework, Malaysian Financial Reporting Standards ('MFRS') for financial years commencing on or after 1 January 2012.

For reporting periods commencing 1 January 2012, the Bank will be adopting the new IFRS-compliant framework, MFRS. The Bank is required to prepare an opening balance sheet and restate comparative information retrospectively as if the requirements of MFRSs have always been applied from the Bank's transition date of 1 January 2011. MFRS 1 "First-time Adoption of Malaysian Financial Reporting Standards" provides certain mandatory exceptions and optional exemptions for first-time adoption of MFRS.

In the planning stage, the Bank has completed this review of the MFRS requirements. Critical conversion issues were identified and methodologies were designed to resolve these issues. The Bank is now progressing to the implementation of the identified changes and will complete this process prior to the releasing of the interim results for the financial period ending 31 March 2012. The Bank has not finalised the financial impact of the adoption of MFRS.

(i) Financial year beginning on/after 1 January 2012

<u>MFRS 139 "Financial instruments: recognition and measurement"</u> (effective from 1 January 2012) Bank Negara Malaysia has removed the transitional provision for banking institutions on collective evaluation of loan impairment assessment and provisioning to comply with the MFRS 139 requirements. Exposures not individually known to be impaired are placed into pools of similar assets with similar risk characteristics to be collectively assessed for losses that have been incurred, but not identified yet. The required provision is estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the collective pool. The historical loss experience is adjusted based on current observable data.

<u>The revised MFRS 124 "Related party disclosures"</u> (effective from 1 January 2012) simplifies the definition of a related party. It clarifies its intended meaning and eliminates inconsistencies from the definition.

The revised MFRS 124 removes the exemptions to disclose transaction between government- related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:
1. the name of the government and the nature of their relationship;
2. the nature and amount of each individually significant transactions; and
3. the extent of any collectively significant transactions, qualitatively or quantitatively need to be disclosed.

<u>Amendment to MFRS 112 "Income taxes"</u> (effective from 1 January 2012) introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. MFRS 112 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in MFRS 140 "Investment property". As a result of the amendments, IC Interpretation 121 "Income taxes - recovery of revalued non-depreciable assets" will no longer apply to investment properties carried at fair value. The amendments also incorporate into MFRS 112 the remaining guidance previously contained in IC Interpretation 121 which is withdrawn.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

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

(i) Financial year beginning on/after 1 January 2012 (continued)

IC Interpretation 19 "Extinguishing financial liabilities with equity instruments" (effective from 1 July 2011) provides clarification when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. A gain or loss, being the difference between the carrying value of the financial liability and the fair value of the equity instruments issued, shall be recognised in profit or loss. Entities are no longer permitted to reclassify the carrying value of the existing financial liability into equity with no gain or loss recognised in profit or loss.

Amendment to MFRS 1 "First time adoption on fixed dates and hyperinflation" (effective from 1 January 2012) includes two changes to MFRS 1. The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to MFRSs', thus eliminating the need for entities adopting MFRSs for the first time to restate de-recognition transactions that occurred before the date of transition to MFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with MFRSs after a period when the entity was unable to comply with MFRSs because its functional currency was subject to severe hyperinflation.

Amendment to MFRS 7 "Financial instruments: Disclosures on transfers of financial assets" (effective from 1 January 2012) promotes transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.

Amendment to MFRS 101 "Presentation of items of Other Comprehensive Income ('OCI')" (effective from 1 January 2012) requires entities to separate items presented in 'other comprehensive income' ('OCI') in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI.

(ii) Financial year beginning on/after 1 January 2013

MFRS 9 "Financial instruments - classification and measurement of financial assets and financial liabilities" (effective from 1 January 2013) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss ('FVTPL'). Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability's credit risk directly in other comprehensive income ('OCI'). There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

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

(ii) Financial year beginning on/after 1 January 2013 (continued)

MFRS 13 "Fair value measurement" (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 "Financial instruments: Disclosures", but apply to all assets and liabilities measured at fair value, not just financial ones.

2 Financial assets

(a) Classification

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

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

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

(ii) Financing, advances and receivables

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

(iii) Financial investments held-to-maturity

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

(iv) Financial investments available-for-sale

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

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2 Financial assets (continued)

(b) Recognition and initial measurement

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

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

(c) Subsequent measurement – gain and losses

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

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, profit and dividend income are recognised in profit or loss in the period in which the changes arise.

Changes in the fair value of financial investments available-for-sale are recognised in other comprehensive income, except for impairment losses (refer to accounting policy Note 14) and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in profit or loss, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

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

(d) De-recognition

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

Financing, advances and receivables that are factored out to banks and other financial institutions with recourse to the Bank are not derecognised until the recourse period has expired and the risks and rewards of the have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

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

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2 Financial assets (continued)

(e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(f) Determination on fair value

The fair values of financial instruments traded in active markets are based on quoted market prices at the end of the reporting date. The quoted market prices used for financial assets held by the Bank are the current bid prices. If the market for financial assets is not active, the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, net book value, option pricing models refined to reflect the issuer's specific circumstances.

3 Property, plant and equipment and depreciation

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

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

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

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. There are no material adjustments arising from the review that would render disclosure in the financial statements.

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

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

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4 Derivative financial instruments

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

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

5 Financial liabilities

The Bank's holding in financial liabilities is financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that designated at fair value) and financial liabilities at amortised cost. All financial liabilities are derecognised when extinguished.

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

Financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss and are subsequently re-measured at their fair values. Changes in fair values of financial liabilities at fair value through profit or loss are recognised in profit and loss in the period in which the changes arise.

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

(b) Other financial liabilities measured at amortised cost

Other financial liabilities are initially recognised at fair value plus transaction costs. Subsequently, other financial liabilities are re-measured at amortised cost using the effective profit rate.

Other financial liabilities measured at amortised cost are deposits from customers, deposits and placements of banks and other financial institutions, bills and acceptances payable and other financial liabilities.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6 Operating lease

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

The up-front payments made for leasehold land represent prepaid lease rentals and are amortised on straight-line basis over the lease term. Where an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expenses in period when termination takes place.

7 Provisions

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

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

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

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

8 Borrowings

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

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9 Financial guarantee contracts

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

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

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

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

10 Contingent liabilities and contingent assets.

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

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

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11 Share capital

(a) Classification
Ordinary shares are classified as equity. Other shares, if issued, are classified as equity and/or liability according to the economic substance of the particular instrument.

(b) Share issue cost
Incremental costs directly attributable to the issue of new shares or options are deducted against share premium account.

(c) Dividend distribution
Distributions to holders of an equity instrument are debited directly to equity, net of any related income tax benefit and the corresponding liability is recognised in the period in which the shareholders' right to receive the dividends are established or the dividends are approved.

12 Cash and cash equivalents

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

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

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

13 Income recognition

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

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

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

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

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

13 Income recognition (continued)

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

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

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

14 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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

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

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

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

(i) Individual impairment allowance

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

(ii) Collective impairment allowance

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

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

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

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

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14 Impairment of financial assets (continued)

(b) Assets classified as available-for-sale

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

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

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

15 Employee benefits

(i) Short-term employee benefits

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

(ii) Defined contribution plans

A defined contribution plan is a pension plan under which the Bank pays fixed contributions to the national pension scheme, the Employees' Provident Fund. The Bank's contributions to defined contribution plans are charged to the profit or loss in the period to which they relate. Once the contributions have been paid, the Bank has no further legal or constructive obligations.

(iii) Termination benefits

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

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16 Impairment of non-financial assets

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

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

The impairment loss is charged to profit or loss. Any subsequent increase in recoverable amount is recognised in the profit or loss.

17 Current and deferred income taxes

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

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

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

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

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

18 Currency conversion and translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

19 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources to and assessing performance of the operating segments of an entity. The RHB Group has determined its Central Management Committee as its chief operating decision-maker.

20 Zakat

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

B CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Allowance for impairment of financial assets

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

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

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011

1 GENERAL INFORMATION

RHB Islamic Bank Berhad, is a licensed Islamic Bank under the Islamic Banking Act 1983, a limited liability company domiciled in Malaysia, and is principally engaged in Islamic banking business and is committed to offer customers a comprehensive range of product and services in accordance with its Articles of Association and Shariah principals.

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

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

2 CASH AND SHORT-TERM FUNDS

	2011 RM'000	2010 RM'000
Cash and balances with banks and other financial institutions	69,365	55,216
Money at call and deposit placements maturing within one month	5,545,567	1,021,689
	5,614,932	1,076,905

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011 RM'000	2010 RM'000
Licensed Islamic banks	70,077	40,062

4 FINANCIAL ASSETS HELD-FOR-TRADING

	2011 RM'000	2010 RM'000
At fair value		
Money market instruments:		
Malaysian government investment issues	51,312	10,066
BNM monetary notes	306,912	173,816
Wakala Global Sukuk	16,495	-
Khazanah bonds	53,768	-
Unquoted securities:		
In Malaysia		
Private debt securities	5,044	35,046
	433,531	218,928

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

5 FINANCIAL INVESTMENTS AVAILABLE-FOR-SALE

	2011 RM'000	2010 RM'000
At fair value		
Money market instruments:		
Malaysian government investment issues	869,507	1,239,535
Islamic accepted bills	-	93,868
Wakala Global Sukuk	23,510	-
Unquoted securities:		
In Malaysia		
Private debt securities	780,091	453,287
	1,673,108	1,786,690
At cost		
Unquoted securities:		
In Malaysia		
Shares in Islamic Bank and Financial Institutions of Malaysia ('IBFIM')	575	575
	1,673,683	1,787,265

6 FINANCIAL INVESTMENTS HELD-TO-MATURITY

	2011 RM'000	2010 RM'000
At amortised cost		
Money market instruments:		
Malaysian government investment issues	795,980	589,168
Cagamas bonds and Cagamas Mudharabah bonds	193,776	183,895
Khazanah bonds	8,346	-
Unquoted securities:		
In Malaysia		
Private debt securities	400,036	300,096
	1,398,138	1,073,159

7 FINANCING AND ADVANCES

	2011 RM'000	2010 RM'000
At amortised cost		
Cashline	119,196	116,123
Term financing		
- housing financing	2,736,928	2,368,625
- syndicated term financing	656,743	898,904
- hire purchase receivables	3,545,712	1,625,598
- other term financing	5,207,851	2,902,392
Bills receivable	523,632	546,820
Trust receipts	19,708	17,994
Staff financing	10,067	11,404
Credit/charge cards receivables	47,891	530
Revolving financing	174,486	547,639
Gross financing and advances	13,042,214	9,036,029
Allowance for bad and doubtful financing:		
- individual impairment allowance	(130,724)	(163,440)
- collective impairment allowance	(190,768)	(158,828)
Net financing and advances	12,720,722	8,713,761

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

7 FINANCING AND ADVANCES (CONTINUED)

The remaining maturities of financing and advances are as follows:

	2011 RM'000	2010 RM'000
Maturing within one year	1,447,389	1,685,198
One to three years	438,597	345,809
Three to five years	1,624,526	1,005,422
Over five years	9,531,702	5,999,600
Gross financing and advances	13,042,214	9,036,029

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

	2011 RM'000	2010 RM'000
Domestic non-bank financial institutions		
- Others	57,784	36,751
Domestic business enterprises		
- Small medium enterprises	827,825	712,770
- Others	2,306,809	2,667,781
Government and statutory bodies	3,463,352	1,516,587
Individuals	6,116,563	3,814,221
Other domestic entities	273	426
Foreign entities	269,608	287,493
Gross financing and advances	13,042,214	9,036,029

Financing and advances analysed by contract are as follows:

	2011 RM'000	2010 RM'000
Bai' Bithaman Ajil ('BBA')	1,407,512	1,697,874
Ijarah	4,346,614	2,478,851
Murabahah	1,655,731	1,534,782
Musyarakah	1,655,997	1,172,733
Istisna'	339,990	530,275
Bai'Inah	3,546,068	1,524,431
Others	90,302	97,083
Gross financing and advances	13,042,214	9,036,029

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

	2011 RM'000	2010 RM'000
Fixed rate		
- Housing financing	1,083,565	1,243,164
- Hire-purchase receivables	3,545,712	1,625,598
- Other fixed rate financing	4,144,572	3,015,961
Variable rate		
- BFR-plus	3,724,679	2,586,524
- Cost-plus	543,686	564,782
Gross financing and advances	13,042,214	9,036,029

7 FINANCING AND ADVANCES (CONTINUED)

Financing and advances analysed by purpose are as follows:

	2011 RM'000	2010 RM'000
Purchase of securities	8,610	12,270
Purchase of transport vehicles	3,482,200	1,567,375
Purchase of landed property:		
- Residential	2,769,080	2,439,955
- Non-residential	199,280	204,703
Purchase of property, plant and equipment other than land and building	467,780	528,785
Personal use	234,120	14,070
Credit card	47,891	530
Purchase of consumer durables	50	80
Construction	478,430	483,660
Working capital	1,506,630	1,506,160
Other purposes	3,848,143	2,278,441
Gross financing and advances	13,042,214	9,036,029

Included in other purposes are financing to the Government of Malaysia ('GoM') and its related agency for the purpose of education and government's staff housing financing.

Movement in impaired financing and advances are as follows:

	2011 RM'000	2010 RM'000
Balance as at the beginning of the financial year	628,251	-
- As previously stated	-	376,940
- Classified as impaired due to adoption of FRS 139	-	101,472
- As restated	628,251	478,412
Classified as impaired during the financial year	280,102	486,779
Amount recovered	(81,975)	(43,269)
Reclassified as non-impaired	(225,653)	(293,671)
Amount written off	(57,649)	-
Balance as at the end of the financial year	543,076	628,251
Gross impaired financing and advances ratio	4.16%	6.95%

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

7 FINANCING AND ADVANCES (CONTINUED)

Impaired financing and advances analysed by purpose are as follows:

	2011 RM'000	2010 RM'000
Purchase of transport vehicles	20,720	16,270
Purchase of landed property:		
- Residential	158,920	202,090
- Non-residential	13,450	26,820
Purchase of property, plant and equipment other than land and building	68,480	74,010
Personal use	4,530	4,970
Construction	1,050	1,530
Working capital	274,240	299,231
Other purposes	1,686	3,330
Gross impaired financing and advances	543,076	628,251

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

	2011 RM'000	2010 RM'000
Individual impairment allowance		
Balance as at the beginning of the financial year	163,440	-
- Effect of adoption of FRS 139	-	107,035
- As restated	163,440	107,035
Allowance made during the financial year	17,313	69,456
Amount recovered	(7,087)	(12,546)
Amount written off	(42,942)	(505)
Balance as at end of the financial year	130,724	163,440

	2011 RM'000	2010 RM'000
Collective impairment allowance		
Balance as at the beginning of the financial year	158,828	-
- Effect of adoption of FRS 139	-	140,427
- As restated	158,828	140,427
Allowance made during the financial year	55,494	18,401
Amount written off	(23,554)	-
Balance as at end of the financial year	190,768	158,828

8 OTHER ASSETS

	2011 RM'000	2010 RM'000
Deposits and prepayments	945	682
Sundry deposits debtors	1,240	1,251
Other debtors	85,009	40,897
	87,194	42,830

9 DERIVATIVES (LIABILITIES)/ASSETS

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

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

	Contract or Underlying principal amount RM'000	Year-end positive fair value RM'000	Year-end negative fair value RM'000
2011			
Foreign exchange related contracts:			
- forward	371,106	-	-
Profit rate related contracts:			
- swaps	2,600,000	-	36,659
2010			
Profit rate related contracts:			
- swaps	650,000	1,369	-

10 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

	2011 RM'000	2010 RM'000
Statutory deposits with Bank Negara Malaysia	606,455	105,140

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

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

11 DEFERRED TAXATION

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

	2011 RM'000	2010 RM'000
Deferred tax assets	6,737	30,854
Deferred tax assets		
- Settled more than 12 months	4,387	24,532
- Settled within 12 months	2,350	6,322
	6,737	30,854

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

	Intangible assets RM'000	Property, plant and equipment RM'000	Financial investments available-for-sale RM'000	Financing and advances RM'000	Others liabilities RM'000	Total RM'000
2011						
Balance as at the beginning of the financial year	3,338	(239)	(2,415)	26,644	3,526	30,854
Transfer (to)/from income statement	(3,338)	(3,940)	-	(18,831)	1,945	(24,164)
Transfer to equity	-	-	47	-	-	47
Balance as at the end of the financial year	-	(4,179)	(2,368)	7,813	5,471	6,737
2010						
Balance as at the beginning of the financial year	(2,970)	(309)	(2,308)	15,095	386	9,894
Transfer (to)/from income statement	6,308	70	-	11,549	3,140	21,067
Transfer to equity	-	-	(107)	-	-	(107)
Balance as at the end of the financial year	3,338	(239)	(2,415)	26,644	3,526	30,854

12 PROPERTY, PLANT AND EQUIPMENT

	Renovations RM'000	Office equipment, furniture and fixtures RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
2011					
Cost					
Balance as at the beginning of the financial year	13,847	5,174	13,721	1,871	34,613
Additions	1,056	147	2,724	-	3,927
Written off	-	-	(151)	-	(151)
Balance as at the end of the financial year	14,903	5,321	16,294	1,871	38,389
Accumulated depreciation					
Balance as at the beginning of the financial year	2,351	2,808	6,775	1,132	13,066
Charge for the financial year	1,194	659	2,124	256	4,233
Written off	-	-	(151)	-	(151)
Balance as at the end of the financial year	3,545	3,467	8,748	1,388	17,148
Net book value as at the end of the financial year	11,358	1,854	7,546	483	21,241

	Renovations RM'000	Office equipment, furniture and fixtures RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
2010					
Cost					
Balance as at the beginning of the financial year	11,898	5,190	14,294	1,486	32,868
Additions	1,949	111	1,779	390	4,229
Reclassification to intangible assets	-	-	(1,944)	-	(1,944)
Written off	-	(127)	(408)	(5)	(540)
Balance as at the end of the financial year	13,847	5,174	13,721	1,871	34,613
Accumulated depreciation					
Balance as at the beginning of the financial year	1,582	2,058	5,278	867	9,785
Charge for the financial year	769	872	1,860	270	3,771
Written off	-	(122)	(363)	(5)	(490)
Balance as at the end of the financial year	2,351	2,808	6,775	1,132	13,066
Net book value as at the end of the financial year	11,496	2,366	6,946	739	21,547

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	2011 RM'000	2010 RM'000
Cost		
Renovations	376	5,322
Computer equipment and software	4,817	5,614
	5,193	10,936

13 INTANGIBLE ASSETS

	2011 RM'000	2010 RM'000
Computer and software		
Cost		
Balance as at the beginning of the financial year	-	27,601
Reclassification from property, plant and equipment	-	1,944
Amortisation for the financial year	-	(4,600)
Impairment losses for the financial year	-	(24,945)
Balance as at the end of the financial year	-	-

14 DEPOSITS FROM CUSTOMERS

	2011 RM'000	2010 RM'000
Non-Mudharabah funds:		
Demand deposits	1,635,227	1,376,008
Savings deposits	638,101	569,786
Negotiable Islamic Debt Certificates	-	4,976
Commodity Murabahah	3,117,224	754,650
	5,390,552	2,705,420
Mudharabah funds:		
Demand deposits	405,040	378,321
Savings deposits	12,712	3,123
General investment accounts	682,066	1,280,190
Special investment accounts	10,559,726	5,579,528
	17,050,096	9,946,582

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

	2011 RM'000	2010 RM'000
Due within six months	13,446,439	6,876,995
Six months to one year	874,109	591,854
One year to three years	34,707	149,746
Three years to five years	3,761	749
	14,359,016	7,619,344

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

	2011 RM'000	2010 RM'000
Government and statutory bodies	5,332,891	2,391,923
Business enterprises	7,094,590	4,807,632
Individuals	1,171,292	1,095,704
Others	3,451,323	1,651,323
	17,050,096	9,946,582

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

15 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2011 RM'000	2010 RM'000
Non-Mudharabah funds:		
Licensed Islamic banks	1,076,703	730,726
Licensed banks	721,154	324,013
Licensed investment banks	100,035	-
Bank Negara Malaysia	35,263	-
	1,933,155	1,054,739
Mudharabah funds:		
Licensed Islamic banks	1,003,049	807,836
Licensed banks	725,572	204,418
Other financial institutions	100,091	-
	3,761,867	2,066,993

16 OTHER LIABILITIES

	2011 RM'000	2010 RM'000
Sundry creditors	11,511	49,990
Profit equalisation reserve (i)	7,252	4,527
Amount due to immediate holding company (ii)	386,227	11,355
Other accruals and payables	41,791	35,414
	446,781	101,286

(i) Profit equalisation reserve:

	2011 RM'000	2010 RM'000
Balance as at the beginning of the financial year	4,527	4,326
Net amount charge back	2,725	201
Balance as at the end of the financial year	7,252	4,527

Profit equalisation reserve at the end of the financial year of which the shareholder's portion is RM224,817 (2010:RM184,720).

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

17 ORDINARY SHARE CAPITAL

	2011 RM'000	2010 RM'000
Ordinary shares of RM1.00 each:		
Authorised:		
Balances as at the beginning/end of financial year	1,000,000	1,000,000
Issued and fully paid:		
Balances as at the beginning of financial year	523,424	523,424
Issued during the financial year	250,000	-
Balances as at the end of financial year	773,424	523,424

During the financial year ended 31 December 2011, the Bank issued 250,000,000 new ordinary shares of RM1.00 each to the holding company for working capital purposes.

The new ordinary shares issued during the financial year ranked *pari passu* in all respects with the existing ordinary shares of the Bank.

18 RESERVES

		2011 RM'000	2010 RM'000
Retained profits	(a)	271,298	222,371
Statutory reserve	(b)	280,411	231,484
AFS reserve	(c)	7,103	7,386
		558,812	461,241

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

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

Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax credits under Section 108(6) of the Income Tax Act, 1967 to pay dividends out of its entire retained profits as at 31 December 2011.

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

(c) The AFS revaluation reserve arises from a change in the fair value of securities classified as available-for-sale securities. The unrealised gains or losses are transferred to the income statement upon disposal, derecognition or impairment of such securities. The depositors' portion of unrealised gains on available-for-sale securities at the end of the financial year is RM6,889,114 (2010: RM7,070,618).

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

19 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

	2011 RM'000	2010 RM'000
Income derived from investment of:		
(i) General investment deposit	50,104	57,170
(ii) Other deposits	722,333	436,195
	772,437	493,365
(i) Income derived from investment of general investment deposits:		
Finance income and hibah:		
Financing and advances	36,445	38,453
Financial assets held-for-trading	283	443
Financial investments available-for-sale	4,866	6,365
Financial investments held-to-maturity	3,374	5,164
Money at call and deposit with financial institutions	3,485	5,226
Total finance income and hibah	48,453	55,651
Other operating income (note a to c)	1,651	1,519
	50,104	57,170
Of which:		
Financing income earned on impaired financing	677	782
Other operating income comprise of:		
a) Fee income		
Commission	134	524
Guarantee fees	78	35
	212	559
b) Net gain on financial assets held-for-trading		
- net gain on revaluation and disposal	500	323
c) Net gain on disposal of financial investments available-for-sale	939	637
	1,651	1,519

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

	2011 RM'000	2010 RM'000
(ii) Income derived from investment of other deposits:		
Finance income and hibah:		
Financing and advances	515,195	293,161
Financial assets held-for-trading	4,480	3,405
Financial investments available-for-sale	62,619	48,548
Financial investments held-to-maturity	45,428	39,498
Money at call and deposit with financial institutions	67,460	40,172
Total finance income and hibah	695,182	424,784
Other operating income (note a to c)	27,151	11,411
	722,333	436,195
Of which:		
Financing income earned on impaired financing	12,674	5,901
Other operating income comprise of:		
a) Fee income		
Commission	1,145	4,007
Guarantee fees	803	274
	1,948	4,281
b) Net gain on financial assets held-for-trading		
- net gain on revaluation and disposal	7,430	2,415
c) Net gain on disposal of financial investments available-for-sale	17,773	4,715
	27,151	11,411

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

20 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	2011 RM'000	2010 RM'000
Finance income and hibah:		
Financing and advances	27,706	22,108
Financial assets held-for-trading	214	234
Financial investments available-for-sale	3,670	3,630
Financial investments held-to-maturity	2,560	3,045
Money at call and deposit with financial institutions	2,751	3,041
Total finance income and hibah	36,901	32,058
Other operating (loss)/income (note a to d)	(19,196)	23,323
	17,705	55,381
Of which:		
Financing income earned on impaired financing	553	436
Other operating (loss)/income comprise of:		
a) Fee income		
Commission	6,635	3,295
Service charges and fees	17,175	17,849
Guarantee and underwriting fees	1,105	325
Other fee income	1,090	(50)
	26,005	21,419
b) Net gain on financial assets held-for-trading		
- net gain on revaluation and disposal	379	213
c) Net gain on disposal of financial investments available-for-sale	754	322
d) Net (loss)/gain revaluation of derivative	(46,334)	1,369
	(19,196)	23,323

21 ALLOWANCES FOR IMPAIRMENT ON FINANCING AND ADVANCES

	2011 RM'000	2010 RM'000
Allowance for impaired financing and advances/bad and doubtful debts:		
Individual impairment allowance		
- made during the financial year	17,313	69,456
- written back during the financial year	(7,087)	(12,546)
Collective impairment allowance		
- made during the financial year	55,494	18,401
Impaired financing and advances recovered	(7,912)	(7,932)
	57,808	67,379

22 INCOME ATTRIBUTABLE TO DEPOSITORS

	2011 RM'000	2010 RM'000
Deposits from customers:		
- Mudharabah funds	327,242	174,742
- Non-Mudharabah funds	9,495	10,006
Deposits and placements of banks and other financial institutions:		
- Mudharabah funds	62,415	15,173
- Non-Mudharabah funds	36,885	20,245
	436,037	220,166

23 PERSONNEL EXPENSES

	2011 RM'000	2010 RM'000
Salaries, allowance and bonuses	48,398	46,190
Contribution to Employees' Provident Fund	7,912	7,524
Other staff related cost	6,377	5,344
	62,687	59,058

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

24 OTHER OVERHEADS AND EXPENDITURES

	2011 RM'000	2010 RM'000
Establishment costs		
Property, plant and equipment		
- depreciation	4,233	3,771
- written off	-	50
Amortisation of intangible assets	-	4,600
Information technology expenses	1,962	3,142
Repair and maintenance	660	570
Rental of premises	4,528	4,464
Water and electricity	716	680
Rental of equipment	254	268
Insurance	(583)	1,518
Others	5,243	4,440
	17,013	23,503
Marketing expenses		
Advertisement and publicity	6,385	4,495
Travelling expenses	1,536	1,017
Motor vehicle expenses	321	926
Others	1,529	521
	9,771	6,959
Administration and general expenses		
Auditors' remuneration		
-statutory audit	108	113
-non-audit	68	87
Communication expenses	2,692	3,264
Legal and professional fee	938	986
Others	62,505	51,460
	66,311	55,910
	93,095	86,372

Included in the administration and general expenses of the Bank are other director's remuneration (excluding benefits in kind) totalling RM963,000 (2010:RM795,000) as disclosed in Note 25.

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

2011

	Salary and other remuneration RM'000	Benefits-in-kind (based on estimated monetary value) RM'000	Bonus RM'000	Total RM'000
Managing Director				
Haji Abd Rani Lebai Jaafar (appointed on 14 February 2011)	849	78	400	1,327

	Fees RM'000	Benefits-in-kind (based on estimated monetary value) RM'000	Others RM'000	Total RM'000
Non-Executive Directors				
Datuk Haji Faisal Siraj	100	31	70	201
Johari Abdul Muid	69	-	86	155
Charles Lew Foon Keong	80	-	20	100
Haji Md Ja'far Abdul Carrim	80	-	91	171
Choong Tuck Oon	80	-	60	140
Dato' Mohd Ali Mohd Tahir (1)	80	31	71	182
Tuan Haji Khairuddin Ahmad (2)	7	18	10	35
Arul Kanda a/l Kandasamy (3)	28	-	6	34
Dato Abdullah Mat Noh (4)	13	-	12	25
Total	537	80	426	1,043

Notes:
(1) Appointed on 1 January 2011
(2) Appointed on 1 December 2011
(3) Resigned on 10 May 2011
(4) Resigned on 1 March 2011

	Fees RM'000
Shariah Committee	
Dr. Ghazali Jaapar (Chairman)	45
Professor Dr. Joni Tamkin Borhan	50
Dr. Amir Shaharuddin	38
Dr. Akhtarzaite Abd. Aziz	38
Dr. Marjan Muhammad	38
Total	209

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

2010

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

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

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

26 TAXATION

	2011 RM'000	2010 RM'000
Malaysian income tax:		
- Current tax	44,483	42,526
- (Over)/under provision in prior years	(28,711)	1,677
Deferred taxation (Note 11)	24,164	(21,067)
	39,936	23,136
Current tax		
Current year	44,483	42,526
(Over)/under provision in prior years	(28,711)	1,677
	15,772	44,203
Deferred tax		
Origination and reversal of temporary differences	(6,615)	(21,067)
Reversal of previously recognised deferred tax assets	30,779	-
	39,936	23,136

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

	2011 %	2010 %
Malaysian tax rate of 25% (2010:25%)	25.0	25.0
Tax effects in respect of:		
Expenses not deductible for tax purposes	1.9	3.3
(Over)/under provision in respect of prior years	(20.8)	1.9
Other temporary differences previously not recognised	0.6	(4.7)
Reversal of temporary differences recognised in prior years	22.3	-
Effective tax rate	29.0	25.5

27 EARNINGS PER SHARE

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

	2011	2010
Net profit for the financial year (RM'000)	97,854	67,489
Weighted average number of ordinary shares in issue (RM'000)	559,040	523,424
Basic earnings per share (sen)	17.50	12.89

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

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

	2011			2010		
	Before tax amount RM'000	Tax benefit/ (expense) RM'000	Net of tax amount RM'000	Before tax amount RM'000	Tax (expense)/ benefit RM'000	Net of tax amount RM'000
Financial investments available-for-sale:						
Net fair value (loss)/gain and amount transferred to income statement	(330)	47	(283)	366	(107)	259

29 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

(a) Related parties and relationships

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

Related parties	**Relationship**
RHB Capital Berhad	Ultimate holding company
RHB Bank Berhad	Immediate holding company
Subsidiaries of RHB Capital Berhad as disclosed in its financial statements	Subsidiaries of the ultimate holding company
Subsidiaries of RHB Bank Berhad as disclosed in its financial statements	Subsidiaries of the immediate holding company
Key management personnel	The key management personnel of the Bank consists of: - All directors of the Bank, RHB Bank Berhad and RHB Capital Berhad - RHB Capital Group Central Management Committee members
Related parties of key management (deemed as related to the Bank)	(i) Close family members and dependents of key personnel (ii) Entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

29 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(b) Significant related party balances and transactions

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

With effect from 3 December 2010, EPF ceased to be the immediate and ultimate holding body of the Bank. All transactions with EPF and its subsidiaries subsequent to 3 December 2010 are not deemed as related parties transactions or balances. All transactions with EPF and its subsidiaries in the previous financial year have been classified as related parties transactions or balances with the former immediate and ultimate holding body.

Other related parties of the Bank for the previous financial year comprise of transactions and balances with EPF's subsidiaries. Other related companies comprise the other companies in RHB Capital Berhad Group.

	Ultimate holding company RM'000	Immediate holding company RM'000	Key management personnel RM'000	Other related companies RM'000
2011				
Income				
Commission	-	-	-	191
	-	-	-	191
Expenditure				
Profit expense on deposits and placement	-	26,725	3	2,898
Other expenses	-	46,334	-	508
Reimbursement of operating expenses to holding company	-	51,325	-	-
	-	124,384	3	3,406
Amount due from				
Cash and short term funds	-	1,088	1	-
	-	1,088	1	-
Amount due to				
Derivative liabilities		36,659	-	-
Savings deposits	-	-	221	-
Current account and investment deposits	-	-	-	2,139
Deposits and placements of banks and other financial institutions	-	1,436,636	-	100,035
Other liabilities	99	386,227	-	251
	99	1,859,522	221	102,425

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

29 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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

	Ultimate holding company RM'000	Immediate holding company RM'000	Key management personnel RM'000	Other related companies RM'000
2010				
Income				
Income on deposits and placement	-	1,046	120	-
Commission	-	-	-	234
Other income	-	1,369	-	-
	-	2,415	120	234
Expenditure				
Profit expense on deposits and placement	-	8,031	6	-
Other expenses	-	-	-	705
Reimbursement of operating expenses to holding company	-	49,218	-	-
	-	57,249	6	705
Amount due from				
Cash and short term funds	-	539	-	-
Derivative assets	-	1,369	-	-
Other assets	-	1,292	-	-
	-	3,200	-	-
Amount due to				
Savings deposits	-	-	38	-
Current account and investment deposits	-	-	269	3,589
Deposits and placements of banks and other financial institutions	-	528,941	-	-
Other liabilities	106	11,355	-	281
	106	540,296	307	3,870

29 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(c) Key management personnel

The remuneration of key management personnel are as follows:

	2011 RM'000	2010 RM'000
Short-term employee benefits		
- Salary and other remuneration	2,648	914
- Benefits-in-kind (based on an estimated monetary value)	98	37
	2,746	951

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

(d) Credit exposures arising from transactions with connected parties

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

	2011 RM'000	2010 RM'000
Outstanding credit exposures with connected parties	68,060	261,754
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	0.47%	2.61%

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

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

30 COMMITMENTS AND CONTINGENCIES

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

	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
2011			
Direct credit substitutes	35	35	35
Transaction-related contingent items	94,558	47,279	35,465
Short-term self-liquidating trade-related contingencies	42,424	8,485	967
Obligations under underwriting agreements	208,500	104,250	104,250
Irrevocable commitments to extend credit:			
- maturity more than one year	2,280,366	456,073	394,697
- maturity less than one year	1,686,599	337,320	337,320
Foreign exchange related contracts:			
- less than one year	371,106	4,948	1,762
Profit rate related contracts:			
- one year to less than five years	2,600,000	49,500	24,750
Total	7,283,588	1,007,890	899,246
2010			
Transaction-related contingent items	146,995	73,498	34,201
Short-term self-liquidating trade-related contingencies	40,948	8,190	8,190
Obligations under underwriting agreements	29,000	14,500	14,500
Irrevocable commitments to extend credit:			
- maturity more than one year	552,580	224,546	191,524
- maturity less than one year	2,099,697	220,905	220,905
Profit rate related contracts:			
- one year to less than five years	650,000	130,000	130,000
Total	3,519,220	671,639	599,320

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

31 OPERATING LEASE COMMITMENTS

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

	2011 RM'000	2010 RM'000
Within one year	3,562	1,172
Between one to five years	785	3,240
	4,347	4,412

32 CAPITAL COMMITMENTS

	2011 RM'000	2010 RM'000
Capital expenditure for property, plant and equipment:		
Authorised and contracted for	-	9,233
Authorised but not contracted for	23,858	16,876
	23,858	26,109

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

33 FINANCIAL RISK MANAGEMENT

(a) Financial risk management objective and policies

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

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

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

The IRMC and Group RMC comprise only non-executive directors with at least three (3) and five (5) members respectively. Members of the IRMC and Group RMC are directors who are exclusively non-executive in all of their directorships in the RHB Banking Group.

Overriding Objectives of the IRMC and Group RMC:

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

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

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

Primary responsibility for managing risks, however, rests with business managers. They are best equipped to ensure that risk management and control are focused on the way business is conducted. There is a review of business activities and processes to identify risk areas and implement control procedures to operate within established corporate policies and limits. Additionally, the management of risks associated with financial instruments is 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.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Major areas of risk

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

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

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

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

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

In order to mitigate the aforementioned business risks the Bank, the IRMC and the Group RMC has put in place the following:

Market risk

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

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

- Risk measurement techniques and stress testing are applied to RHB Islamic Bank's portfolio.
- For Profit Rate Risk:

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

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

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Liquidity risk

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

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

- Defined liquidity management ratios are maintained and monitored.

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

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

Credit risk

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

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

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

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

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Credit risk (continued)

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

Operational risk

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

The Bank uses an operational risk management system. This system has integrated applications for supporting the entire operational risk management process for loss event data collection and management, loss event analysis, risk and control assessment and monitoring of the quality of the internal control system, risk scenario analysis and measurement, comprehensive reporting of operational risks and internal control quality and tracking of risk mitigation and, control improvement actions. This system facilitates the Bank's capabilities for the Advanced Measurement Approach of the Basel II Framework in the future.

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

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

Capital management policy

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

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

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Capital management policy (continued)

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

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

Basel II Implementation

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

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

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

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

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category

2011	Financing and receivables RM'000	Assets at fair value through profit and loss RM'000	Available-for-sale RM'000	Held-to-maturity RM'000	Total RM'000
Assets					
Cash and short-term funds	5,614,932	-	-	-	5,614,932
Deposits and placements with banks and other financial institutions	70,077	-	-	-	70,077
Financial assets held-for-trading	-	433,531	-	-	433,531
Financial investments available-for-sale	-	-	1,673,683	-	1,673,683
Financial investments held-to-maturity	-	-	-	1,398,138	1,398,138
Financing and advances	12,720,722	-	-	-	12,720,722
Other financial assets	46,244	-	-	-	46,244
Total	18,451,975	433,531	1,673,683	1,398,138	21,957,327

	Other financial liabilities RM'000	Total RM'000
Liabilities		
Deposits from customers	17,050,096	17,050,096
Deposits and placements of banks and other financial institutions	3,761,867	3,761,867
Bills and acceptances payable	13,773	13,773
Derivative liabilities	36,659	36,659
Other financial liabilities	429,713	429,713
Total	21,292,108	21,292,108

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial instruments by category (continued)

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

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

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

Market risk sensitivity assessment is based on the changes in key variables, such as profit rates and foreign currency rates, while all other variables remain unchanged. The sensitivity factors used are assumptions based on parallel shifts in the key variables to project the impact on the assets and liabilities position of the Bank as at 31 December 2011.

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

(i) Profit rate sensitivity analysis

The following table shows the sensitivity of the Bank's profit after tax and its equity to an immediate up and down +/-100 basis point ('bps') and (+/-50 bps for 2010) parallel shift in the profit rate.

	-100 bps RM'000	**+100 bps RM'000**
2011		
Impact on profit after tax	53,612	(52,963)
Impact on equity	23,855	(23,176)
	-50 bps RM'000	**+50 bps RM'000**
2010		
Impact on profit after tax	14,422	(14,411)
Impact on equity	23,855	(23,176)

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

Impact on the profit after tax is the sum of valuation changes on fixed income instruments held in the trading portfolio and earnings movement for all short term profit rate sensitive assets and liabilities (with maturity or re-pricing tenure of up to one year) that is not held in the trading portfolio. Earnings movement for the short term profit rate sensitive assets and liabilities uses a set of risk weights with its respective time band to simulate the 100 bps profit rate (50 bps for 2010) change impact. For assets and liabilities with non fix maturity e.g. current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of these profit bearing assets and liabilities.

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

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Foreign currency sensitivity analysis

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

	+5% RM'000	-5% RM'000
2011		
Impact on profit after tax	1,147	(1,147)
2010		
Impact on profit after tax	1,298	(1,298)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity date:

	<------ Non trading book						------>		
	Up to 1 month	>1-3 months	>3-6 months	>6-12 months	>1-3 years	Over 3 years	Non-profit sensitive	Trading book	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2011									
Assets									
Cash and short-term funds	5,539,140	-	-	-	-	-	75,792	-	5,614,932
Deposits and placement with banks and other financial institutions	-	70,000	-	-	-	-	77	-	70,077
Financial assets held-for-trading	-	-	-	-	-	-	-	433,531	433,531
Financial investments available-for-sale	13,003	48,103	5,000	13,473	330,336	1,249,612	14,156	-	1,673,683
Financial investments held-to-maturity	-	10,000	9,778	24,485	498,127	840,719	15,029	-	1,398,138
Financing and advances									
- performing	2,128,512	324,333	334,975	300,503	603,053	8,775,988	31,773	-	12,499,137
- impaired	-	-	-	-	-	-	221,585	-	221,585
Other assets	-	-	-	-	-	-	87,194	-	87,194
Statutory deposits with BNM	-	-	-	-	-	-	606,455	-	606,455
Deferred tax assets	-	-	-	-	-	-	6,737	-	6,737
Tax recoverable	-	-	-	-	-	-	8,702	-	8,702
Property, plant and equipment	-	-	-	-	-	-	21,241	-	21,241
Total assets	7,680,655	452,436	349,753	338,461	1,431,516	10,866,319	1,088,741	433,531	22,641,412

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity date (continued):

	<---- Non trading book						---->		
	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	Over 3 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
2011 (continued)									
Liabilities									
Deposits from customers	9,116,770	4,526,133	1,554,074	874,110	34,566	3,903	940,540	-	17,050,096
Deposits and placements of banks and other financial institutions	845,256	1,769,000	850,000	-	-	269,450	28,161	-	3,761,867
Bills and acceptances payable	-	-	-	-	-	-	13,773	-	13,773
Derivative Liabilities	-	-	-	-	-	-	-	36,659	36,659
Other liabilities	-	-	-	-	-	-	446,781	-	446,781
Total liabilities	9,962,026	6,295,133	2,404,074	874,110	34,566	273,353	1,429,255	36,659	21,309,176
Total equity	-	-	-	-	-	-	1,332,236	-	1,332,236
Total liabilities and equity	9,962,026	6,295,133	2,404,074	874,110	34,566	273,353	2,761,491	36,659	22,641,412
On-balance sheet profit sensitivity gap	(2,281,371)	(5,842,697)	(2,054,321)	(535,649)	1,396,950	10,592,966			
Off-balance sheet profit sensitivity gap	1,300,000	1,300,000	-	-	(1,200,000)	(1,400,000)			
Total profit sensitivity gap	(981,371)	(4,542,697)	(2,054,321)	(535,649)	196,950	9,192,966			

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity date (continued):

	< Non trading book						>		
	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	Over 3 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
2010									
Assets									
Cash and short-term funds	1,019,584	-	-	-	-	-	57,321	-	1,076,905
Deposits and placement with banks and other financial institutions	-	40,000	-	-	-	-	62	-	40,062
Financial assets held-for-trading	-	-	-	-	-	-	-	218,928	218,928
Financial investments available-for-sale	7,810	90,050	167,559	25,280	262,092	1,221,348	13,126	-	1,787,265
Financial investments held-to-maturity	-	-	60,237	67,918	195,795	737,962	11,247	-	1,073,159
Financing and advances									
- performing	1,853,506	321,639	386,900	209,569	771,440	4,844,594	20,130	-	8,407,778
- impaired	-	-	-	-	-	-	305,983	-	305,983
Other assets	-	-	-	-	-	-	42,830	-	42,830
Derivatives assets	-	-	-	-	-	-	-	1,369	1,369
Statutory deposits with BNM	-	-	-	-	-	-	105,140	-	105,140
Deferred tax assets	-	-	-	-	-	-	30,854	-	30,854
Property, plant and equipment	-	-	-	-	-	-	21,547	-	21,547
Total assets	2,880,900	451,689	614,696	302,767	1,229,327	6,803,904	608,240	220,297	13,111,820

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Profit rate risk (continued)

The table below summarises the Bank's exposure to profit rate risk. The carrying amount of assets and liabilities (includes non-financial instruments) are categorised by the earlier of contractual repricing or maturity date (continued):

	<----------	----------	----------	Non trading book	----------	----------	---------->		
	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	Over 3 years RM'000	Non-profit sensitive RM'000	Trading book RM'000	Total RM'000
2010 (continued)									
Liabilities									
Deposits from customers	4,825,251	2,553,060	877,940	590,906	149,746	749	948,930	-	9,946,582
Deposits and placements of banks and other financial institutions	952,204	150,000	950,933	-	-	-	13,856	-	2,066,993
Bills and acceptances payable	-	-	-	-	-	-	12,124	-	12,124
Other liabilities	-	-	-	-	-	-	101,286	-	101,286
Taxation	-	-	-	-	-	-	170	-	170
Total liabilities	5,777,455	2,703,060	1,828,873	590,906	149,746	749	1,076,366	-	12,127,155
Total equity	-	-	-	-	-	-	984,665	-	984,665
Total liabilities and equity	5,777,455	2,703,060	1,828,873	590,906	149,746	749	2,061,031	-	13,111,820
On-balance sheet profit sensitivity gap	(2,896,555)	(2,251,371)	(1,214,177)	(288,139)	1,079,581	6,803,155			
Off-balance sheet profit sensitivity gap	50,000	600,000	-	-	-	(650,000)			
Total profit sensitivity gap	(2,846,555)	(1,651,371)	(1,214,177)	(288,139)	1,079,581	6,153,155			

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk

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

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) as at 31 December 2011 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8i:

	Up to 1 week RM'000	1 week to 1 months RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
2011								
Assets								
Cash and short-term funds	3,767,481	1,847,451	-	-	-	-	-	5,614,932
Deposits and placement with banks and other financial institutions	-	-	70,077	-	-	-	-	70,077
Financial assets held-for-trading	256	-	4,964	302,389	-	125,922	-	433,531
Financial investments available-for-sale	13,620	1,398	55,152	10,092	13,473	1,579,948	-	1,673,683
Financial investments held-to-maturity	514	1,654	19,186	12,994	24,485	1,339,305	-	1,398,138
Financing and advances	-	2,149,292	324,333	334,975	311,496	9,600,626	-	12,720,722
Other assets	47,166	16,098	-	-	-	-	23,930	87,194
Statutory deposits with BNM	-	-	-	-	-	-	606,455	606,455
Deferred tax assets	-	-	-	-	-	-	6,737	6,737
Tax recoverable	-	-	-	-	-	-	8,702	8,702
Property, plant and equipment	-	-	-	-	-	-	21,241	21,241
Total assets	3,829,037	4,015,893	473,712	660,450	349,454	12,645,801	667,065	22,641,412

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) as at 31 December 2011 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8i (continued):

	Up to 1 week RM'000	1 week to 1 months RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
2011 (continued)								
Liabilities								
Deposits from customers	6,490,303	3,535,981	4,546,940	1,563,393	876,040	37,439	-	17,050,096
Deposits and placements of banks and other financial institutions	471,901	378,339	1,782,782	858,692	-	270,153	-	3,761,867
Bills and acceptances payable	13,773	-	-	-	-	-	-	13,773
Derivative liabilities	-	-	-	-	-	36,659	-	36,659
Other liabilities	364,018	10,040	12,025	262	43,241	128	17,067	446,781
Total liabilities	7,339,995	3,924,360	6,341,747	2,422,347	919,281	344,379	17,067	21,309,176
Total equity	-	-	-	-	-	-	1,332,236	1,332,236
Total liabilities and equity	7,339,995	3,924,360	6,341,747	2,422,347	919,281	344,379	1,349,303	22,641,412

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) as at 31 December 2010 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8i:

	Up to 1 week RM'000	1 week to 1 months RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
2010								
Assets								
Cash and short-term funds	1,030,646	46,259	-	-	-	-	-	1,076,905
Deposits and placement with banks and other financial institutions	-	-	40,062	-	-	-	-	40,062
Financial assets held-for-trading	-	80	99,448	99,194	-	20,206	-	218,928
Financial investments available-for-sale	-	7,810	83,618	174,146	25,302	1,496,389	-	1,787,265
Financial investments held-to-maturity	-	-	-	60,295	67,919	944,945	-	1,073,159
Financing and advances	173,592	1,679,915	321,639	386,900	222,704	5,929,011	-	8,713,761
Other assets	25,422	14,114	-	-	-	-	3,294	42,830
Derivatives assets	-	-	-	-	-	1,369	-	1,369
Statutory deposits with BNM	-	-	-	-	-	-	105,140	105,140
Deferred tax assets	-	-	-	-	-	-	30,854	30,854
Property, plant and equipment	-	-	-	-	-	-	21,547	21,547
Total assets	1,229,660	1,748,178	544,767	720,535	315,925	8,391,920	160,835	13,111,820

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

The table below analyses the carrying amount of assets and liabilities (includes non-financial instruments) as at 31 December 2010 based on the remaining contractual maturity and is disclosed in accordance with the requirements of BNM GP8i (continued):

	Up to 1 week RM'000	1 week to 1 months RM'000	1 to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	Over 1 year RM'000	No specific maturity RM'000	Total RM'000
2010 (continued)								
Liabilities								
Deposits from customers	3,819,303	1,935,981	2,464,714	986,403	595,393	144,788	-	9,946,582
Deposits and placements of banks and other financial institutions	507,038	216,401	840,222	209,648	-	293,684	-	2,066,993
Bills and acceptances payable	12,124	-	-	-	-	-	-	12,124
Other liabilities	11,804	9,622	2,381	381	61,357	10,845	4,896	101,286
Taxation	-	-	-	-	-	-	170	170
Total liabilities	4,350,269	2,162,004	3,307,317	1,196,432	656,750	449,317	5,066	12,127,155
Total equity	-	-	-	-	-	-	984,665	984,665
Total liabilities and equity	4,350,269	2,162,004	3,307,317	1,196,432	656,750	449,317	989,731	13,111,820

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

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

	Up to 1 month RM'000	1 to 6 months RM'000	6 to 12 months RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2011							
Liabilities							
Deposits from customers	10,032,473	5,789,988	1,270,921	38,365	4,050	-	17,135,797
Deposits and placements of banks and other financial institutions	850,777	2,665,468	-	-	-	276,537	3,792,782
Bills and acceptances payable	13,773	-	-	-	-	-	13,773
Derivative liabilities	560	3,221	6,343	17,502	5,128	-	32,754
Other liabilities	374,058	12,287	43,240	-	-	128	429,713
Total financial liabilities	11,271,641	8,470,964	1,320,504	55,867	9,178	276,665	21,404,819

	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
2011			
Direct credit substitutes	35	-	35
Transaction-related contingent items	94,558	-	94,558
Short-term self-liquidating trade-related contingencies	42,424	-	42,424
Obligations under underwriting agreements	208,500	-	208,500
Irrevocable commitments to extend credit	1,686,599	2,280,366	3,966,965
Foreign exchange related contracts	371,106	-	371,106
Total commitments and contingencies	2,403,222	2,280,366	4,683,588

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

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

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

	Up to 1 month RM'000	1 to 6 months RM'000	6 to 12 months RM'000	1 to 3 years RM'000	3 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2010							
Liabilities							
Deposits from customers	5,753,606	3,479,647	611,481	156,620	874	-	10,002,228
Deposits and placements of banks and other financial institutions	754,637	1,025,481	-	-	-	314,784	2,094,902
Bills and acceptances payable	12,124	-	-	-	-	-	12,124
Other liabilities	21,426	2,762	61,357	1,970	2,975	5,900	96,390
Total financial liabilities	6,541,793	4,507,890	672,838	158,590	3,849	320,684	12,205,644

	Less than 1 year RM'000	Over 1 year RM'000	Total RM'000
2010			
Transaction-related contingent items	146,995	-	146,995
Short-term self-liquidating trade-related contingencies	40,948	-	40,948
Obligations under underwriting agreements	29,000	-	29,000
Irrevocable commitments to extend credit	2,099,697	552,580	2,652,277
Total commitments and contingencies	2,316,640	552,580	2,869,220

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

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk

(i) Maximum exposure to credit risk

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

	2011 RM'000	2010 RM'000
Credit risk exposure relating to on-balance sheet assets:		
Short term funds (exclude cash in hand)	5,609,616	1,072,620
Deposits and placements with banks and other financial institutions	70,077	40,062
Financial assets and investments portfolios (exclude shares)		
- Held-for-trading	433,531	218,928
- Available-for-sale	1,673,108	1,786,690
- Held-to-maturity	1,398,138	1,073,159
Financing and advances	12,720,722	8,713,761
Other assets	46,244	15,334
Derivative assets	-	1,369
	21,951,436	12,921,923
Credit risk exposure relating to off-balance sheet items:		
Commitment and contingencies	4,683,588	2,869,220
Total maximum credit risk exposure	26,635,024	15,791,143

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(ii) Collaterals

The main types of collateral obtained by the Bank are as follows:

(a) Fixed deposits, Mudharabah General Investment Account, negotiable instrument of deposits, foreign currency deposits and cash deposits/margins
(b) Land and buildings
(c) Vessels and automobiles
(d) Quoted shares, unit trusts, Malaysian Government Bonds and securities and private debt securities
(e) Endowment life policies with cash surrender value
(f) Other tangible business assets, such as inventory and equipment

The Bank also accepts non-tangible securities such as support, guarantees from individuals, corporates and institutions, bank guarantees, debentures, assignment of contract payments, which are subject to internal guidelines on eligibility.

The financial effect of collateral (quantification of the extent to which collateral and other credit enhancements mitigate credit risk) held for financing and advances is 55.3% as at 31 December 2011. The financial effect of collateral held for the other financial assets is insignificant.

(iii) Credit quality

The Bank assesses credit quality of financing and advances using internal rating techniques tailored to the various categories of products and counterparties. These techniques have been developed internally and combine statistical analysis with credit officer's judgement.

Financing and advances

Internal ratings	**Description**
- Investment grade	Strong(est) credit quality which are associated with general standards of investment grade as per defined by international rating agency such as Standard and Poor's (S&P), Moody's, Fitch, and Japan Credit Rating Agency (JCR).
- Lower investment grade	Lower credit quality which are associated with general standards of investment grade as per defined by international rating agency such as Standard and Poor's (S&P), Moody's, Fitch, and Japan Credit Rating Agency (JCR).
- Non-investment grade	Weaker credit quality which are associated with general standards of non-investment grade as per defined by international rating agency such as Standard and Poor's (S&P), Moody's, Fitch, and Japan Credit Rating Agency (JCR).

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iii) Credit quality (continued)

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

- AAA to AA3
- A1 to A3
- Baa1 to Baa3
- P1 to P3
- Non-rated

(a) Financing and advances

Financing and advances are summarised as follows:

	2011 RM'000	2010 RM'000
Neither past due nor impaired	12,119,780	8,391,298
Past due but not impaired	379,358	16,480
Individually impaired	543,076	628,251
Gross financing and advances	13,042,214	9,036,029
Less: Individual impairment allowance	(130,724)	(163,440)
Collective impairment allowance	(190,768)	(158,828)
Net financing and advances	12,720,722	8,713,761

(i) Financing and advances neither past due nor impaired

Analysis of financing and advances that are neither past due nor impaired analysed based on the Bank's internal credit grading system is as follows:

	2011 RM'000	2010 RM'000
Investment grade	5,354,899	3,236,755
Lower investment grade	682,188	697,755
Non investment grade	671,478	37,288
Non-rated	5,411,215	4,419,500
	12,119,780	8,391,298

Financing and advances classified as non-rated mainly comprise of financing under the standardised approach for credit risk including housing financing and hire purchase receivables.

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(a) Financing and advances (continued)

(ii) Financing and advances past due but not impaired

Analysis of aging of financing and advances that are past due but not impaired is as follows:

	2011 RM'000	2010 RM'000
Past due up to 30 days	26,071	11,430
Past due 31 to 60 days	261,461	4,064
Past due 61 to 90 days	91,826	986
Past due but not impaired	379,358	16,480

(iii) Financing and advances that are determined to be individually impaired as at 31 December 2011 are as follows:

	2011 RM'000	2010 RM'000
Individually impaired financing	543,076	628,251

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

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

(i) Short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios and other assets are summarised as follows:

	Short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial assets held-for-trading years RM'000	Financial investments available-for sale RM'000	Financial investments held-to-maturity RM'000	Other financial assets RM'000	Derivative assets RM'000
2011							
Neither past due nor impaired	5,609,616	70,077	433,531	1,673,108	1,398,138	46,244	-
2010							
Neither past due nor impaired	1,072,620	40,062	218,928	1,786,690	1,073,159	15,334	1,369

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

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

(ii) Analysis of short-term funds, deposits and placements with banks and other financial institutions, financial assets and investments portfolios and other assets that are neither past due nor impaired by rating agency designation as at 31 December 2011 are as follows:

	Short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other financial assets RM'000
2011						
AAA to AA3	-	-	5,044	493,869	460,168	-
A1 to A3	-	-	16,495	23,510	20,322	-
P1 to P3	416,000	-	-	15,979	-	-
Non-rated including:	5,193,616	70,077	411,992	1,139,750	917,648	46,244
- Malaysian Government Investment Issues	-	-	51,312	869,507	795,980	-
- Bank Negara Monetary Notes	5,129,474	-	306,912	-	-	-
- Private debt securities	-	-	-	270,243	61,363	-
- Khazanah Bonds	-	-	53,768	-	8,346	-
- Others	64,142	70,077	-	-	51,959	46,244
	5,609,616	70,077	433,531	1,673,108	1,398,138	46,244

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

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

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

	Short-term funds RM'000	Deposits and placements with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Other financial assets RM'000	Derivative assets RM'000
2010							
AAA to AA3	-	-	10,140	301,195	418,287	-	-
A1 to A3	-	40,062	-	-	20,312	-	1,369
P1 to P3	30,070	-	24,906	9,951	-	-	-
Non-rated including:	1,042,550	-	183,882	1,475,544	634,560	15,334	-
- Bank Negara Malaysia	1,002,153	-	173,816	-	-	-	-
- Malaysian Government Investment Issues	-	-	10,066	1,239,535	589,168	-	-
- Private debt securities	-	-	-	132,154	45,392	-	-
- Others	40,397	-	-	103,855	-	15,334	-
	1,072,620	40,062	218,928	1,786,690	1,073,159	15,334	1,369

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

(iii) Collateral and other credit enhancements obtained

There are no assets held by the Bank as at 31 December 2011 as a result of taking possession of collaterals held as securities.

Repossessed properties are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. The Bank generally does not occupy the repossessed premises for its business use.

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

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

	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Financing and advances # RM'000	Other financial assets RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
2011								
Agriculture	-	-	-	-	191,549	-	191,549	55,875
Mining and quarrying	-	-	-	-	24,885	-	24,885	-
Manufacturing	-	-	-	-	878,256	-	878,256	560,813
Electricity, gas and water	-	5,044	143,124	48,283	209,465	-	405,916	6,613
Construction	-	-	-	-	438,874	-	438,874	390,720
Real estate	-	-	137,145	189,830	135,981	-	462,956	-
Purchase of landed property	-	-	-	-	2,994,413	-	2,994,413	721,305
General commerce	-	-	-	-	493,698	-	493,698	472,402
Transport, storage and communication	-	-	47,702	70,161	3,482,076	-	3,599,939	965,522
Finance, insurance and business services	550,219	306,913	31,750	-	181,044	-	1,069,926	76,924
Government and government agencies	5,129,474	121,574	1,313,387	1,089,864	1,794,513	-	9,448,812	-
Purchase of securities	-	-	-	-	8,607	-	8,607	-
Consumption credit	-	-	-	-	-	-	-	848,851
Others	-	-	-	-	2,078,129	46,244	2,124,373	584,563
	5,679,693	433,531	1,673,108	1,398,138	12,911,490	46,244	22,142,204	4,683,588

\# Excludes collective impairment allowance amounting to RM190,768,000

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Credit risk (continued)

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

	Short-term funds and deposits and placements with banks and other financial institutions RM'000	Financial assets held-for-trading RM'000	Financial investments available-for-sale RM'000	Financial investments held-to-maturity RM'000	Financing and advances # RM'000	Other financial assets* RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
2010								
Agriculture	-	-	-	-	332,107	-	332,107	50,387
Mining and quarrying	-	-	-	-	26,853	-	26,853	-
Manufacturing	-	-	-	-	878,308	-	878,308	302,253
Electricity, gas and water	-	24,906	67,334	48,563	224,263	-	365,066	19,859
Construction	-	-	-	-	482,139	-	482,139	608,824
Real estate	-	-	16,255	35,723	134,259	-	186,237	4,196
Purchase of landed property	-	-	-	-	2,628,564	-	2,628,564	396,240
General commerce	-	-	5,048	-	602,806	-	607,854	628,604
Transport, storage and communication	-	-	40,432	87,320	1,566,565	-	1,694,317	82,149
Finance, insurance and business services	110,529	183,956	275,714	295,797	14,150	-	880,146	227,781
Government and government agencies	1,002,153	10,066	1,381,907	605,756	-	-	2,999,882	-
Purchase of securities	-	-	-	-	12,269	-	12,269	-
Consumption credit	-	-	-	-	-	-	-	8,263
Others	-	-	-	-	1,970,306	16,703	1,987,009	540,664
	1,112,682	218,928	1,786,690	1,073,159	8,872,589	16,703	13,080,751	2,869,220

Excludes collective impairment allowance amounting to RM158,828,000

* Other financial assets include other financial assets amounting to RM15,334,000 and derivative assets amounting to RM1,369,000

33 FINANCIAL RISK MANAGEMENT (CONTINUED)

(g) Fair value hierarchy

Amendments to FRS 7 "Financial Instruments: Disclosures - improving disclosures about financial instruments" (effective from 1 January 2011) requires disclosure of fair value measurements by level of a fair value measurements hierarchy, comparatives disclosures is not required by the standard. The Bank measures fair values of using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not based on observable market data.

The table below analyses financial instruments carried at fair value analysed by level within the fair value hierarchy:

2011

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets				
Trading securities	-	433,531	-	433,531
Available for sale financial assets	-	1,673,683	-	1,673,683
	-	2,107,214	-	2,107,214
Financial liabilities				
Derivative liabilities	-	36,659	-	36,659

34 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

	Carrying value RM'000	Fair value RM'000
2011		
Financial assets		
Financial investments held-to-maturity	1,398,138	1,406,370
Financing and advances	12,720,722	12,615,153
2010		
Financial assets		
Financial investments held-to-maturity	1,073,159	1,092,905
Financing and advances	8,713,761	8,825,208

34 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

(i) Cash and short-term funds and deposits and placements with financial institutions

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

(ii) Financial investments held-to-maturity

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

(iii) Financing and advances

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

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

The fair values of impaired floating and fixed rates financing are represented by their carrying value, net of impairment allowance.

(iv) Other assets and liabilities

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

(v) Deposits from customers

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

(vi) Deposits and placements of banks and other financial institutions, bills and acceptances payables

The estimated fair values of deposits and placements of banks and other financial institutions, bills and acceptances payable with maturities of less than six months approximate the carrying values. For the items with maturities six months and above, the fair values are estimated based on discounted cash flows using prevailing money market profit rates with similar remaining period to maturities.

(vii) Credit related commitments and contingencies

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

35 CAPITAL ADEQUACY

With effect from 1 January 2008, the capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia Capital Adequacy Framework for Islamic Banks ('CAFIB'): Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk (Basel II).

	2011 RM'000	2010 RM'000
Tier I Capital		
Paid-up ordinary share capital	773,424	523,424
Retained profits	271,298	222,371
Statutory reserve	280,411	231,484
	1,325,133	977,279
Less :		
Deferred tax assets	(9,105)	(33,269)
Total Tier I capital	1,316,028	944,010
Tier II Capital		
Collective impairment/ allowance for bad and doubtful financing^	135,113	103,037
Total Tier II capital	135,113	103,037
Less:		
Other deduction*	(24)	(102)
Total capital base	1,451,117	1,046,945
Core capital ratio (inclusive of market risk)	12.65%	12.23%
Risk-weighted capital ratio (inclusive of market risk)	13.95%	13.56%
The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:		
Credit risk-weighted assets	9,226,699	7,124,858
Market risk-weighted assets	565,103	30,513
Operational risk-weighted assets	608,028	566,538
Total risk-weighted assets	10,399,830	7,721,909

^ Excludes collective assessment impairment allowance attributable to financing and advances classified as impaired but not individually assessed for impairment pursuant to BNM's Guideline on "Classification and Impairment Provisions for Loans/Financing" issued on 8 January 2010 and subsequently updated on 26 January 2010 and 17 December 2010.

* Pursuant to the Basel II Market Risk para 5.19 and 5.20 – Valuation Adjustments/Reserves, the RWCR computation shall account for the ageing, liquidity and holding back adjustments/reserves on its trading portfolio.

Notes To The Financial Statements
For The Financial Year Ended 31 December 2011 (continued)

35 CAPITAL ADEQUACY (CONTINUED)

	Principal RM'000	Risk Weighted RM'000
2011		
The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:		
(i) Credit Risk		
0%	11,399,745	-
20%	1,493,696	298,739
50%	109,940	54,970
75%	6,496,957	4,872,718
100%	3,547,376	3,547,376
150%	301,931	452,896
	23,349,645	9,226,699
(ii) Market Risk	5,643,938	565,103
(iii) Operational Risk	-	608,028
	28,993,583	10,399,830

	Principal RM'000	Risk Weighted RM'000
2010		
The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:		
(i) Credit Risk		
0%	4,615,087	-
20%	1,126,000	225,200
50%	135,370	67,685
75%	4,336,444	3,252,333
100%	2,906,587	2,906,587
150%	448,702	673,053
	13,568,190	7,124,858
(ii) Market Risk	230,515	30,513
(iii) Operational Risk	-	566,538
	13,798,705	7,721,909

36 SEGMENT REPORTING

Following the management approach of FRS 8, operating segments are reported in a manner consistent with the internal reporting provided to the chief operation decision-maker, who is the person or group that allocates resources to and assesses the performance of the operating segments of an entity.

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

The business segment results are prepared based on the Bank's internal management reporting, which reflects the organisation's management structure. Internal allocation of costs has been used in preparing the segmental reporting.

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

Corporate and Investment banking

Corporate and Investment banking caters to financing and managing relationship of corporate customers including public listed corporations and its related entities, multinational corporations, financial institutions, government and state owned entities as well as high net worth individual related to the above. The division also generates fee-based income from private debt securities issuances ('PDS'), financings restructuring and syndication as well as general and project advisory services.

Business banking

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

Retail banking

Retail banking focuses on providing products and services to individual customers. The products and services offered to customers include term financing (house and shop house financing), Islamic automobile financing business with concentration on the financing of high demand and popular passenger motor vehicles, deposit portfolios (savings and current account), remittance services and investment products (term deposit/investment accounts).

Treasury

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

Transaction banking

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

International Currency Business Unit ('ICBU')

ICBU conducts Islamic banking business activities, which includes deposits, financing and related activities, in international currency.

36 SEGMENT REPORTING (CONTINUED)

	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Transaction Banking RM'000	ICBU RM'000	Others RM'000	Total RM'000
2011								
External revenue	189,596	42,043	312,362	231,206	5,418	1,011	4,062	785,698
Inter-segment revenue/expense	(128,132)	1,759	(126,205)	169,289	79,117	4,172	-	-
Total revenue	61,464	43,802	186,157	400,495	84,535	5,183	4,062	785,698
Depositors' payout	(31,832)	(13,184)	(22,401)	(321,246)	(40,179)	(2,276)	-	(431,118)
Net income	29,632	30,618	163,756	79,249	44,356	2,907	4,062	354,580
Operating overheads	(17,138)	(19,778)	(75,122)	(18,176)	(24,529)	(6)	-	(154,749)
Depreciation of property and equipment	(423)	(635)	(2,032)	(593)	(550)	-	-	(4,233)
Allowance for impairment on financing and advances	8,142	(20,092)	(46,309)	-	-	451	-	(57,808)
Segmental results	20,213	(9,887)	40,293	60,480	19,277	3,352	4,062	137,790
Profit before taxation								137,790
Taxation								(39,936)
Profit for the financial year								97,854

Note:
Total segment revenue comprises of net profit income and other operating income.

36 SEGMENT REPORTING (CONTINUED)

	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Transaction Banking RM'000	ICBU RM'000	Elimination RM'000	Total RM'000
2011 (continued)								
Segment assets	5,544,797	748,394	6,454,733	14,311,350	2,747,862	283,349	(7,571,331)	22,519,154
Tax recoverable								8,702
Deferred tax assets								6,737
Unallocated assets								106,819
Total assets								22,641,412
Segment liabilities	5,324,967	709,550	6,131,267	13,579,730	2,747,862	270,199	(7,571,331)	21,192,244
Profit equalisation reserve								7,252
Unallocated liabilities								109,680
								21,309,176
Other segment items:								
Capital expenditure	393	589	1,884	550	511	-	-	3,927

36 SEGMENT REPORTING (CONTINUED)

	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Transaction Banking RM'000	ICBU RM'000	Total RM'000
2010							
External revenue	121,397	55,313	196,583	169,246	4,003	2,204	548,746
Inter-segment revenue/expense	(52,960)	(5,346)	(63,574)	74,456	43,396	4,028	-
Total revenue	68,437	49,967	133,009	243,702	47,399	6,232	548,746
Depositors' payout	(5,825)	(8,787)	(12,824)	(176,119)	(13,804)	(2,807)	(220,166)
Net income	62,612	41,180	120,185	67,583	33,595	3,425	328,580
Operating overheads	(21,118)	(19,495)	(53,102)	(18,413)	(24,327)	(604)	(137,059)
Depreciation of property and equipment	(377)	(566)	(1,810)	(528)	(490)	-	(3,771)
Amortisation of intangible assets	(460)	(690)	(2,209)	(643)	(598)	-	(4,600)
Allowance for impairment on financing and advances	(2,796)	(46,489)	(17,104)	-	-	(990)	(67,379)
Impairment losses on intangible assets	(2,495)	(3,742)	(11,974)	(3,492)	(3,242)	-	(24,945)
Segmental results	35,366	(29,802)	33,986	44,507	4,938	1,831	90,826

	Total RM'000
Segmental results	90,826
Profit equalisation reserve	(201)
Profit before taxation	90,625
Taxation	(23,136)
Profit for the financial year	67,489

Note:
Total segment revenue comprises of net profit income and other operating income.

36 SEGMENT REPORTING (CONTINUED)

	Corporate and Investment Banking RM'000	Business Banking RM'000	Retail Banking RM'000	Treasury RM'000	Transaction Banking RM'000	ICBU RM'000	Elimination RM'000	Total RM'000
2010 (continued)								
Segment assets	3,683,476	925,597	3,940,043	7,857,375	1,869,427	359,677	(5,644,934)	12,990,661
Deferred tax assets								30,854
Unallocated assets								90,305
Total assets								13,111,820
Segment liabilities	3,556,779	896,015	3,631,940	6,713,034	1,869,427	323,813	(5,644,934)	11,346,074
Profit equalisation reserve								4,527
Tax liabilities								170
Unallocated liabilities								776,384
								12,127,155
Other segment items:								
Capital expenditure	423	634	2,030	592	550	-	-	4,229

37 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 28 February 2012.

Statement By Directors

Pursuant to Section 169 (15) Of the Companies Act, 1965

We, Haji Khairuddin Ahmad and Haji Abd Rani Lebai Jaafar, 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 074 to 161 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2011 and of the results and cash flows of the Bank for the financial year ended on that date in accordance with the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

On behalf of the Board in accordance with a resolution of the Board of Directors.

HAJI KHAIRUDDIN AHMAD
CHAIRMAN

HAJI ABD RANI LEBAI JAAFAR
CHIEF EXECUTIVE OFFICER/MANAGING DIRECTOR

Kuala Lumpur
28 February 2012

Statutory Declaration

Pursuant to Section 169(16) Of the Companies Act, 1965

I, Haryadi Bin Katmun @ Katmon the officer primarily responsible for the financial management of RHB Islamic Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 074 to 161 are, in my opinion correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declaration Act, 1960.

Haryadi Bin Katmun @ Katmon

Subscribed and solemnly declared by the above named Haryadi Bin Katmun @ Katmon at Kuala Lumpur in Wilayah Persekutuan on 28 February 2012.

Before me:

COMMISIONER FOR OATHS
Kuala Lumpur

Independent Auditors' Report

To The Member of RHB Islamic Bank Berhad
(Incorporated in Malaysia)
(Company No.680329 V)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of RHB Islamic Bank Berhad, which comprise the statement of financial position as at 31 December 2011, and the income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 074 to 161.

Directors' Responsibility for the Financial Statements

The directors of the Bank are responsible for the preparation of financial statements that give a true and fair view in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965 and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the Companies Act 1965 so as to give a true and fair view of the financial position of the Bank as of 31 December 2011 and of its financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 1965 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

This report is made solely to the member of the Bank, as a body, in accordance with Section 174 of the Companies Act 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

MOHAMMAD FAIZ BIN MOHAMMAD AZMI
(No. 2025/03/12 (J))
Chartered Accountant

Kuala Lumpur
28 February 2012

Pillar 3 Disclosures Contents

Statement by Managing Director

In accordance with the requirements of BNM's Guideline on Capital Adequacy Framework For Islamic Banks ('CAFIB') – Disclosure Requirements ('Pillar 3'), and on behalf of the Board and Senior Management of RHB Islamic Bank Berhad, I am pleased to provide an attestation that the Pillar 3 disclosures of the Bank for the year ended 31st December 2011 are accurate and complete.

Haji Abd Rani bin Lebai Jaafar

Managing Director

1.0 INTRODUCTION

This document discloses RHB Islamic Bank's risk profile, risk management practices and capital adequacy position in accordance with the disclosure requirements as outlined in the Capital Adequacy Framework for Islamic Banks ('CAFIB')– Disclosure Requirements ('Pillar 3') issued by Bank Negara Malaysia ('BNM').

This document covers the qualitative and quantitative information for financial year ended 31st December 2011 with comparative quantitative information of the preceding financial year 2010. This is RHB Islamic Bank Berhad's second annual Pillar 3 disclosure report published in accordance with the Guideline. This disclosure report has been verified and approved internally in line with the RHB Banking Group Pillar 3 Disclosure Policy.

RHB Islamic Bank's Pillar 3 disclosure report will be made available under the Investor Relations section of the Bank's website at www.rhb.com.my as a separate report in the Bank's annual report 2011, after the notes to the financial statements.

2.0 SCOPE OF APPLICATION

In this report, the Bank's information is presented at entity level. The Bank is a wholly owned subsidiary of RHB Bank Berhad as at 31st December 2011.

In this Pillar 3 document, RHB Islamic Bank Berhad is referred to as 'the Bank'.

3.0 CAPITAL ADEQUACY

Capital adequacy is the degree to which capital resources on the Bank's balance sheet are sufficient to cover the business capital requirements now and in the foreseeable future. It also indicates the ability of the Bank to provide credit across the business cycles and in meeting any contingency without compromising the interest of the depositors and investors.

Sufficient capital in relation to the risk profile of the Bank's assets helps promote financial stability and the confidence of the shareholders. The Bank aims to maximise the shareholder's value through an optimal capital structure to protect the stakeholders' interests, provides sufficient room for growth while meeting the regulatory requirements.

The Bank is also committed to maintaining a sound capital base to support the risks associated with diversified businesses, while still providing investors with reasonable returns.

With effect from 1st July 2010, the capital ratios of RHB Islamic Bank Berhad are based on BNM's Guidelines on 'Capital Adequacy Framework for Islamic Banks ('CAFIB'); Standardised Approach for Credit Risk and Market Risk and Basic Indicator Approach for Operational Risk (Basel II)'.

3.1 Capital Adequacy Ratios

There was no dividend declared or payout during the financial year. The Bank's Core Capital Ratio and Risk Weighted Capital Ratio are as follows:

Table 1: Capital Adequacy Ratios

	RHB Islamic Bank	
	2011	**2010**
Core capital ratio	12.65%	12.23%
Risk-weighted capital ratio	13.95%	13.56%

The above Core Capital Ratio and Risk-Weighted Capital Ratio are above the minimum level required by BNM.

3.0 CAPITAL ADEQUACY (CONTINUED)

3.2 Minimum Capital Requirements and Risk-Weighted Assets ('RWA')

Table 2: Risk-Weighted Assets ('RWA') by Risk Types

	RHB Islamic Bank (RM'000)	
	2011	2010
Credit RWA	9,226,699	7,124,858
Market RWA	565,103	30,513
Operational RWA	608,028	566,538
Total	10,399,830	7,721,909

Overall RWA for year 2011 increased by RM2.68 billion, mainly attributed by the increase in total assets during the year. The Market RWA increased in 2011 due to IPRS transactions to hedge the rate of return risk in the banking book.

Capital requirements for the three risk types are derived by multiplying the risk-weighted assets by 8%. The following table shows a breakdown of the Bank's RWA by risk types as at 31st December 2010 and 31st December 2011:

Table 3: Minimum Capital Requirements and Risk-Weighted Assets by Risk Types

Risk Types	RWA (RM'000)		Capital Requirement (RM'000)	
	2011	2010	2011	2010
Credit Risk				
Under Standardised Approach	9,226,699	7,124,858	738,136	569,989
Market Risk				
Under Standardised Approach	565,103	30,513	45,208	2,441
Operational Risk				
Under Basic Indicator Approach	608,028	566,538	48,642	45,323
Total	10,399,830	7,721,909	831,986	617,753

Note: The Bank did not have any capital requirement for Large Exposure Risk as there was no exposure arising from equity holdings.

4.0 CAPITAL STRUCTURE

The constituents of total eligible capital are set out in BNM's Guideline on 'Risk-Weighted Capital Adequacy Framework and Capital Adequacy Framework for Islamic Banks (General Requirements and Capital Components)' Part C and D. These include shareholders' fund, after regulatory-related adjustments, and eligible capital instruments issued by the Bank.

The following table represents the Bank's capital position as at 31st December 2011 and 31st December 2010. Details on capital instruments, including share capital and reserves are found in notes 17 and 18 of the Financial Statements.

4.0 CAPITAL STRUCTURE (CONTINUED)

Table 4: Capital Structure

	RHB Islamic Bank (RM'000) 2011	RHB Islamic Bank (RM'000) 2010
Tier I Capital		
Paid-up ordinary share capital	773,424	523,424
Retained profits	271,298	222,371
Statutory reserve	280,411	231,484
Total Tier I Capital	1,325,133	977,279
Less:		
Deferred tax assets	(9,105)	(33,269)
Eligible Tier I Capital	1,316,028	944,010
Tier II Capital		
Collective impairment/allowance	135,113	103,037
Total Tier II Capital	135,113	103,037
Less:		
Ageing Reserve and Liquidity Reserve	(24)	(102)
Eligible Tier II Capital	135,089	102,935
Capital Base	1,451,117	1,046,945

During the financial year ended 31st December 2011, the Bank issued 250,000,000 new ordinary shares of RM1.00 each to its holding company for working capital purposes.

5.0 RISK MANAGEMENT

Risk is inherent in the Bank's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to limits and other controls. Besides credit risk, the Bank is exposed to a range of other risk types such as market, liquidity, operational, legal, and strategic and cross border, as well as other forms of risk inherent to its strategy, product range and geographical coverage.

Effective risk management is fundamental to being able to generate profits consistently while sustaining competitive advantage, and is thus a central part of the financial and operational management of the Bank.

To this extent, the RHB Group Risk Management Framework governs the management of risks in the banking group. The Framework operates on two interlocking layers:

- it provides a holistic overview of the risk and control environment of the Group, with the risk management going towards loss minimisation and mitigation against losses which may occur through, principally, the failure of effective checks and balances in the organisation.
- it sets out the strategic progression of risk management towards becoming a value creation enterprise. This is affected through building up capabilities and infrastructure in risk management sophistication, and using the improvement in risk quantification to optimise risk-adjusted (or economic) returns.

5.0 RISK MANAGEMENT (CONTINUED)

The following sections describe some of these risk management content areas.

OVERARCHING RISK MANAGEMENT PRINCIPLES

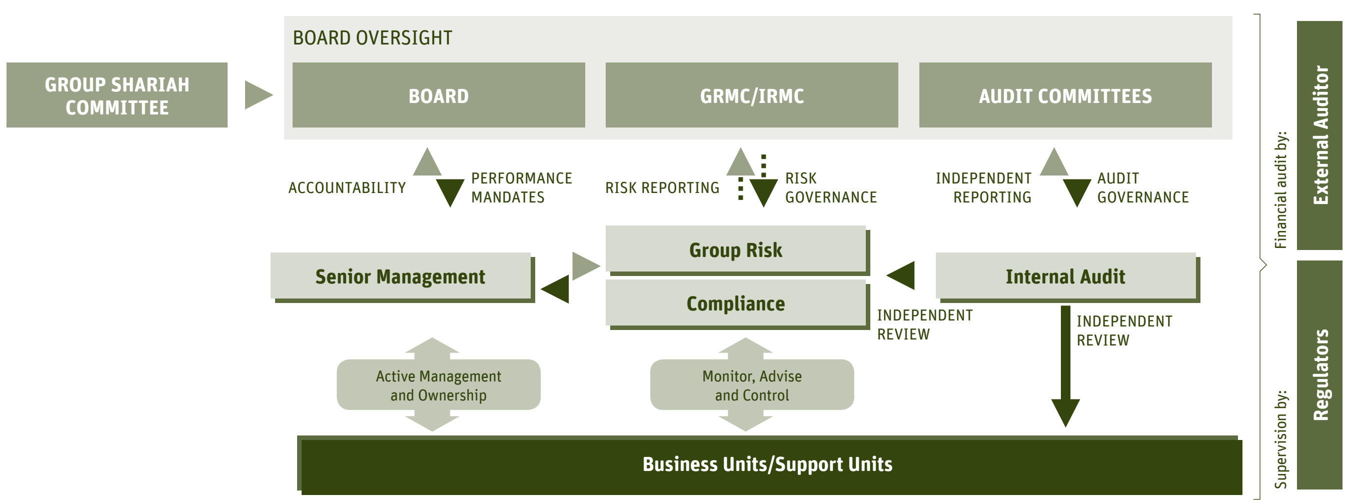
The framework enshrines five fundamental principles that drive the philosophy of risk management in the RHB Banking Group. They are:

- risk governance from the Boards of Directors of companies in the Group,
- clear understanding of risk management ownership,
- institutionalisation of a risk focused organisation,
- alignment of risk management to business strategies, and
- optimisation of risk adjusted economic and financial returns.

Principle 1: Risk Governance from the Boards of Directors of Companies in the Group

The ultimate responsibility of the Boards of Directors in the RHB Banking Group is in ensuring that an effective risk management strategy is in place and uniformly understood across the Group. The Group has a structured framework to support the Board oversight responsibilities which is depicted in the accompanying diagram:

Structured Framework to Support Board Oversight Role in Risk Management



RISK GOVERNANCE AND ORGANISATION

The Board of Directors ('Board' or 'BOD') through the Group Risk Management Committee ('GRMC')/Islamic Risk Management Committee ('IRMC') and Group Risk Management function establishes the Group's risk appetite and risk principles. The GRMC is the principal Board Committee that oversees the Group's risk management. It provides oversight and governance of risks for the Group, oversees senior management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process of the Group is in place and functioning; promotes the management of the Group's risks in accordance with a risk return performance management framework; and deliberates and make recommendations to the Boards of the Group in respect of risk management matters.

A Risk Management Committee is also established at the Bank to focus on the risk management issues of the Bank, particularly in relation to risk issues unique to Islamic finance. This is to achieve the intended objectives of enhancing the risk management of the Group's Islamic activities.

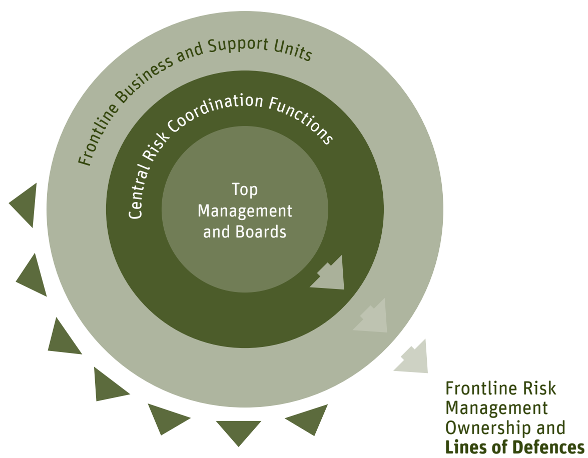
5.0 RISK MANAGEMENT (CONTINUED)

Principle 2: Clear Understanding of Risk Management Ownership

Risk awareness culture is instilled throughout the Group through proactive risk ownership. The business and functional units of the Group are primarily responsible for identifying, managing and reporting their risks. The business units manage certain defined risks through the use of facilities and services provided by the functional units.

Risk management processes are a collective responsibility and cooperation of business and functional units, risk management functions, top management and the Board. This leads to risk management ownership with differing levels of focus established across the Group as follows:

Risk Management Ownership and Lines of Defence



Principle 3 : Institutionalisation of a Risk Focused Organisation

Institutionalisation of a risk-focused organisation is progressively revolutionised within the RHB Banking Group through a number of measures, two of which are:

- strengthening of the central risk coordination functions, and
- continuous reinforcing of a risk and control environment within the Group.

They are described in further detail in the succeeding sections:

Central Risk Coordination Functions

The following summarises the key differences in perspectives (which are also strategically complementary) between the Risk Management, Compliance and Internal Audit functions.

The **Risk Management** function is responsible for upholding the integrity of our risk/return decisions, and in particular in ensuring that risks are properly assessed and managed.

The risk management function is independent of the origination and sales functions to ensure that the necessary balance in risk/return decisions is not compromised by short-term pressures to generate revenues. This risk function reports to IRMC/GRMC and assists the IRMC/GRMC and Board in formulating risk related policies, advises the IRMC/GRMC and Board on the risk impact of business strategies, and reviews compliance by the management to the risk policy framework that is approved by the Board.

The risk function is also responsible for maintaining the Group Risk Management Framework, ensuring it remains appropriate to the Group's activities, and is effectively communicated and implemented across the Group.

5.0 RISK MANAGEMENT (CONTINUED)

Central Risk Coordination Functions (continued)

The risk management function in the Group reports to the Head of Group Risk Management. Among the roles and responsibilities of the Head of Group Risk Management are:

- facilitating the setting of the strategic direction and overall policy on management and control of risk of the Group;
- ensuring industry best practice risk management disciplines are adopted across the Group; including the setting of risk management parameters and risk underwriting models;
- developing a pro-active; balanced and risk attuned culture within the Group;
- advising senior management, the IRMC/GRMC and the Board on risk issues of, and impacts on, the Group; and
- administering the delegation of discretionary powers to management personnel within the Group.

The **Compliance** function is centrally managed and provides assurance to management that the Group's activities are in compliance with external requirements and internal policies and procedures.

The **Audit** function independently reviews and reports on the adequacy and integrity of the Group's internal control systems and information management systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

Risk and Control Environment

Business, functional and governance heads are accountable for risk management in their businesses and functions, and for countries where they have governance responsibilities. The business and functional units have a clear segregation of duties with sufficient check and balance to ensure that business processes are functioning effectively. There is appropriate accountability delegated to the appropriate authority to execute their respective authorities in meeting the business strategies without compromising the risk management strategies.

Primary responsibility for managing risks, therefore, rests with the business managers. They are best equipped to ensure that risk management and control are continuously focused on the way business is conducted. There is a continuous review of business activities and processes to identify significant risk areas and implement control procedures to operate within established corporate policies and limits.

Principle 4: Alignment of Risk Management to Business Strategies

A statement of intent of the Group's Risk Management Framework is to align the Group's business strategy to risk strategy, and vice versa. This is typically articulated through the Group's annual business and financial budgetary plan, which is progressively facilitated by the integration of risk measures in economic capital management. It is also implemented through the Group's construction of a sustaining risk-focused organisation as described in preceding sections where business and support units are required to be primarily responsible and accountable for risk management.

Principle 5: Optimisation of Risk Adjusted Economic and Financial Returns

An objective of economic capital management is to reflect a true return in relation to risk level assumed by businesses throughout the Group. By linking risk to capital, the risk adjusted returns measure contributes to the creation of shareholder value by facilitating the allocation of capital to the businesses whose value creation significantly exceed the risk profile of their activities. The medium to long term strategy and principle of risk management of the Group is to deepen the integration of economic capital management within the Group. The Group's management has implemented a risk-adjusted returns based framework for allocation of capital to business units and for performance measurement and management.

6.0 CREDIT RISK

Credit Risk Definition

Credit risk arises as a result of customers' or counterparties' inability to fulfil their financial and contractual obligations as and when they arise. These obligations arise from the Bank's direct lending obligations, trade finance and its funding, investment and trading activities.

6.1 Credit Risk Management Oversight and Organisation

The Central Credit Committee ('CCC') is the senior management committee that reviews the Group's credit risk philosophy, framework, and policies; aligns credit risk management with business strategy and planning; recommends credit approval authority limits; reviews the credit profile of material portfolios; and recommends actions where necessary to ensure that credit risk remains within established risk tolerances. CCC also approves and renews financing/facilities and submits to the Group Credit Committee ('GCC') for affirmation or veto if the financing/facilities exceed a pre-defined threshold.

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

The RHB Banking Group has established a Group Recovery Committee ('GRC') to oversee the management of non-performing accounts ('NPA') and high risk accounts as well as affirming, imposing additional covenants or vetoing credits under NPA from Credit Recovery for amounts above the defined thresholds of the CCC. The GRC has since been dissolved on 31st December 2011 and the discretionary powers and responsibilities of the GRC are now vested to the GCC.

Within Group Risk Management, the Credit Risk Management Department has the functional responsibility for credit risk management, including portfolio risk monitoring and risk reporting. Group Risk Management units also conduct regular credit stress tests to assess the credit portfolio's vulnerability to adverse credit risk events.

Regular risk reporting is made to the Board and IRMC/GRMC. These reports include various credit risk aspects such as portfolio quality, credit migration, expected losses, and concentration risk exposures by business portfolio. Such reporting allows senior management to identify adverse credit trends, take corrective actions promptly, and ensure appropriate risk-adjusted decision making.

6.2 Credit Risk Management Approach

The RHB Banking Group's credit risk management framework which is founded upon BNM's guidelines on 'Best Practices for the Management of Credit Risk' is documented under the Group Credit Policy. The Bank abides by this Credit Policy which supports the development of a strong credit culture with the objective of maintaining a diversified portfolio and mitigates the risk of unexpected losses, and which ensures a reliable and satisfactory risk-weighted return. Industry best practices are instilled in the continual updating of credit risk policies.

The Bank ensures that processes are in place before credit proposals are approved. All corporate credit proposals are first evaluated by the originating business units before being independently evaluated by an independent credit evaluation and management function. All credit exposure limits are approved within a defined credit approval authority framework. Large financing exposures are subject to post approval credit review by Group Internal Audit.

The Bank's credit risk management process is documented in the Group Credit Procedures Manual ('GCPM') which sets out the operational procedures and guidelines governing the credit processes of the Group's Retail, Business Banking, Treasury, Corporate and Investment Banking and Finance Business operations.

The GCPM has been designed to ensure that:-

- the process of credit initiation, administration, supervision and management of financing and advances are carried out consistently and uniformly by the business origination and other credit support functions within the Group.
- procedures and guidelines governing the credit function are in compliance with the credit policies laid down by the respective Board of the Bank.

6.0 CREDIT RISK (CONTINUED)

6.2 Credit Risk Management Approach (continued)

Financing to Corporate and Institutional Customers

Financing to corporates and institutional customers are individually evaluated and risk-rated. Credit Officers identify and assess the credit risks of large corporate or institutional customers, or customer groups, taking into consideration their financial and business profiles, industry and economic factors, collateral, or other credit support. Credit extensions have to meet pre-defined target market and risk acceptance criteria.

Credit Risk from Investment or Trading Activities

In the course of its trading or investment banking activities, the Bank is also exposed to credit risks from trading, derivative and debt securities activities. The credit risk exposure from these products is derived from the positive mark-to-market value of the underlying instruments, and an additional component to cater for potential market movements.

Financing to Consumers and Small Businesses

For the consumer and small business sectors, credit risks are managed on a portfolio basis. Such products include mortgages, credit cards, auto financing, commercial property financing, personal financing and business financing. Financing are underwritten under product programmes that clearly define the target market, underwriting criteria, terms of financing, maximum exposure, credit origination guidelines, and verification process. Scoring models are used in the credit decision process to enable objective risk evaluation and consistent decisions, cost efficient processing, and behavioural score monitoring of expected portfolio performance.

Credit Risk Measurement

Along with judgement and experience, risk measurement plays a critical role in making informed risk taking and portfolio management decisions. As the nature of credit risk varies by credit type, the Bank applies different credit risk measuring tools so that the credit risk of each credit type is appropriately reflected.

Credit risk is calculated from 3 key factors as follows:

1. Probability of Default ('PD')
   For corporate/non-retail credit, the probability of default is measured from obligor rating obtained from the risk rating system to determine customer's level of risk. The risk rating of each customer is regularly reviewed to ensure that it actually reflects the customer's risk. For retail credit, active accounts of each portfolio are classified into a specific segment (or pool), which can be classified by various factors e.g. age, application score, behaviour score, utilisation, and payment history, etc.

2. Loss Given default ('LGD')
   For corporate credit, its value will be determined via the credit risk mitigant adjustment, in which collateral and security will determine the level of LGD for a specific transaction. For retail credit, LGD is captured at respective segment (or pool) level.

3. Exposure at Default ('EAD')
   Exposure at default is calculated from the current outstanding balance and availability of committed credit line. In this regard, the key factor is the Bank's obligations related to the available credit line. For corporate credit, credit risk is measured at an individual exposure. For retail credit, principles of credit risk measurement are similar, but measured on a pooled basis.

6.0 CREDIT RISK (CONTINUED)

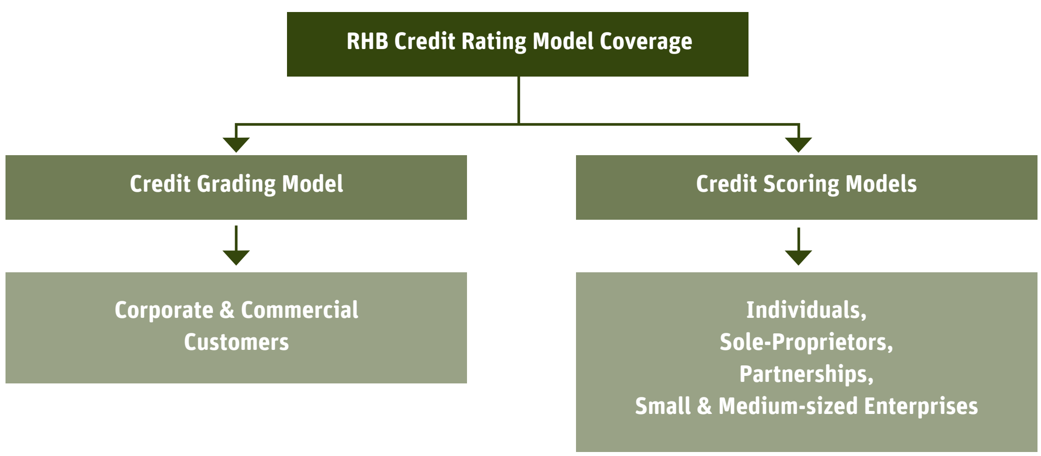
6.3 Internal Credit Rating Models

Internal credit rating models are an integral part of the Bank's credit risk management, decision making process, and regulatory capital calculations. These internal credit rating models are developed with active participation by the relevant credit experts from the Bank's functional units and/or business units.

Internal rating model development and implementation process have been established to govern the development and validation of ratings models and the application of these models. Specifically, all newly developed models prior to implementation, its material changes (of the rating systems) and validation results must be approved by GRMC and Board. All models are also subject to independent validation by the Quantitative Model Validation Unit ('QMVU') before implementation, to ensure that all aspects of the model development process have been satisfied; In addition, the models are also subject to annual review and independent validation by QMVU to ensure that they are performing as expected.

Credit risk/rating models can be classified into types:-
- Credit Grading Models
- Credit Scoring Models

The diagram below shows a broad perspective of the current credit rating model coverage of the Group for the different customer/obligor:-



The model for Corporate and Investment Banking (CIB) exposure is typically associated with large corporate customers/guarantors or debt issuers, in that the grading model attempts to rate the credit worthiness of the corporate customers/guarantors or debt issuers, through their financial standing (including gearing, expenses, profit) and through qualitative factors (management effectiveness, industry environment).

The credit scoring model for individuals, sole proprietorships, partnerships-related exposures and small & medium-sized enterprises is typically associated with volume-based retail financing, and is developed through statistical modelling, where a set of factors that are predictive in separating 'good credit' and 'bad credit' applications/customers are identified through a rigorous analysis and modelling process.

6.0 CREDIT RISK (CONTINUED)

6.3 Internal Credit Rating Models (continued)

Application of Internal Ratings

The three components; the PD, LGD and EAD are used in a variety of applications that measure credit risk across the entire portfolio.

- Credit Approval: PD models are used in the approval process in both retail and wholesale portfolios. In high-volume retail portfolios, application and behaviour scorecards are used as decision making tools.

- Credit Grading: Implemented since 2007 to provide a common measure of risk across the Group. This credit grading now employs a 22 point scale of default probabilities, summarised as below:

PD Grade Range	Interpretation
PD1	Highest Credit Quality
PD2 to PD7	Strong Credit Quality
PD8 to PD12	Good Credit Quality
PD13 to PD16	Average Credit Quality
PD17 to PD18	Below Average Credit Quality
UG0	Un-graded
N21 to N23	Non-Performing Financing

- Risk Reward and Pricing: PD, EAD and LGD metrics are used to assess profitability of deals and portfolios and to allow for risk-adjusted pricing and strategy decisions.
- Economic Capital Allocation: Most economic capital calculations use the same PD and EAD inputs as the regulatory capital process.
- Risk Management Information: Group Risk Management and the business units generate risk reports to inform senior management on issues such as business performance and consumption of regulatory capital.

6.4 Standardised Approach

Under Standardised Approach, the risk weights are prescribed by BNM based on the asset class to which the exposure is assigned.

A summary of these exposures with the corresponding risk weights is as per tables below:

6.0 CREDIT RISK (CONTINUED)

6.4 Standardised Approach (continued)

Table 5a: Portfolios under the Standardised Approach by Risk Weights as at 31st December 2011

Exposures after Credit Risk Mitigation

Risk Weights	Sovereigns and Central Banks (RM'000)	Banks, MDBs and DFIs (RM'000)	Corporates (RM'000)	Regulatory Retail (RM'000)	Residential Mortgages (RM'000)	Higher Risk Assets (RM'000)	Other Assets (RM'000)	Equity Exposure (RM'000)	Total Exposures after Credit Risk Mitigation (RM'000)	Total Risk -Weighted Assets (RM'000)
0%	11,334,091	-	35,304	25,031	-	-	5,319	-	11,399,745	-
20%	-	508,423	984,174	1,099	-	-	-	-	1,493,696	298,739
35%	-	-	-	-	-	-	-	-	-	-
50%	-	52,071	56,044	1,825	-	-	-	-	109,940	54,970
75%	-	-	-	6,496,957	-	-	-	-	6,496,957	4,872,718
100%	-	-	3,180,527	217,939	-	-	148,910	-	3,547,376	3,547,376
150%	-	-	114,421	164,864	-	22,646	-	-	301,931	452,896
Total	11,334,091	560,494	4,370,470	6,907,715	-	22,646	154,229	-	23,349,645	9,226,699

Table 5b: Portfolios under the Standardised Approach by Risk Weights as at 31st December 2010

Exposures after Netting and Credit Risk Mitigation

Risk Weights	Sovereigns and Central Banks (RM'000)	Banks, MDBs and DFIs (RM'000)	Corporates (RM'000)	Regulatory Retail (RM'000)	Residential Mortgages (RM'000)	Higher Risk Assets (RM'000)	Other Assets (RM'000)	Equity Exposure (RM'000)	Total Exposures after Credit Risk Mitigation (RM'000)	Total Risk -Weighted Assets (RM'000)
0%	4,528,079	-	83,334	3,674	-	-	-	-	4,615,087	-
20%	-	224,616	901,384	-	-	-	-	-	1,126,000	225,200
35%	-	-	-	-	-	-	-	-	-	-
50%	-	-	116,026	19,344	-	-	-	-	135,370	67,685
75%	-	-	-	4,336,444	-	-	-	-	4,336,444	3,252,333
100%	-	-	2,708,952	40,794	-	-	156,841	-	2,906,587	2,906,587
150%	-	-	163,138	177,471	-	108,093	-	-	448,702	673,053
Total	4,528,079	224,616	3,972,834	4,577,727	-	108,093	156,841	-	13,568,190	7,124,858

6.0 CREDIT RISK (CONTINUED)

6.4 Standardised Approach (continued)

Off-Balance Sheet Exposures and Counterparty Credit Risk.

Off-Balance sheet exposures of the Bank are mainly from the following:-

- Financial guarantees and standby letters of credit, which represent undertakings that the Bank will make payments in the event that its customer cannot meet its obligations to third parties. These exposures carry the same credit risk as financing even though they are contingent in nature.
- Documentary and commercial letters of credit, which are undertakings by the Bank on behalf of its customers. These exposures are usually collateralised by the underlying shipment of goods to which they relate.
- Commitments to extend credit including the unutilised or undrawn portions of credit facilities.
- Unutilised credit card lines.
- Principal or notional amount of derivative financial instruments.

The management of off-balance sheet exposures is in accordance to the credit risk management approach as set out under Section 6.2 of this report.

Counterparty Credit Risk ('CCR') on derivative financial instruments is the risk that the Bank's counterparty in a benchmark rate defaults prior to the maturity date of the contract and that the Bank at the relevant time has a claim on the counterparty. Derivative financial instruments are entered into for hedging purposes.

Any financial loss is calculated based on the cost to replace the defaulted derivative financial instruments with another similar contract in the market. The cost of replacement is equivalent to the difference between the original value of the derivatives at the time of contract with the defaulted counterparty and the current fair value of a similar substitute at current market prices. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default.

All outstanding financial derivative positions are marked-to-market on a daily basis. Treasury Operations Department monitors counterparties' positions and promptly escalates to the relevant parties upon any shortfall in the threshold levels.

6.5 Credit Exposures and Risk-Weighted Assets ('RWA') By Portfolio

All credit exposures of the Bank are booked in Malaysia. The subsequent tables reflect the Bank's credit exposures ('EAD') as at 31st December 2011 and 31st December 2010, segregated by:

- the various types of asset classes, showing details of the exposures before and after CRM, the corresponding RWA and capital requirement;
- disclosure on Off - Balance Sheet and Counterparty Credit Risk;
- industry sector; and
- residual maturity; segregated by one year or less, one to five years, and over five years

6.0 CREDIT RISK (CONTINUED)

6.5 Credit Exposures and Risk-Weighted Assets ('RWA') By Portfolio (continued)

Table 6a: Summary of Credit Exposures with CRM by Asset Class and Capital Requirement (On and Off Balance Sheet Exposures) as at 31st December 2011

Exposure Class	Gross Exposure/ EAD before CRM (RM'000)	Net Exposure/ EAD after CRM (RM'000)	Risk-Weighted Assets (RM'000)	Minimum Capital Requirement at 8% (RM'000)
Exposures under the Standardised Approach				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	11,334,091	11,334,091	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions and MDBs	508,423	508,423	101,684	8,135
Insurance Cos, Securities Firms and Fund Managers	-	-	-	-
Corporates	3,502,214	3,502,214	2,690,643	215,251
Regulatory Retail	6,478,830	6,478,830	4,890,056	391,204
Residential Mortgage	-	-	-	-
Higher Risk Assets	-	-	-	-
Other Assets	154,229	154,229	148,910	11,913
Specialised Financing/Investment	-	-	-	-
Securitisation Exposures	-	-	-	-
Equity Exposures	-	-	-	-
Default Exposures	363,968	363,968	496,160	39,693
Total On-Balance Sheet Exposures	22,341,755	22,341,755	8,327,453	666,196
Off-Balance Sheet Exposures				
OTC Derivatives	-	-	-	-
Credit Derivatives	-	-	-	-
Off-balance sheet exposures other than OTC derivatives or credit derivatives	1,007,890	1,007,890	899,246	71,940
Defaulted Exposures	-	-	-	-
Total Off-Balance Sheet Exposures	1,007,890	1,007,890	899,246	71,940
Total On and Off-Balance Sheet Exposures	23,349,645	23,349,645	9,226,699	738,136

Note: As at 31st December 2011, the Bank did not have any credit risk-weighted assets absorbed by Profit Sharing Investment Account ('PSIA') and exposure under securitisation.

6.0 CREDIT RISK (CONTINUED)

6.5 Credit Exposures and Risk-Weighted Assets ('RWA') By Portfolio (continued)

Table 6b: Summary of Credit Exposures with CRM by Asset Class and Capital Requirement (On and Off Balance Sheet Exposures) as at 31st December 2010

Exposure Class	Gross Exposure/ EAD before CRM (RM'000)	Net Exposure/ EAD after CRM (RM'000)	Risk-Weighted Assets (RM'000)	Minimum Capital Requirement at 8% (RM'000)
Exposures under the Standardised Approach				
On-Balance Sheet Exposures				
Sovereigns/Central Banks	4,528,079	4,528,079	-	-
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions and MDBs	224,616	224,616	44,923	3,594
Insurance Cos, Securities Firms and Fund Managers	-	-	-	-
Corporates	3,170,599	3,170,599	2,397,702	191,816
Regulatory Retail	4,208,033	4,208,033	3,153,269	252,262
Residential Mortgage	-	-	-	-
Higher Risk Assets	44,319	44,319	66,479	5,318
Other Assets	156,841	156,841	156,841	12,547
Specialised Financing/Investment	-	-	-	-
Securitisation Exposures	-	-	-	-
Equity Exposures	-	-	-	-
Default Exposures	564,064	564,064	706,324	56,506
Total On-Balance Sheet Exposures	12,896,551	12,896,551	6,525,538	522,043
Off-Balance Sheet Exposures				
OTC Derivatives	-	-	-	-
Credit Derivatives	-	-	-	-
Off-balance sheet exposures other than OTC derivatives or credit derivatives	671,639	671,639	599,320	47,946
Defaulted Exposures	-	-	-	-
Total Off-Balance Sheet Exposures	671,639	671,639	599,320	47,946
Total On and Off-Balance Sheet Exposures	13,568,190	13,568,190	7,124,858	569,989

Note: As at 31st December 2010, the Bank did not have any credit risk-weighted assets absorbed by Profit Sharing Investment Account ('PSIA') and exposure under securitisation.

6.0 CREDIT RISK (CONTINUED)

6.5 Credit Exposures and Risk-Weighted Assets ('RWA') By Portfolio (continued)

Table 7a: Exposures for Off Balance Sheet and Counterparty Credit Risk (After Credit Risk Mitigation) as at 31st December 2011

Nature of Item	Principal/ Notional Amount (RM'000)	Positive Fair Value of Derivative Contracts (RM'000)	Credit Equivalent Amount (RM'000)	RWA (RM'000)
Direct credit substitutes	35		35	35
Transaction-related contingent items	94,558		47,279	35,465
Short-term self-liquidating trade-related contingencies	42,424		8,485	967
NIFs and obligations under an ongoing underwriting agreement	208,500		104,250	104,250
Foreign exchange related contracts	318,375	173	4,948	1,762
1 year or less	318,375	173	4,948	1,762
Over 1 year to 5 years	-	-	-	-
Over 5 years	-	-	-	-
Profit rate related contracts	2,600,000	-	49,500	24,750
1 year or less	-	-	-	-
Over 1 year to 5 years	2,600,000	-	49,500	24,750
Over 5 years	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	1,540,307		308,061	283,688
Other commitments ,such as formal standby facilities and credit lines, with an original maturity of up to one year	1,686,599		337,320	337,320
Any commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	740,059		148,012	111,009
Unutilised credit card lines	-		-	-
Total	7,230,857	173	1,007,890	899,246

Note: The Bank does not have any OTC derivative transactions.

6.0 CREDIT RISK (CONTINUED)

6.5 Credit Exposures and Risk-Weighted Assets ('RWA') By Portfolio (continued)

Table 7b: Exposures for Off Balance Sheet and Counterparty Credit Risk (After Credit Risk Mitigation) as at 31st December 2010

Nature of Item	Principal/ Notional Amount (RM'000)	Positive Fair Value of Derivative Contracts (RM'000)	Credit Equivalent Amount (RM'000)	RWA (RM'000)
Direct credit substitutes	-		-	-
Transaction-related contingent items	146,995		73,498	34,201
Short-term self-liquidating trade-related contingencies	40,948		8,190	8,190
NIFs and obligations under an ongoing underwriting agreement	29,000		14,500	14,500
Foreign exchange related contracts	-	-	-	-
1 year or less	-	-	-	-
Over 1 year to 5 years	-	-	-	-
Over 5 years	-	-	-	-
Profit rate related contracts	650,000	-	130,000	130,000
1 year or less	-	-	-	-
Over 1 year to 5 years	650,000	-	130,000	130,000
Over 5 years	-	-	-	-
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	552,580		224,546	191,524
Other commitments ,such as formal standby facilities and credit lines, with an original maturity of up to one year	2,099,697		220,905	220,905
Any commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	-		-	-
Unutilised credit card lines	-		-	-
Total	3,519,220	-	671,639	599,320

Note: The Bank does not have any OTC derivative transactions.

6.0 CREDIT RISK (CONTINUED)

6.5 Credit Exposures and Risk-Weighted Assets ('RWA') By Portfolio (continued)

Table 8a: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31st December 2011

Exposure Class	Agriculture (RM'000)	Mining and Quarrying (RM'000)	Manu-facturing (RM'000)	Electricity Gas and Water Supply (RM'000)	Construc-tion (RM'000)	Wholesale, Retail Trade, Restaurants and Hotels (RM'000)	Transport, Storage and Commu-nication (RM'000)	Finance, Insurance, Real Estate and Business (RM'000)	Education, Health and Others (RM'000)	Household (RM'000)	Others (RM'000)	Total (RM'000)
Exposures under Standardised Approach												
Sovereigns/ Central Banks	-	-	-	-	-	-	-	-	3,461,159	-	7,872,932	11,334,091
Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-	-
Banks, Development Financial Institutions and MDBs	-	-	-	-	-	-	-	560,494	-	-	-	560,494
Insurance Cos, Securities Firms and Fund Managers	-	-	-	-	-	-	-	-	-	-	-	-
Corporates	153,676	27,314	682,201	208,538	292,620	379,003	286,891	482,516	69,052	-	1,788,659	4,370,470
Regulatory Retail	37,300	4,133	118,293	927	81,004	101,168	105,025	72,019	27,302	6,358,908	1,636	6,907,715
Residential Mortgage	-	-	-	-	-	-	-	-	-	-	-	-
Higher Risk Assets	-	-	-	-	-	-	-	22,646	-	-	-	22,646
Other Assets	-	-	-	-	-	-	-	-	-	-	154,229	154,229
Equity Exposure	-	-	-	-	-	-	-	-	-	-	-	-
Total Exposures under SA	190,976	31,447	800,494	209,465	373,624	480,171	391,916	1,137,675	3,557,513	6,358,908	9,817,456	23,349,645

6.0 CREDIT RISK (CONTINUED)

6.5 Credit Exposures and Risk-Weighted Assets ('RWA') By Portfolio (continued)

Table 8b: Credit Risk Exposures (Before Credit Risk Mitigation) by Industry Sector as at 31st December 2010

Exposure Class	Agriculture (RM'000)	Mining and Quarrying (RM'000)	Manu-facturing (RM'000)	Electricity Gas and Water Supply (RM'000)	Construc-tion (RM'000)	Wholesale, Retail Trade, Restaurants and Hotels (RM'000)	Transport, Storage and Commu-nication (RM'000)	Finance, Insurance, Real Estate and Business (RM'000)	Education, Health and Others (RM'000)	Household (RM'000)	Others (RM'000)	Total (RM'000)
Exposures under Standardised Approach												
Sovereigns/ Central Banks	-	-	-	-	-	-	-	-	1,509,993	-	3,018,086	4,528,079
Public Sector Entities	-	-	-	-	-	-	-	-	-	-	-	-
Banks, Development Financial Institutions and MDBs	-	-	-	-	-	-	-	224,616	-	-	-	224,616
Insurance Cos, Securities Firms and Fund Managers	-	-	-	-	-	-	-	-	-	-	-	-
Corporates	207,784	13,369	724,569	222,511	84,616	183,120	354,927	744,630	77,181	-	1,360,127	3,972,834
Regulatory Retail	96,143	620	202,256	1,850	24,580	166,684	132,737	40,100	10,415	3,665,042	237,300	4,577,727
Residential Mortgage	-	-	-	-	-	-	-	-	-	-	-	-
Higher Risk Assets	-	-	-	-	44,319	-	-	61,922	-	1,852	-	108,093
Other Assets	-	-	-	-	-	-	-	-	-	-	156,841	156,841
Equity Exposure	-	-	-	-	-	-	-	-	-	-	-	-
Total Exposures under SA	303,927	13,989	926,825	224,361	153,515	349,804	487,664	1,071,268	1,597,589	3,666,894	4,772,354	13,568,190

6.0 CREDIT RISK (CONTINUED)

6.5 Credit Exposures and Risk-Weighted Assets ('RWA') By Portfolio (continued)

Table 9a: Credit Risk Exposures by Maturity as at 31st December 2011

Exposure Class	One Year or less (RM'000)	One to five years (RM'000)	Over five years (RM'000)	Total (RM'000)
Exposure under Standardised Approach				
Sovereigns/Central Banks	5,123,290	578,660	5,632,141	11,334,091
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions and MDBs	510,994	49,500	-	560,494
Insurance Cos, Securities Firms and Fund Managers	-	-	-	-
Corporates	432,359	1,342,837	2,595,274	4,370,470
Regulatory Retail	203,043	951,448	5,753,224	6,907,715
Residential Mortgage	-	-	-	-
Higher Risk Assets	22,646	-	-	22,646
Other Assets	-	-	154,229	154,229
Equity Exposures	-	-	-	-
Total Standardised Approach	6,292,332	2,922,445	14,134,868	23,349,645

Table 9b: Credit Risk Exposures by Maturity as at 31st December 2010

Exposure Class	One Year or less (RM'000)	One to five years (RM'000)	Over five years (RM'000)	Total (RM'000)
Exposure under Standardised Approach				
Sovereigns/Central Banks	1,084,131	400,635	3,043,313	4,528,079
Public Sector Entities	-	-	-	-
Banks, Development Financial Institutions and MDBs	202,534	22,082	-	224,616
Insurance Cos, Securities Firms and Fund Managers	-	-	-	-
Corporates	473,530	1,860,026	1,639,278	3,972,834
Regulatory Retail	363,541	439,219	3,774,967	4,577,727
Residential Mortgage	-	-	-	-
Higher Risk Assets	61,922	20,381	25,790	108,093
Other Assets	-	-	156,841	156,841
Equity Exposures	-	-	-	-
Total Standardised Approach	2,185,658	2,742,343	8,640,189	13,568,190

6.0 CREDIT RISK (CONTINUED)

6.6 Use of External Ratings

For sovereigns, corporates and banking institutions, external ratings from approved external credit assessment institutions ('ECAI'), where available, are used to determine the risk-weighted assets and regulatory capital.

The process used to map ECAI issuer ratings or comparable ECAI issue ratings are in accordance to BNM standards. Approved ECAIs are as follows:-

- Standard & Poors ('S&P'),
- Moody's Investor Services ('Moody's'),
- Fitch Ratings ('Fitch'),
- Malaysian Rating Corporation Berhad ('MARC'),
- Rating Agency Malaysia ('RAM), and
- Rating and Investment Information, Inc ('R&I').

External ratings for the counterparties are determined as soon as relationship is established and these ratings are tracked and kept updated. Only publicly available credit ratings are used for regulatory risk weighting purpose. Where the counterparty is not rated, the corresponding exposure is mapped as 'unrated' and the appropriate risk weighting for unrated exposures is assigned.

The following tables show the Bank's credit exposures to sovereigns, corporate and banking institutions according to the ratings by ECAIs as at 31st December 2011 compared with the position of 31st December 2010:

6.0 CREDIT RISK (CONTINUED)

6.6 Use of External Ratings (continued)

Table 10a: Rated Exposures According to Rating by ECAIs as at 31st December 2011

Ratings of Corporates by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B1 to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance Sheet Exposures						
Corporates (RM'000)		979,465	20,322	-	-	3,370,683

Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off Balance Sheet Exposures							
Sovereigns and Central Banks (RM'000)		-	11,334,091	-	-	-	-

Ratings of Banking Institutions by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off Balance Sheet Exposures							
Banks, MDBs and DFIs (RM'000)		508,423	52,071	-	-	-	-

6.0 CREDIT RISK (CONTINUED)

6.6 Use of External Ratings (continued)

Table 10b: Rated Exposures According to Rating by ECAIs as at 31st December 2010

Ratings of Corporates by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B1 to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance Sheet Exposures						
Corporates (RM'000)		901,384	20,000	4,494	-	3,046,956

Ratings of Sovereigns and Central Banks by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off Balance Sheet Exposures							
Sovereigns and Central Banks (RM'000)		-	4,528,079	-	-	-	-

Ratings of Banking Institutions by Approved ECAIs							
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	R&I	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off Balance Sheet Exposures							
Banks, MDBs and DFIs (RM'000)		224,616	-	-	-	-	-

6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control

Credit Risk Mitigation

As a fundamental credit principle, the Bank generally does not grant credit facilities solely on the basis of collateral provided. All credit facilities are granted based on the credit standing of the customer source of repayment and debt servicing ability.

Collateral is taken whenever possible to mitigate the credit risk assumed, subject to the Group's policies that govern the eligibility of collateral used for credit risk mitigation. Reliance on collateral when taken is carefully assessed in the light of issues such as legal certainty and enforceability, market valuation and counterparty risk of the guarantor.

The main types of collateral taken by the Bank are:-

- Commodity Murabahah Fixed Deposits, Mudharabah General Investment Account and Cash Deposits/Margins
- Land and/or Buildings
- Vessels and Automobiles
- Quoted Shares, Unit Trusts, Government Investment Instruments and Securities, and Islamic Private Debt Securities
- Endowment Life Policies with Cash Surrender Value
- Other tangible business assets, such as inventory and equipment.

Collateral is valued in accordance with the Group's policy on collateral valuation, which prescribes the frequency of valuation for different collateral/securities types, based on liquidity and volatility of the collateral value and the underlying product or risk exposure. The value of collaterals/securities pledged is monitored periodically; analysed and updated concurrently with the annual/periodic renewal of facilities, as well as updated into the Bank's system.

The Bank also accepts non-tangible securities as support, such as guarantees from individuals, corporates and institutions, bank guarantees, debenture, assignment of contract payments, subject to internal guidelines on eligibility. Currently, the Bank does not use on-balance sheet netting to mitigate its credit exposures.

Equity securities or collaterals acquired arising from debt conversions are accounted for as a disposal of the financing and an acquisition of equity securities or investment properties. Any further impairment of the assets or business acquired is treated as an impairment of the relevant asset or business rather than as an impairment of the original instrument.

6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control (continued)

Table 11a: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31st December 2011

Exposure Class	Exposures before CRM (RM'000)	Exposures Covered by Guarantees/ Credit Derivatives (RM'000)	Exposures Covered by Eligible Financial Collateral (RM'000)
On-Balance Sheet Exposures			
Sovereigns/Central Banks	11,334,091	-	-
Banks, Development Financial Institutions and MDBs	508,423	-	-
Corporates	3,502,214	4,110	14,196
Regulatory Retail	6,478,830	-	26,130
Residential Mortgage	-	-	-
Higher Risk Assets	-	-	-
Other Assets	154,229	-	-
Equity Exposures	-	-	-
Defaulted Exposures	363,968	-	-
Total On-Balance Sheet Exposures	22,341,755	4,110	40,326
Off-Balance Sheet Exposures			
OTC Derivative	-	-	-
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	1,007,890	-	-
Defaulted Exposures	-	-	-
Total for Off-Balance Sheet Exposures	1,007,890	-	-
Total On and Off-Balance Sheet Exposures	23,349,645	4,110	40,326

6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control (continued)

Table 11b: Credit Risk Mitigation of Portfolios under the Standardised Approach as at 31st December 2010

Exposure Class	Exposures before CRM (RM'000)	Exposures Covered by Guarantees/ Credit Derivatives (RM'000)	Exposures Covered by Eligible Financial Collateral (RM'000)
On-Balance Sheet Exposures			
Sovereigns/Central Banks	4,528,079	-	-
Banks, Development Financial Institutions and MDBs	224,616	-	-
Corporates	3,170,599	5,020	42,076
Regulatory Retail	4,208,033	-	3,674
Residential Mortgage	-	-	-
Higher Risk Assets	44,319	-	-
Other Assets	156,841	-	-
Equity Exposures	-	-	-
Defaulted Exposures	564,064	-	-
Total On-Balance Sheet Exposures	12,896,551	5,020	45,750
Off-Balance-Sheet Exposures			
OTC Derivatives	-	-	-
Off-Balance sheet exposures other than OTC derivatives or credit derivatives	671,639	-	-
Defaulted Exposures	-	-	-
Total for Off-Balance Sheet Exposures	671,639	-	-
Total On and Off-Balance Sheet Exposures	13,568,190	5,020	45,750

6.0 CREDIT RISK (CONTINUED)

6.7 Credit Risk Monitoring and Control (continued)

Credit Concentration Risks

The Bank manages the diversification of its portfolio to avoid undue credit risk concentrations. Credit risk concentrations exist in financing to single customer groups, customers engaged in similar activities, or diverse groups of customers that could be affected by similar economic or other factors. To manage these concentrations, exposure limits are established for single customer groups and industry segments. In this respect, analysis of large customer group exposures are regularly conducted, and the financing and financing units undertake regular account updates, monitoring and management of these exposures.

Industry and sectoral analysis are also incorporated within the overall credit risk management regiment. In this respect, the Bank seeks to continually update financing guidelines based on periodic reviews and updates of industry and sectoral risk factors and economic outlooks. This facilitates the better management of credit concentration risks.

Credit Monitoring and Annual Reviews

The Bank regularly monitors credit exposures, portfolio performance, and external trends which may impact risk management outcomes. Internal risk management reports are generated for senior management and risk committees, containing information on key environmental, political and economic trends across portfolios and countries, portfolio delinquency with major credit delinquency, and financing impairment performance.

In addition to the on-going qualitative assessment by the account relationship managers, reviews are conducted at least once a year with updated information on the customer's financial position, market position, industry and economic condition and account conduct.

Group Internal Audit conducts independent post approval reviews on sampling basis to ensure that the quality of credit appraisals and approval standards are in accordance with the credit standards and financing policies established by the Bank's management, laws and regulations.

6.8 Impairment Allowances for Financing

The BNM Guideline on Classification and Impairment Provisions for Financing provides for two types of impairment assessment methodologies, i.e. individual assessment and collective assessment. The former applies to significant customers with certain pre-defined threshold limits whereas the latter applies to facilities of homogeneous portfolios.

The impairment assessment for customers under individual assessment is based on pre-defined impairment triggers, of which aging more than 90 days or 3 months is only one of the mandatory status triggers. In the case of portfolios under collective assessment, the impairment assessment is primarily time bound based on default period of more than 90 days or more than 3 months. A financing is considered past due or defaulted when scheduled payment of principal or profit is due and not paid. When this financing is past due or defaulted for a period of more than 90 days or more than 3 months, this financing is classified as non-performing or impaired.

The impairment provisioning for portfolio under individual assessment are established based primarily on estimates on the realisable value of the collateral to secure the financing and advances and are measured as the difference between the financing or advance's carrying amount and the net present value of the expected future cash flows discounted based on the original effective profit rates. All other financing and advances that have been individually evaluated, but not considered to be individually impaired are assessed collectively for impairment.

In the case of financing portfolio under collective assessment, financing and advances are grouped on the basis of similar credit risk characteristics, taking into account the historical loss experience of such financing.

The Bank has adopted the transitional provision as provided under the revised BNM GP3: BNM's Guideline on Classification and Impairment Provisions for Loans/Financing. Under the transitional provision, collective assessment provision is derived based on 1.5% of the total outstanding financing amounts, net of provisions made (both individual assessment provisions and specific provisions under the previous BNM's GP3 Guideline).

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing (continued)

Write-Off Policy

Financing are written-off against impairment allowances when recovery action has been instituted, prospect of recovery is considered remote or when all feasible avenues of recovery have been exhausted. The management and administration of such exposures are outlined in the Bank's Policy on Non Performing/Impaired Financing. The Bank's write off policy is in compliance with the requirements specified in the BNM's Guideline on Classification and Impairment Provisions for Loans/Financing.

Table 12a: Impaired, Past Due Financing and Provisions for Impairment by Industry Sector as at 31st December 2011

Industry Sector	Impaired and Advances Financing (RM'000)	Past Due Financing (RM'000)	Individual Impairment Provision (RM'000)	Collective Impairment Provision (RM'000)	Charges/ (Write-back) for Individual Impairment Provision (RM'000)	Write-Offs (RM'000)
Agriculture	7,291	89	467		1,471	17,187
Mining and Quarrying	25,454	-	165		5,807	-
Manufacturing	69,476	23,807	35,395		2,359	3,529
Electricity, Gas and Water Supply	-	-	-		2,590	-
Construction	18,708	3,783	3,367		-	-
Wholesale, Retail Trade, Restaurants and Hotels	15,662	2,704	3,688		1,046	20,985
Transport, Storage and Communication	2,923	21,148	3,963		6,554	-
Finance, Insurance, Real Estate and Business	170,117	2,537	66,949		-	-
Education and Health	56,664	543	238		(2,514)	2,394
Household	176,481	324,747	16,492		-	22,401
Others	300	-	-		-	-
Total	543,076	379,358	130,724	190,768	17,313	66,496

6.0 CREDIT RISK (CONTINUED)

6.8 Impairment Allowances for Financing (continued)

Table 12b: Impaired, Past Due Financing and Provisions for Impairment by Industry Sector as at 31st December 2010

Industry Sector	Impaired and Advances Financing (RM'000)	Past Due Financing (RM'000)	Individual Impairment Provision (RM'000)	Collective Impairment Provision (RM'000)	Charges/ (Write-back) for Individual Impairment Provision (RM'000)	Write-Offs (RM'000)
Agriculture	45,399	-	26,400		26,400	-
Mining and Quarrying	25,526	5	12,522		12,522	-
Manufacturing	97,026	459	32,319		5,942	-
Electricity, Gas and Water Supply	-	14	-		-	-
Construction	14,212	155	4,896		4,896	-
Wholesale, Retail Trade, Restaurants and Hotels	15,216	35	12,047		12,047	-
Transport, Storage and Communication	7,218	382	4,462		4,462	-
Finance, Insurance, Real Estate and Business	145,307	141	43,399		(34,458)	-
Education and Health	69,236	3	4,963		2,421	-
Household	208,406	15,259	22,432		35,224	505
Others	705	27	-		-	-
Total	628,251	16,480	163,440	158,828	69,456	505

Note: All impaired, past due and provisions for impaired financing are for credit exposures booked in Malaysia.

Table 13a: Reconciliation of Changes to Financing Impairment Provisions as at 31st December 2011

Impairment Provision Details	Individual Impairment Provision (RM'000)	Collective Impairment Provision (RM'000)
Opening Balance	163,440	158,828
Net Allowance Made	17,313	55,494
Amount Recovered	(7,087)	-
Amount Written-Off	(42,942)	(23,554)
Closing Balance	130,724	190,768

Table 13b: Reconciliation of Changes to Financing Impairment Provisions as at 31st December 2010

Impairment Provision Details	Individual Impairment Provision (RM'000)	Collective Impairment Provision (RM'000)
Opening Balance	107,035	140,427
Net Allowance Made	69,456	18,401
Amount Recovered	(12,546)	-
Amount Written-Off	(505)	-
Closing Balance	163,440	158,828

7.0 MARKET RISK

Market risk is the risk of loss arising from adverse movements in market variables, such as profit rates, credit spreads, prices of bonds and equities and currency exchange rates, rate of return risk and displaced commercial risk.

Market risk is segregated into trading market risk and non-trading market risk. Trading market risk arises from changes in profit rate risk, foreign exchange rates, equity process and credit spreads on the value assets held for trading while non-trading market risk arises from changes in profit rate, foreign exchange rates and equity prices, of which the main non-trading, market risk is profit rates risk arising from re-pricing mismatches of its assets and liabilities from its banking activities.

The Bank transacts in money market, foreign exchange markets and capital markets which give rise to market risk exposures. Financial instruments transacted include debt and other securities and certain financial derivative instruments. Derivative instruments are contracts whose characteristics and value are derived from underlying financial instruments, profit rates, exchange rates, or indices. Derivative contracts entered into by the Bank such as Islamic Profit Rate Risk Swap are primarily over the-counter derivatives.

The Group has established a Trading Book Policy as guidelines for market risk management. This is reviewed regularly, and/or upon change in strategy or significant event that has a material impact on policy compliance.

The Group's Asset and Liability Committee ('ALCO') performs a critical role in the management of market risk that supports the Group Risk Management Committee in the overall market risk management. ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of market risk; this including the development of the Group's market risk strategy, market risk management structure and the policies as well as measurement techniques to be put in place.

The Market Risk Management is the working level that forms a centralised function that support senior management and operationalise the processes and methods to ensure adequate risk control and oversight are in place.

Market Risk Assessment

The Bank applies risk monitoring and assessment tools to measure trading book positions and market risk factors. Statistical and non-statistical risk assessment tools applied include Sensitivity Analysis and Stress Testing.

The Bank adopts a systematic approach in managing these risks by types of instruments and nature of exposure. Market risk is primarily monitored and controlled via a structure of limits and triggers i.e. cut loss, trading and notional limit set in accordance with the size of positions and risk tolerance appetites.

In addition, the Bank conducts periodic stress testing of its respective portfolios to ascertain market risk under abnormal market conditions.

Market Risk Monitoring and Reporting

For effective control of market risk, defined management action triggers and risk limits are established and actively monitored. Only authorised trading activities may be undertaken by the various business units within the allocated limits. All trading positions are monitored on a daily basis by independent support units. Should exposures or transactions set off pre-established triggers, management will deliberate and determine course of actions required on a timely basis.

Hedging Activities

Hedging activities designated for hedge accounting are governed by the Bank's Hedging Policies that prescribe the overall hedge activities that can be executed by the Bank and the subsequent control procedures such as effectiveness measurement and reporting to Group ALCO.

A hedge is defined as a position that materially or entirely offsets the component risk elements of another position or portfolio.

Hedging instruments used to mitigate these risks include derivatives such as swaps that are approved by the Group Shariah Committee. Execution of the hedging is carried out by the relevant division through the Group's treasury functions with the approval of Group ALCO.

7.0 MARKET RISK (CONTINUED)

Capital Treatment for Market Risk

The Bank applies the Standardised Approach to calculate market risk capital requirements in accordance with BNM guidelines. The market risk-weighted assets ('RWA') and the corresponding market risk capital charge for the Bank as at 31st December 2011 and 31st December 2010 are shown in the tables below:

Table 14a: Market Risk-Weighted Assets and Capital Charge as at 31st December 2011

	Long Position (RM'000)	Short Position (RM'000)	RWA (RM'000)	Capital Charge (RM'000)
Market Risk (Standardised Approach)				
Profit Rate Risk	3,033,008	2,600,000	554,398	44,352
Foreign Currency Risk	10,705	225	10,705	856
Total RWA and Capital Charge			**565,103**	**45,208**

Table 14a: Market Risk-Weighted Assets and Capital Charge as at 31st December 2010

	Long Position (RM'000)	Short Position (RM'000)	RWA (RM'000)	Capital Charge (RM'000)
Market Risk (Standardised Approach)				
Profit Rate Risk	218,704	-	18,702	1,496
Foreign Currency Risk	11,811	-	11,811	945
Total RWA and Capital Charge			**30,513**	**2,441**

As at 31st December 2011 and 31st December 2010, the Bank did not have any exposure under:
- equity risk, commodity risk, inventory risk and options risk, and
- market risk exposure absorbed by PSIA.

There is an increase in profit rate risk weighted assets as at 31st December 2011 by RM536 million. This is because during the year 2011, the Bank had entered into additional IPRS transactions to hedge the rate of return risk in its banking book.

8.0 LIQUIDITY RISK

There are two types of liquidity risk, namely funding liquidity and market liquidity risk. Funding liquidity risk is the risk that the Bank is unable to meet its payment obligations as they fall due. These payment obligations could emanate from depositor withdrawals, the inability to roll over maturing deposits or meet contractual commitments to finance. Market liquidity risk is the risk that the Bank will be unable to sell assets quickly, closer to its fair value without incurring an unacceptable loss, in order to generate cash required to meet payment obligations under a stress liquidity event.

The primary role of a bank in terms of financial intermediation is the transformation of short-term deposits into longer term financing. By fulfilling the role of maturity transformation, banks are inherently susceptible to liquidity mismatches and consequently funding and market liquidity risks.

Through the Group's Liquidity Practices Guide, the Bank manages the funding and market liquidity risk to ensure that banking operations continue uninterrupted under normal and stressed conditions. The key objectives that underpin the Group's Liquidity Practices Guide include maintaining financial market confidence at all times, protecting key stakeholder interest and meeting regulatory liquidity requirements.

8.0 LIQUIDITY RISK (CONTINUED)

The Group's ALCO supports Group Risk Management Committee by performing the critical role in the management of liquidity risks, and is responsible in establishing strategies that assist in controlling and reducing any potential exposures to liquidity risk. The ALCO meets regularly and is the forum where strategic and tactical decisions are made for the management of liquidity risks and the Group's balance sheet profile. Global and domestic economic data, information and events are synthesised at the ALCO which enables the Group to determine its actions and reactions in the capital markets. The ALCO is also the governance body which sets profit rates for liabilities products as well as reference rates for financing products and services.

The liquidity management process involves establishing liquidity management policies and limits, regular monitoring against liquidity risk limits, regular stress testing, and establishing contingency funding plans. These processes are subject to regular reviews to ensure that they remain relevant in the context of prevailing market conditions.

Some of the key liquidity risk management tools are top depositors' mixture, funding source mixture, maturity profile of funding sources and contingency funding lines.

Liquidity Contingency Plan

The Group's Liquidity Policy Statement establishes guidelines for managing a liquidity crisis, identifying early warning signs of a possible liquidity event and the need for heightened liquidity risk monitoring and reduced liquidity risk exposure. In addition, the Group's Liquidity Policy Statement identifies the individuals responsible for formulating and executing the Bank's response to a liquidity event.

9.0 RATE OF RETURN RISK IN THE BANKING BOOK

Profit rate risk in the banking book refers to any opportunity loss to the Bank's income and/or economic value to changes in profit rate, which may arise from both on and off balance sheet positions in the banking book. Profit rate risk occurs whenever there is a mismatch in the re-pricing period of assets and liabilities. Excessive profit rate risk can pose a significant threat to the Bank's earnings and capital. Changes in profit rates may affect the Bank's earnings in terms of the net profit income and economic value of equity.

Profit rate risk in the banking book comprises:
- Re-pricing risk (mismatch risk) – timing difference in the maturity (for fixed rate) and re-pricing (for floating rate) of bank's assets, liabilities and off-balance sheet positions;
- Basis risk – imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics;
- Yield curve risk – changes in the shape and slope of the yield curve; and
- Embedded optionality – the risk pertaining to profit-related options embedded in bank's products.

The ALCO supports Group Risk Management Committee in establishing policies, strategies and limits for the management of balance sheet risk exposure. Group Risk Management supports the ALCO in the monthly monitoring and reporting of the profit rate risk profile of the banking book. The primary objective in managing balance sheet risk is to manage the net profit income as well as to ensure that profit rate exposures are maintained within defined risk tolerances.

In addition, the Group has established the Rate of Return Risk Policy which provides for the governance of rate of return. Profit rate sensitivity triggers are applied on earnings for the respective profit centres within the Group. The Group regularly considers the economics and necessity of increasing or reducing its profit rate risk hedges.

In line with the Group's Rate of Return Risk Policy to achieve a balance between profitability from banking activities and minimising risk to earnings and capital from changes in profit rates, profit rate risk to earnings is controlled using Management Action Triggers ('MATs') and identified escalation procedures.

Stress testing is also performed regularly to determine the adequacy of capital in meeting the impact of extreme profit rate movements on the balance sheet. Such tests are also performed to provide early warnings of potential extreme losses, facilitating proactive management of profit rate risks in an environment of rapid financial market changes.

9.0 RATE OF RETURN RISK IN THE BANKING BOOK (CONTINUED)

The impact of changes in profit rate to earning and economic value as at 31st December 2011 and 31st December 2010 are shown in the tables below:

Table 15a: Profit Rate Risk/Rate of Return Risk in the Banking Book as at 31st December 2011

Currency	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase/(Decline) in Earnings (RM'000)		Increase/(Decline) in Economic Value (RM'000)	
	Impact based on +100 basis points	Impact based on -100 basis points	Impact based on +100 basis points	Impact based on -100 basis points
MYR	(55,930)	55,930	(558,392)	558,392
Total	(55,930)	55,930	(558,392)	558,392

Table 15b: Profit Rate Risk/Rate of Return Risk in the Banking Book as at 31st December 2010*

Currency	Impact on Position as at Reporting Period (100 basis points) Parallel Shift			
	Increase/(Decline) in Earnings (RM'000)		Increase/(Decline) in Economic Value (RM'000)	
	Impact based on +100 basis points	Impact based on -100 basis points	Impact based on +100 basis points	Impact based on -100 basis points
MYR	(37,094)	37,094	(375,464)	375,464
Total	(37,094)	37,094	(375,464)	375,464

Note:* In 2010, 50bps was reported. For year-to-year comparison, the impact has been increased to 100bps.

In 2011, the impact has been increased to 100bps in line with industry practice. The impact to net earnings above represents financial assets and liabilities that have been prepared on the following basis:

- Profit rate sensitive assets and liabilities with residual maturity or re-pricing tenure of up to one year that is not captured in the trading portfolio are slotted into time bands based on the maturity or re-pricing tenure whichever that is earlier.
- A set of risk weights with its respective time band is used to project the applicable basis point profit rate change impact.
- For assets and liabilities with non fix maturity e.g. current and savings accounts, certain assumptions are made to reflect the actual sensitivity behaviour of profit bearing items.

Economic value is characterised by the impact of profit rate changes on the value of all net cash flows i.e. the effect on the economic value of the Bank's assets, liabilities and off-balance sheet positions which provides a more comprehensive view of the potential long-term effects of changes in profit rates than is offered by the earnings perspective.

However, the computation of economic value takes into account of net cash flows which is derived from a series of assumption, for instance assets and liabilities with non fix maturity e.g. current and savings accounts; assumptions are made to reflect the behavioural changes against profit rate movements. The scenarios used are simplified whereby it is assumed that all key variables for all maturities move at the same time and by the same magnitude and do not incorporate actions that would be otherwise taken by the business units and risk management to mitigate the effect of this movement in key variables.

10.0 DISPLACED COMMERCIAL RISK

Displaced commercial risk is the risk that the Bank is not able to pay its mudharabah depositors a rate of return based on actual investment return of mudharabah fund, which is competitive to the market rate.

The Bank manages this risk by optimising the employment of the mudharabah funds through prudent credit management and effective product pricing. In addition, the maintenance of Profit Equalisation Reserve ('PER') account and the ability of the Bank to adjust the profit sharing rate in order to smoothen the returns payable to the mudharabah depositors serve as a tool for the Bank to mitigate the displaced commercial risk.

The Bank does not have Profit Sharing Investment Accounts ('PSIA') which are eligible for risk absorbent treatment.

11.0 OPERATIONAL RISK

Operational risk is the risk of direct or indirect losses resulting from inadequate or failed internal processes, people and systems and from external events, which also includes IT and legal risks. Operational risks are inherent in the Bank's operations and can never be eliminated entirely. The impact can be in the form of actual financial loss as well as non-financial loss such as loss of reputation, non-compliance and unsatisfactory service level to customers.

One of the Bank's primary safeguards against operational risks is the existence of a sound internal control system, based on the principle of dual control, checks and balance, segregation of duties, independent checks and verification processes, segmented system access control and authorisation process. These controls are documented through a set of policies and procedures at the respective business level.

The Group's Operational Risk Management Framework comprises a wide range of activities and elements, broadly classified into:-

- Analysis and Enhancement – The Group has implemented a Basel II compliant operational risk management system to support its workflow and analytical capabilities.
- Education and Awareness – The Group undertakes change management activities to progressively improve the risk management knowledge, culture and practices of the Bank personnel. This is aligned with the principle and requirement that the front-line business and support units of the Group, are by nature of their direct involvement in interfacing with customers and in operating the business, responsible for managing operational risk and acting as the first line of defence against operational losses.
- Monitoring and Intervention – This is where the principal head office risk control units, including the operations management function, compliance function and the internal audit function, actively manage operational non-compliances, incidences, and undertake recovery actions, including business continuity measures in cases of incidences causing disruption to business activities.

Operational Risk Management Function and Organisation

The Operational Risk Management Department reporting directly to the Head of Group Risk Management has the functional responsibility for the development of risk policies, frameworks and methodologies, and providing guidance and information to the business units on operational risk areas. Its function also includes generating a broader understanding and awareness of operational risk issues at all levels of the RHB Banking Group. It also ensures that operational risk from new products, processes and systems are adequately managed and mitigated. The respective business units are primarily responsible for managing operational risk on a day-to-day basis.

Regular operational risk reporting is made to the senior management, IRMC/GRMC and the Board. These reports include various operational risk aspects such as reporting of significant operational loss events. Such reporting allows senior management to identify adverse operational lapses, take corrective actions promptly, and ensure appropriate risk mitigation decision making and action plans.

11.0 OPERATIONAL RISK (CONTINUED)

Risk Management Process and Methodologies

The Bank has defined an operational risk management process, comprising risk identification, assessment, monitoring, and reporting. These are outlined as follows:

- **Risk and Control Self Assessment ('RCSA')**

  Each business unit is required to identify and assess their own operational risks. RCSA is a risk profiling tool which facilitates effective operational risk management for the Bank, and focuses on future risk assessment by using past records of loss or near misses, key risk indicators, and related issues such as audit findings. The RCSA process is facilitated by the business units themselves who together with personnel from Operational Risk Management would identify and assess key operational risks that could affect the effectiveness of controls and impact the achievement of business objectives. For identified risks lacking sufficient mitigation, the business units are required to establish action plans to improve the control environment so as to contain the risks to acceptable levels.

- **Key Risk Indicators ('KRIs')**

  Business units are required to monitor their risk exposures via KRIs and are required to develop specific and concrete plans to address those where indicators are unfavourable. KRIs are embedded into critical processes to provide early warning signals of increasing risk and /or control failures by flagging up given frequencies of events as a mechanism for continuous risk assessment and monitoring.

- **Incident and Loss Management**

  Business and support units are required to report operational losses for further analysis of root cause for further recurrence. This is also useful for reviewing the effectiveness of the RCSA and KRIs.

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

Risk Mitigation and Controls

Risk mitigation tools and techniques are used to minimise risk to an acceptable level and aims to decrease the likelihood of an undesirable event and the impact on the business, should it occur.
The control tools and techniques are as follows:-

- **Business Continuity Management ('BCM')**

  To mitigate the impact of unforeseen operational risk events, the Bank has on-going and actively managed Business Continuity Planning ('BCP') programmes for its major critical business operations and activities at the Head Office, data centre, and branches' locations. The BCP programmes are subject to regular testing to ensure efficacy, reliability and functionality, and come under the responsibility of the Business Continuity Management ('BCM') Department.

  The Board of Directors has an oversight function through the GRMC and CMC. The Group Business Continuity management Steering Committee ('GBCMSC') is the committee that oversees the Group's business continuity framework, policies, budget and plans. The GBCMSC reports to the CMC.

- **Outsourcing**

  With the increasing need to outsource for cost and operational efficiency, the Group's Policy on Outsourcing of the RHB Banking Group's Operations and Services ensures that outsourcing risks are adequately identified, assessed and managed prior to entering into any new arrangements and on an on-going basis.

11.0 OPERATIONAL RISK (CONTINUED)

- **Insurance Management**

The Bank considers risk transfer by means of insurance to mitigate operational risk. The Group has a programme of insurances designed to reduce its exposure to liability and to protect its assets. The Group purchases insurance from leading insurers in the market covering fraud, theft, property and casualty, business disruption, liability and other risks for which it may be held responsible. These are provided by third party insurers and will financially mitigate the economic consequences of risks.

New Product and Services Approval Process

The Bank has established a Policy on 'Introduction of New/Variation Products and Services Lifecycle' which governs the risk management for new products, services or significant changes thereto. The responsible units have a duty to assess the operational risks for new product launches and/or significant changes in product features or related processes and working systems, as well as to ensure that operational risk is at an acceptable level at all times.

Legal Risk

Legal risk is part of operational risk. It can arise from unenforceable, unfavourable, defective or unintended contracts; lawsuits or claims; developments in laws and regulations, or non-compliance with applicable laws and regulations. Business units work together with the Group's legal counsel and external legal counsel to ensure that legal risks are effectively managed.

Country Cross-Border Risk

Country cross-border risk is the risk that we will be unable to obtain payment from customers or third parties on their contractual obligations as a result of certain actions taken by foreign governments.

Cross border assets comprise financing and advances, profit bearing deposits with other banks, trade and other bills, acceptances, derivatives, certificates of deposit and other negotiable instruments, investment securities and other formal commitments where the counterparty is resident in a country other than where the assets are recorded. Cross border assets also include exposures to local residents denominated in currencies other than the local currency.

The Bank is guided by the Group Guidance on Cross-Border Business, particularly on ethics in business practices, key success factors in managing such business, and the internal control measures which are essential to provide equal and adequate protection to its customers as well as the Group's profits, thus reducing the risks associated with business activities.

Treatment for Operational Risk Capital Charge

Currently, the Bank adopts the Basic Indicator Approach for the calculation of regulatory operational risk capital. The Bank's operational risk-weighted assets and the corresponding risk capital charge for position as at 31st December 2011 and 31st December 2010 are shown below:

Table 16: Operational Risk Capital Charge

Operational Risk	RHB Islamic Bank (RM'000)	
	2011	2010
Risk-Weighted Assets	608,028	566,538
Risk Capital Charge	48,642	45,323

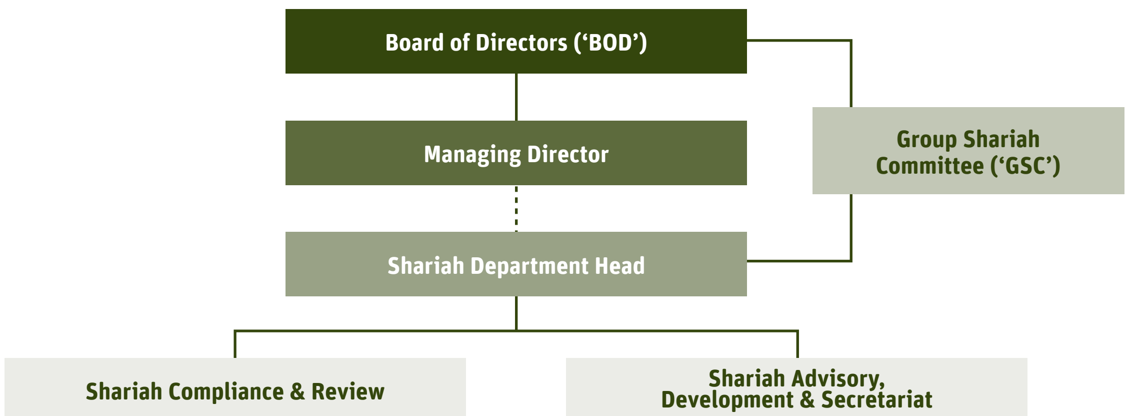
For the year ended 31st December 2011, there was an increase in operational risk-weighted assets and risk capital charge by RM49 million and RM4 million respectively, and this was due to the increase in the gross income during the financial year.

12.0 SHARIAH GOVERNANCE

The Bank developed a Shariah Framework to:

- ensure that the planning, development, and implementation of the Bank's products, services and conduct of business are in accordance with and adhered to the principles of the Shariah;
- ensure the Bank's operations do not contravene with the Shariah requirements and authorities regulations related to the Shariah; and
- act as a guide on the Bank's expectations to all the personnel engaged in the Bank's activities; to ensure that all such functions are based on the Shariah principles, practices and prudence.

The reporting structure of Shariah governance is as follows:



The Group Shariah Committee ('GSC') reports to the BOD of the Bank. This reporting structure reflects the status of the GSC as an independent advisory body of the Bank. As for the day-to-day operations, the Bank has established its Shariah Department.

The main duties and responsibilities of GSC are to advise the BOD on Shariah matters in its business and operations, to endorse Shariah compliance manuals, to endorse and validate relevant documents as well as to provide written Shariah opinion on new products and the Bank's financial statements.

The Head of Shariah Department reports functionally to the GSC and administratively to the Managing Director of the Bank. The key functions of the Shariah Unit are undertaken by two sub-units, which are organised along the various functional lines of the Bank – 'Shariah Advisory, Development and Secretariat' and 'Shariah Compliance and Review'.

The main duties and responsibilities of Shariah Compliance & Review are to conduct post approval Shariah review on Islamic Banking business activities on a regular basis in ensuring Shariah compliance within the Bank's business activities and all the processes and conduct of the business are adhered to the Shariah principle per the endorsement by regulatory bodies and GSC.

The main duties and responsibilities of Shariah Advisory, Development & Secretariat are to conduct reviews on the Bank's proposed new products and services, provide internal Shariah advisory support to the management of the Bank in its daily business and operations matters and to represent the Bank in any Shariah related matters.

12.0 SHARIAH GOVERNANCE (CONTINUED)

Shariah Non-Compliance Risk Management

Shariah non-compliance risk arises from the Bank's failure to comply with the Shariah rules and principles as determined by the GSC of the Bank or any other relevant body such as BNM's Shariah Advisory Council. Any incidences of Shariah non compliance are reported to the Shariah Committee. Remedial actions include the immediate termination of the Shariah non–compliant products or services to address Shariah non-compliant income or activities.

The GSC of the Bank was established under BNM's 'Guidelines on the Governance of Shariah Committee for Islamic Financial Institutions' ('BNM/GPS1') to advise the Bank's Board on Shariah matters.

There is no Shariah non-compliant event or income arising from the Bank's products or services during the financial year review.

13.0 REPUTATIONAL RISK

Reputational risk is the risk that negative publicity regarding the conduct of the Bank or any of the entities within the Group, business practices or associations, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures.

Negative publicity about an institution's business practices may involve any aspect of its operations, but usually relates to questions of business ethics and integrity, or quality of products and services. Reputational risk will arise from failure to effectively mitigate one or more of country, credit, liquidity, market, regulatory, operational, environmental or social risk.

Reputational risk in the Bank is managed and controlled through codes of conduct, governance practices and risk management practices, policies, procedures and training. Towards this end, the Group has developed and implemented a Reputational Risk Management Framework.

The key elements for management of reputational risk include:

- prompt and effective communication with all stakeholders;
- strong and consistent enforcement of controls relating to governance, business compliance and legal compliance;
- continuous monitoring of threats to reputation;
- ensuring ethical practices throughout the organisation; and
- establishing and continually updating crisis management plans.

14.0 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS ('ICAAP')

In line with BNM's Guideline on ICAAP under the Risk-Weighted Capital Adequacy Framework (Basel II) – Internal Capital Adequacy Assessment Process (Pillar 2) issued in December 2010, the Group has embarked on implementing ICAAP with the objective to forge a strong alignment between risk and capital. Capital adequacy shall be assessed in relation to the Group's risk profiles, and strategies will be put in place to maintain appropriate capital levels. An implementation plan and roadmap has been established in order to meet BNM's requirement on ICAAP by 1st quarter 2013.

An ICAAP Framework will be formulated for implementation across the Group to ensure that all material risks are identified, measured and reported and adequate capital levels consistent with the risk profiles including capital buffers are maintained to support the Group's current and projected demand for capital under existing and stressed conditions.

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Tel : (09) 7640 211/222/223
Fax : (09) 7640 700

9) Jalan Satok Kuching
Grd Floor, Lot 474 & 475
Section 6, KTLD
192-E & 192-F, Jalan Satok
93400 Kuching Sarawak
Tel : (082) 258 800
Fax : (082) 243 900

10) Auto City Prai
No. 1808 – 1809B
Jalan Perusahaan
Auto City Prai
North-South Highway
Juru Interchange
13600 Prai
Tel : (04) 508 0500
Fax : (04) 501 6700

11) Taman Flora Utama, Batu Pahat
Ground Floor, No. 1 & 2
Jalan Flora Utama 1
Taman Flora Utama
83000 Batu Pahat Johor
Tel : (07) 433 6777
Fax : (07) 433 4848

12) Taman Setia Tropika, Johor Bahru
No. 1 Jalan Setia Tropika 1/30
Taman Setia Tropika
81200 Johor Bahru
Johor Darul Takzim
Tel : (07) 238 0078/0081/0085/0094
Fax : (07) 238 0012

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