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**RHB ISLAMIC BANK BERHAD**  
ANNUAL REPORT **2007**



As markets become increasingly competitive, one name continues to attract and delight customers on the back of a successful transformation programme - RHB. Leveraging on a business-centric strategy, RHB is well poised to unveil its true value as an integrated financial services provider.





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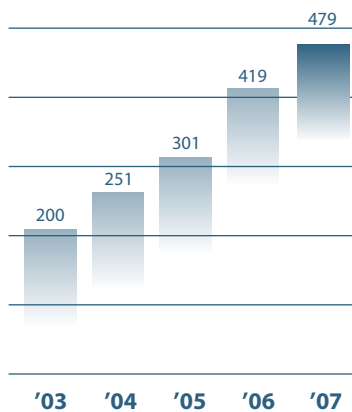
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# financial highlights

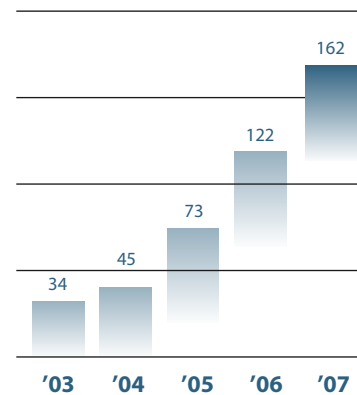
	2007 RM'000	2006 RM'000	2005 <sup>1</sup> RM'000	2004 <sup>2</sup> RM'000	2003 <sup>2</sup> RM'000
<b>RESULTS</b>					
Operating revenue	479,466	418,901	300,982	250,685	200,269
Net income	271,506	213,922	142,544	92,657	68,670
Profit before taxation	162,146	121,762	72,804	44,525	33,579
<b>BALANCE SHEET</b>					
Shareholders' equity	739,434	651,675	565,154	503,279	367,853
Total assets	8,404,436	8,092,265	7,623,666	6,213,078	6,000,921
Financing and advances	4,514,812	4,147,573	3,400,411	3,754,579	2,793,342
Total deposits	7,227,727	7,125,347	6,605,894	4,961,238	5,212,963
<b>RATIOS</b>					
Return on average equity (%)	23.31	20.01	13.62	8.85	9.13
Return on average assets (%)	1.97	1.55	1.05	0.72	0.56
Risk Weighted Capital Ratio (%)	17.89	17.78	18.73	14.20	12.40
Core Capital Ratio (%)	16.03	15.84	16.49	12.20	10.80

Note:

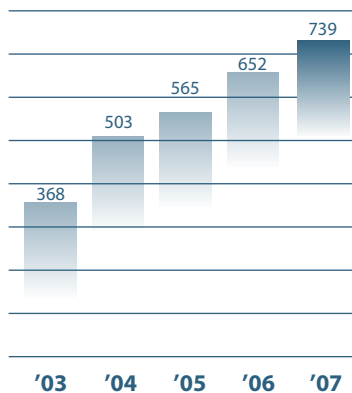
1. Islamic Banking window up to 15 March 2005 and RHB Islamic Bank thereafter.
2. Islamic Banking window.



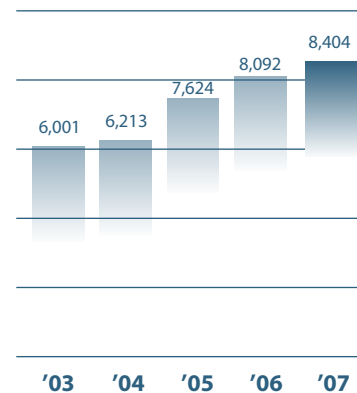
**Operating Revenue**  
(RM million)



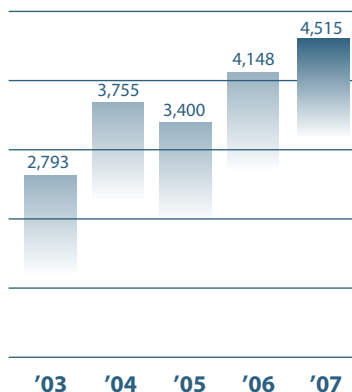
**Profit Before Taxation**  
(RM million)



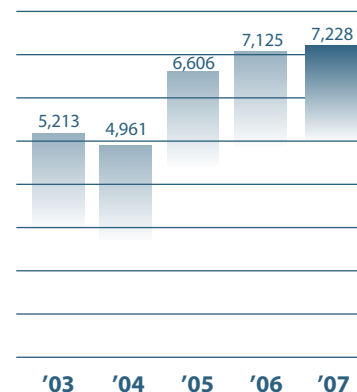
**Shareholders' Equity**  
(RM million)



**Total Assets**  
(RM million)



**Financing and Advances**  
(RM million)



**Total Deposits**  
(RM million)

Note:

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

# corporate information

as at 31 March 2008

## BOARD OF DIRECTORS

YBhg Datuk Haji Faisal Siraj  
Independent Non-Executive Chairman

YBhg Dato' Mohd Salleh Haji Harun  
Independent Non-Executive Director

YBhg Dato Abdullah Mat Noh  
Independent Non-Executive Director

YBhg Dato' Othman Jusoh  
Independent Non-Executive Director

Mr Michael J. Barrett  
Non-Independent Non-Executive Director

Encik Ismael Fariz Ali  
Independent Non-Executive Director

Encik Johari Abdul Muid  
Non-Independent Non-Executive Director

Puan Jamelah Jamaluddin  
Managing Director

## SECRETARY

Encik Azman Shah Md Yaman

## BOARD COMMITTEES

### AUDIT COMMITTEE

YBhg Dato' Mohd Salleh Haji Harun  
Chairman

YBhg Dato' Othman Jusoh

YBhg Dato Abdullah Mat Noh

### GROUP REMUNERATION AND HUMAN RESOURCE COMMITTEE\*

YBhg Datuk Tan Kim Leong  
Chairman

YBhg Datuk Azlan Zainol

YBhg Datuk Haji Faisal Siraj

Encik Johari Abdul Muid

Encik Ismael Fariz Ali

## RISK MANAGEMENT COMMITTEE

YBhg Dato' Mohd Salleh Haji Harun  
Chairman

YBhg Dato' Othman Jusoh

YBhg Dato Abdullah Mat Noh

### GROUP RISK MANAGEMENT COMMITTEE\*

YBhg Dato' Mohd Salleh Haji Harun  
Chairman

Tuan Haji Khairuddin Ahmad

Mr Patrick Chin Yoke Chung

YBhg Datin Khamarzan Ahmed Meah

YBhg Datuk Tan Kim Leong

**GROUP NOMINATING COMMITTEE\***

YBhg Datuk Haji Faisal Siraj

YBhg Datuk Azlan Zainol

YBhg Datuk Tan Kim Leong

Encik Johari Abdul Muid

Encik Ismael Fariz Ali

**GROUP CENTRAL MANAGEMENT**

Mr Michael J. Barrett  
Group Managing Director, RHB Capital Berhad

Puan Norazzah Sulaiman  
Chief Operating Officer, RHB Capital Berhad

Mr Kellee Kam Chee Khiong  
Chief Financial Officer, RHB Capital Berhad

Mr Chay Wai Leong  
Head, Corporate & Investment Banking

Puan Jamelah Jamaluddin  
Head, Islamic Banking

Mr Renzo Viegas  
Head, Retail Banking

Mr Michael Lim Kheng Boon  
Chief Operating Officer

Mr Rupert Koh Hock Joo  
Head, Central Finance

Puan Nik Hasniza Nik Ibrahim  
Head, Human Resources

**MANAGEMENT**

Puan Jamelah Jamaluddin  
Managing Director

**REGISTERED OFFICE**

Level 10, Tower One  
RHB Centre  
Jalan Tun Razak  
50400 Kuala Lumpur  
Tel : 603-92878888  
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**BUSINESS ADDRESS**

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200, Jalan Bukit Bintang  
55100 Kuala Lumpur  
Malaysia

Or

P.O. Box 10145  
50907 Kuala Lumpur

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SWIFT: RHBAMYKL  
CHIPS UID: 417802  
Call Centres : 603-92068118 /  
6082-276118

**AUDITORS**

PricewaterhouseCoopers  
Chartered Accountants  
Level 10, 1 Sentral  
Jalan Travers  
Kuala Lumpur Sentral  
50706, Kuala Lumpur

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

# profile of the board of directors

## YBHG DATUK HAJI FAISAL SIRAJ

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

YBhg Datuk Haji Faisal Siraj (YBhg 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 to take charge of KPMG's East Malaysia operations until 1976. YBhg Datuk Faisal joined 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 Group") as the group Chief Financial Officer in the capacity of Senior Group Director, Financial Services and Treasury Division and was a member of the DRB-HICOM Board, before his retirement in 2005.

YBhg 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.

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

YBhg Datuk Faisal was appointed as a Director of RHB Islamic Bank on 3 December 2007 and thereafter was appointed as the Chairman of RHB Islamic Bank on 15 January 2008.

## YBHG DATO ABDULLAH MAT NOH

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

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

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

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

## YBHG DATO' MOHD SALLEH HAJI HARUN

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

YBhg Dato' Mohd Salleh Haji Harun (YBhg Dato' Mohd Salleh) has 33 years of experience in banking and financial sector, having held various senior positions in Aseambankers Malaysia Berhad and Malayan Banking Berhad. He was the Executive Director of Malayan Banking Berhad from 1994 to 2000 prior to joining Bank Negara Malaysia, whereat he served as Deputy Governor from 2000 to 2004. He is a Fellow of the Institute of Bankers and also a Member of the Malaysian Institute of Certified Public Accountants.

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

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

## YBHG DATO' OTHMAN JUSOH

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

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

YBhg Dato' Othman's current directorship in public company is with RHB Bank Berhad.

YBhg Dato' Othman was appointed as a Director of RHB Islamic Bank on 22 February 2005, representing RHB Bank Berhad, the holding company of RHB Islamic Bank. YBhg Dato' Othman has ceased to be the representative of Khazanah Nasional Berhad on the Board of RHB Bank Berhad since 30 June 2006 and accordingly he was re-designated from Non-Independent Non-Executive Director to Independent Non-Executive Director on 21 July 2006. He also serves as a Member of the Risk Management Committee and Audit Committee of RHB Islamic Bank.

## MR MICHAEL J. BARRETT

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

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

Mr Barrett's other directorships in public companies include RHB Capital Berhad, RHB Bank Berhad, RHB Bank (L) Ltd and RHB International Trust (L) Ltd. He is also a director of other non-public companies such as Malaysian Electronic Payment System (1997) Sdn Bhd and Financial Park (Labuan) Sdn Bhd as well as a council member of the Institut Bank-Bank Malaysia.

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

## ENCIK ISMAEL FARIZ ALI

**(45 years of age - Malaysian)  
Independent Non-Executive Director**

Encik Ismael Fariz Ali (Encik Fariz) was appointed as the Executive Director, Investment Division of Khazanah Nasional Berhad in September 2007. Prior to this, he was the Managing Director of FirstFloor Capital Sdn Bhd, a technology venture capital firm registered with the Securities Commission, which he co-founded in 2000. In his seven years leading the firm, Encik Fariz has been involved in the management of several venture and private equity funds ranging from angel and early-stage technology funds to mezzanine stage funds. Prior to joining FirstFloor Capital Sdn Bhd, Encik Fariz was attached to Arab-Malaysian Merchant Bank (AMMB). He has 7 years experience in venture capital and 17 years experience in merchant banking ranging from corporate finance, privatization, mergers and acquisitions, investment advisory and valuations, project finance, restructuring, corporatisations and overseas investments. His last held position in AMMB was General Manager, Project Advisory.

Encik Fariz's current directorships in public companies include Celcom (M) Berhad, Technology Resources Industries Berhad, Pharmaniaga Berhad, TM International Berhad, RHB Bank Berhad and RHB Bank (L) Ltd (Chairman).

Encik Fariz was appointed as a Director of RHB Islamic Bank on 3 December 2007.

## ENCIK JOHARI ABDUL MUID

**(50 years of age - Malaysian)  
Non-Independent Non-Executive Director**

Encik Johari Abdul Muid (Encik Johari) has more than 27 years of experience in the financial sector. He started his career as a Money Market Dealer with Asian International Merchant Bankers Berhad in 1981. From 1983 to 1994, he was with Commerce International Merchant Bankers Berhad, working in the Treasury Division and was made the Head of Treasury in 1988. He became the Senior Vice President of Institutional Sales in 1995, within a year of joining CIMB Securities Sdn Bhd (CIMB Securities), where he was responsible in setting up the Institutional Sales Team of CIMB Securities. Prior to joining Employees Provident Fund Board (EPF) in August 2004, he was the Chief Investment Officer of ValueCap Sdn Bhd which he joined in February 2003. He is currently the Chief Investment Officer (Equity) of EPF. He is an Associate Member of the Chartered Institute of Management Accountants, United Kingdom.

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

Encik Johari was appointed as a Director of RHB Islamic Bank on 3 January 2008, representing RHB Bank Berhad, the holding company of RHB Islamic Bank.

## PUAN JAMELAH JAMALUDDIN

**(50 years of age – Malaysian)  
Managing Director**

Pn Jamelah Jamaluddin (Pn Jamelah) is currently the Managing Director of RHB Islamic Bank Berhad. She has about 20 years of relevant experience in the financial industry where her last position was the Deputy Chief Executive Officer of Kuwait Finance House (Malaysia) Berhad (KFH). Prior to joining KFH, she was the Chief Operating Officer of RHB Investment Bank Berhad.

In her initial years, she was an officer of Corporate Banking in Bumiputra Merchant Bankers Berhad. She moved on as Assistant General Manager of Project Finance in Sime Bank and subsequently moved to Perwira Affin Merchant Bankers Berhad to serve as the Head of Risk Management before being appointed as the Country Head of Macquarie Malaysia Sdn Bhd.

She holds a Diploma of Business Studies from MARA Institute of Technology, a Bachelor of Business Administration in Finance from Western Michigan University, Kalamazoo, Michigan and a Masters in Business Administration in Finance from Central Michigan University, Mount Pleasant, Michigan, United States of America.

Puan Jamelah was appointed as the Chief Executive Officer of RHB Islamic Bank on 6 August 2007 and thereafter was appointed as the Managing Director of RHB Islamic Bank Berhad on 8 October 2007.

# RHB Banking Group corporate structure

as at 31 March 2008

## Commercial Banking Group

- RHB Bank Berhad
- RHB Islamic Bank Berhad
- RHB Bank (L) Ltd
  - RHB International Trust (L) Ltd
    - RHB Corporate Services Sdn Bhd
- RHB Leasing Sdn Bhd
- RHB Capital Nominees (Tempatan) Sdn Bhd
  - RHB Capital Nominees (Asing) Sdn Bhd
- RHB Capital Properties Sdn Bhd
- Utama Assets Sdn Bhd
- RHB Bank Nominees Pte Ltd (*Singapore*)
- Banfora Pte Ltd (*Singapore*)
- RHB Investment Ltd (*Singapore*)
- RHB Trade Services Limited (*Hong Kong*)
- Utama Gilang Sdn Bhd
- UMBC Sdn Bhd
- RHB Delta Sdn Bhd
- RHB Delta Nominees (Tempatan) Sdn Bhd
- INFB Jaya Sdn Bhd <sup>(5)</sup>
- USB Nominees Sdn Bhd <sup>(5)</sup>
- USB Nominees (Asing) Sdn Bhd <sup>(5)</sup>
- USB Nominees (Tempatan) Sdn Bhd <sup>(5)</sup>
- U.B. Nominees (Tempatan) Sdn Bhd <sup>(5)</sup>

## Investment Banking Group

- RHB Investment Bank Berhad
- RHB Investment Management Sdn Bhd  
(Formerly known as RHB Asset Management Sdn Bhd)
- RHB Research Institute Sdn Bhd
- RHB Merchant Nominees (Tempatan) Sdn Bhd
  - RHB Merchant Nominees (Asing) Sdn Bhd
- RHB Private Equity Holdings Sdn Bhd
  - RHB Private Equity Management Ltd
    - RHB Private Equity Fund Ltd (*Cayman Islands*)
- RHB Nominees Sdn Bhd
- RHB Nominees (Tempatan) Sdn Bhd
- RHB Nominees (Asing) Sdn Bhd
- RHB Excel Sdn Bhd
- RHB Progressive Sdn Bhd
- RHB Marketing Services Sdn Bhd
- RHB Venture Capital Sdn Bhd
- RHB Unit Trust Management Berhad



## RHB CAPITAL BERHAD

### Others

— RHB Insurance Berhad <b>(79.5%)</b>
— RHB Equities Sdn Bhd <sup>(1)</sup>
— KYB Sdn Bhd
— RHB Capital (Jersey) Limited
— Rashid Hussain Securities (Philippines), Inc ( <i>Philippines</i> ) <sup>(2)</sup>
— PT Rashid Hussain Securities ( <i>Indonesia</i> ) <b>(85%)</b> <sup>(3)</sup>
— RHB Hartanah Sdn Bhd
— Positive Properties Sdn Bhd <b>(50%)</b>
— Straits Asset Holdings Sdn Bhd
— SSSB Services (Melaka) Sdn Bhd
— SFSB Services (Melaka) Sdn Bhd
— RHB Dynamic Technologies Sdn Bhd <sup>(4)</sup>
— RHB Bena Sdn Bhd <sup>(4)</sup>
— KYB Trust Management Sdn Bhd <sup>(4)</sup>
— Kwong Yik Nominees (Asing) Sdn Bhd <sup>(4)</sup>
— Kwong Yik Nominees (Tempatan) Sdn Bhd <sup>(4)</sup>
— RHBF Sdn Bhd
— KYF Sdn Bhd

### Notes:

The subsidiary companies are wholly-owned unless otherwise stated.

Dormant company

Associate company

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

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

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

<sup>(4)</sup> The company has commenced members' voluntary winding-up on 26 November 2007.

<sup>(5)</sup> The company has commenced members' voluntary winding-up on 25 March 2008.

*Country of incorporation is in Malaysia unless otherwise indicated in italics.*

# RHB Group Shariah Committee ("Shariah Committee")

## **PROFESSOR DR. HAJI ABDUL SAMAT MUSA**

### **Chairman of the Committee**

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

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

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

## **DR. AHMED MOHIELDIN AHMED**

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

**ASSISTANT PROFESSOR DR. ABDULAZEEM ABOZAIID**

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

**PROFESSOR DR. JONI TAMKIN BORHAN**

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

# report of the RHB Group Shariah Committee

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

We, Professor Dr. Haji Abdul Samat Musa, Professor Dr. Joni Tamkin Borhan and Assistant Professor Dr. Abdulazeem Abozaid, being three of members of Group Shariah Committee of RHB Islamic Bank Berhad, do hereby confirm on behalf of the members of the Committee, that we have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank during the year ended 31 December 2007.

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

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

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

In our opinion:

- a) main sources of income of the Bank during the year ended 31 December 2007 that we have reviewed are in compliance with the Islamic Shariah rules and principles;
- b) all investments that have been disclosed to us by the Bank conform to the basis that had been approved by us in accordance with Islamic Shariah rules and principles;
- c) the contracts and legal documents of the products used by the Bank that we reviewed are in compliance with the Islamic Shariah rules and principles;
- d) the products proposals including concept used by the Bank which have been reviewed and advised by us are in compliance with the Shariah rules and principles; and

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

Wassalamu Alaikum Wa Rahmatullahi Wa Barakatuh

**Professor Dr. Haji Abdul Samat Musa**  
Chairman of the Committee

**Professor Dr. Joni Tamkin Borhan**  
Member of the Committee

**Assistant Professor Dr. Abdulazeem Abozaid**  
Member of the Committee

Kuala Lumpur, Malaysia  
28 February 2008

# statement of internal control

## INTRODUCTION

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

Although RHB Islamic Bank Berhad ("the Bank") is not a listed company, the Board of Directors ("the Board") has endeavoured to prepare its Internal Control Statement in accordance with the Guidance.

### Responsibility Of The Board

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

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

### Risk Management Framework

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

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

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

The minutes of the Bank's Risk Management Committee is tabled to the Group Risk Management Committee at RHB Banking Group level.

In line with regulatory guidance and industry best practices, the RHB Banking Group has instilled the risk management principle that risk management is first and foremost a core responsibility of the respective business and operating units of the RHB Banking Group. This is enshrined in the risk management frameworks of the group subsidiaries and implemented in practice. 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 companies in the Group as part of the risk management process. These companies are required to identify as well as document the controls and processes for managing the risks arising from their business activities, and assess their effectiveness.

## statement of internal control

### Key Elements Of Internal Control

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

- The Management of the Bank is delegated to the Managing Director, whose responsibilities and authority limits are set by the Board. Appointment of such officers requires the approval of the Board and relevant regulatory authorities, where applicable;
- Specific responsibilities have been delegated to the relevant Board committees, all of which have written terms of reference. These committees have the authority to examine all matters within their scope of responsibility and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters, however, lies with the entire Board;
- Delegation of authority including authorisation limits at various levels of Management and those requiring the Board's approval are documented and designed to ensure accountability and responsibility;
- Policies and procedures manuals for key processes are documented and regularly reviewed and updated for application across the Bank;
- There is clear procedure for investment appraisal, including equity investment or divestment and capital expenditure;
- There are proper guidelines for hiring and termination of staff, training programmes for staff, annual performance appraisal, and other relevant procedures in place to achieve the objective of ensuring staff are competent to carry out their responsibilities;
- Regular and comprehensive information is provided to the Management for monitoring of performance against the strategic plan approved by the Board, covering all key financial and operational indicators;
- A detailed budgeting process is established requiring all key operating units in the Bank to prepare budgets annually, which are discussed and approved by the Board. A reporting system on actual performance against approved budgets is in place and significant variances are followed-up by the Management and reported at the Board level;
- Ongoing reviews of the internal control system are carried out by the internal auditors. Results of such reviews are reported to the Audit Committee. The work of the internal auditors is focused on areas of priority as identified by risk analysis and in accordance with the annual internal audit plan approved by the Audit Committee. The head of internal audit function reports to the Audit Committee;
- The Audit Committee holds regular meetings to deliberate on findings and recommendations for improvement by both the internal and external auditors as well as Bank Negara Malaysia's examiners on the state of the internal control system. The minutes of the Audit Committee meetings are tabled to the Board;
- The Bank has in place its Management Audit Committee ("MAC"), comprising senior management that meets regularly to act on the Bank Negara Malaysia ("BNM"), Internal and External Auditors and other regulatory bodies' findings and lapses of the RHB Islamic Bank Berhad. The Minutes of MAC meetings are tabled to the Audit Committee;
- The Bank has set up Risk and Compliance Management function to centrally manage and provide assurance to the Management that the Bank's activities are in compliance with internal and external requirements and key controls; and
- In terms of compliance to Shariah principles, the Bank has established its own Shariah Committee, which oversees all aspects of Shariah principles. The Shariah Committee meets regularly to discuss and provide Shariah opinions on all Shariah-related matters. The Minutes of Shariah Committee meeting are being tabled to the Board for notation.

# audit committee report

## ACTIVITIES OF THE AUDIT COMMITTEE AND THE GROUP INTERNAL AUDIT FUNCTION DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

### Activities of the Audit Committee

During the financial year ended 31 December 2007 ("the year"), a total of 11 Audit Committee ("the Committee") meetings were held. The Committee comprises the following members and details of attendance of each member at the Committee meetings held during the year are as follow:-

Composition Of The Committee	No. Of Meetings Attended Whilst In Office
<b>Current Members</b>	
1. Dato' Mohd Salleh Haji Harun (Chairman / Independent Non-Executive Director)	11 out of 11 meetings
2. Dato' Othman Jusoh (Member / Independent Non-Executive Director)	11 out of 11 meetings
3. Dato Abdullah Mat Noh (Member / Independent Non-Executive Director) (Appointed as member wef 22 July 2007)	7 out of 7 meetings
<b>Previous Member</b>	
4. Prof. Balachandran a/l A. Shanmugam (Member / Independent Non-Executive Director) (Ceased as member wef 22 July 2007)	4 out of 4 meetings

The Committee reviewed the unaudited quarterly and half-yearly reports and the audited annual financial statements of RHB Islamic Bank Berhad ("the Bank") prior to their approval by the Board of Directors ("the Board"). The Committee also reviewed the new accounting standards applicable in the preparation of the financial statements.

The Committee reviewed with the external auditors, their audit plan, audit strategy and scope of work for the year, their fees as well as the findings emanating from their annual audit. The Committee also considered the reappointment of the external auditors for recommendation to the Board and the shareholders for their approval.

The Committee reviewed the related party transactions ("RPT") and the adequacy of the Bank's procedures for monitoring and reviewing of RPT.

The Committee reviewed and approved the scope and adequacy of the internal audit plan, including resource needs. It also reviewed the results of the risk-based audit work carried out by the internal auditors and the status of completion of the internal audit plans on the Bank. Where necessary, the Committee directed actions to be taken by the Management to rectify and improve the system of internal controls and procedures. During the financial year ended to 31 December 2007, all internal audit reports were tabled to the Committee.

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

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

### INTERNAL AUDIT FUNCTION

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

## audit committee report

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

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

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

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

### TERMS OF REFERENCE OF THE AUDIT COMMITTEE

#### Objectives

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

#### Primary Responsibilities

1. Ensure that the accounts are prepared in a timely and accurate manner with frequent reviews of the adequacy of provisions against contingencies, and bad and doubtful debts. Review the balance sheet and profit and loss account for submission to the Board of Directors and ensure prompt publication of annual accounts;

2. Review the effectiveness of internal controls and risk management processes, including the scope of the internal audit programme, the internal audit findings, and recommend actions to be taken by Management. The reports of internal auditors and the Committee should not be subject to the clearance of the chief executive or executive directors. The Committee should also evaluate the performance and decide on the remuneration package of the internal auditors;

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

3. The Audit Committee shall also have the following responsibilities concerning external auditors:-
  - (i) recommend the appointment, re-appointment and removal of the external auditors to the Board;
  - (ii) assess objectivity, performance and independence of external auditors;
  - (iii) review the external auditors' management letter and response;
  - (iv) approve the provision of non-audit service by the external auditors;
  - (v) ensure that there are proper checks and balances in place so that the provision of non-audit services does not interfere with the exercise of independent judgment of the auditors;

- (vi) regularly review the audit findings and ensuring that issues are being managed and rectified appropriately and in a timely manner;
- (vii) review with the external auditors, the scope of their audit plan, the system of internal accounting controls, the audit reports and the assistance given by the management and its staff to the external auditors.

4. Review any related party transactions that may arise within the RHB Islamic Bank Berhad and keep the Board informed of such transactions.
5. To perform any other functions as defined by the Board.

#### Authority

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

#### Meetings

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

#### Composition

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

# statutory financial statements

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# directors' report

The directors hereby present their report together with the audited financial statements of the Bank for the financial year ended 31 December 2007.

## PRINCIPAL ACTIVITIES

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

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

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

## FINANCIAL RESULTS

	RM'000
Profit before taxation	162,146
Taxation	(43,868)
Profit for the financial year	118,278

## DIVIDENDS

The dividends paid by the Bank since 31 December 2006 were as follows:

In respect of the financial year ended 31 December 2007:

	RM'000
Interim gross dividend of 8 sen per share less income tax of 27%, paid on 30 August 2007	30,568

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

## RESERVES AND PROVISIONS

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

## NON-PERFORMING FINANCING AND ADVANCES

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

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

### 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 financings or the amount of allowance for non-performing financings in the financial statements of 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 financings, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Bank, had been written down to an amount which they might be expected so to realise.

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

### VALUATION METHODS

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

### CONTINGENT AND OTHER LIABILITIES

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

- (a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (b) any contingent liability of the Bank which has arisen since the end of the financial year other than in the ordinary course of business.

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

### CHANGE OF CIRCUMSTANCES

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

### ITEMS OF AN UNUSUAL NATURE

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

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

# directors' report (continued)

## DIRECTORS OF THE BANK

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

YBhg Datuk Haji Faisal @ Ibrahim Siraj	Independent Non-Executive Director and Chairman (appointed on 3 December 2007 and appointed as Chairman on 15 January 2008)
YBhg Dato Abdullah Mat Noh	Independent Non-Executive Director (re-designated as Independent Non-Executive Director on 6 September 2007)
YBhg Dato' Mohd Salleh Haji Harun	Independent Non-Executive Director
YBhg Dato' Othman Jusoh	Independent Non-Executive Director
Mr Michael Joseph Barrett	Non-Independent Non-Executive Director
Encik Ismael Fariz Ali	Independent Non-Executive Director (appointed on 3 December 2007)
Encik Johari Abdul Muid	Non-Independent Non-Executive Director (appointed on 3 January 2008)
Puan Jamelah Jamaluddin	Non-Independent Executive Director/Managing Director (appointed on 8 October 2007)
Prof Balachandran A. Shanmugam	Independent Non-Executive Director (ceased as director on 22 July 2007)
YBhg Dato' Vaseehar Hassan Abdul Razack	Non-Independent Non-Executive Chairman (resigned with effect from 31 December 2007)

In accordance with Article 68 of the Bank's Articles of Association, YBhg Dato' Mohd Salleh Haji Harun and YBhg Dato' Othman Jusoh retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 73 of the Bank's Articles of Association, YBhg Datuk Haji Faisal @ Ibrahim Siraj, Encik Ismael Fariz Ali, Encik Johari Abdul Muid and Puan Jamelah Jamaluddin who were appointed during the financial year, retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

## DIRECTORS' BENEFITS

No director has received or become entitled to receive a benefit (other than directors' remuneration as disclosed in the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, other than the contracts mentioned in Note 24 of the financial statements.

## DIRECTORS' INTERESTS IN SECURITIES

According to the register of directors' shareholding, the interests of the directors in office as at 31 December 2007 in the securities of related corporations were as follows:

	Number of Ordinary Shares of RM1 each			
	As at 1.1.2007	Bought	Sold	As at 31.12.2007
<b>Ultimate Holding Company</b>				
<b>RHB Capital Berhad</b>				
YBhg Dato' Mohd Salleh Haji Harun				
– Direct	15,000	–	–	15,000

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

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

**CORPORATE GOVERNANCE STATEMENT****Introduction**

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

The Board of the Bank is committed to enhance the level of governance by among others, ensuring effective day to day operations and interactions as well as discharging its fundamental roles and responsibilities based on the highest practice levels.

In furtherance to the above, the Board of the Bank is pleased to report on the application by the Bank of the principles contained in the Malaysian Code on Corporate Governance (Revised 2007) ('the Code') and the extent of compliance with the best practices of the Code. The Bank is also governed by Bank Negara Malaysia's ('BNM') 'Guidelines On Corporate Governance For Licensed Islamic Banks' ('Revised BNM/GP1-i').

**BOARD OF DIRECTORS****The Board**

Being the ultimate decision making body, the Board subscribes to the principles of good corporate governance and as such, will always ensure that the Bank achieve best practice in the conduct of the Bank's business and operational activities. Board meetings are held on a scheduled basis in ensuring relevant policy, strategy and business performance issues are discussed and accordingly tracked and monitored. Special Board meetings are also convened when the need arose. At the operational level, relevant Board Committees and Management Committees at the Bank were also established. Reports from these Board and Management Committees are elevated to the Board for notation and/or further deliberation.

**Composition of the Board**

The Board currently has eight (8) members, comprising five Independent Non-Executive Directors, two Non-Independent Non-Executive Directors and a Managing Director, as follows:

<b>Name of Director</b>	<b>Designation</b>
YBhg Datuk Haji Faisal @ Ibrahim Siraj <sup>(1)</sup>	Independent Non-Executive Chairman
YBhg Dato Abdullah Mat Noh	Independent Non-Executive Director
YBhg Dato' Othman Jusoh	Independent Non-Executive Director
YBhg Dato' Mohd Salleh Haji Harun	Independent Non-Executive Director
Mr Michael Joseph Barrett	Non-Independent Non-Executive Director
Encik Ismael Fariz Ali <sup>(2)</sup>	Independent Non-Executive Director
Encik Johari Abdul Muid <sup>(3)</sup>	Non-Independent Non-Executive Director
Puan Jamelah Jamaluddin <sup>(4)</sup>	Managing Director
<b>Previous members:</b>	
Prof Balachandran A. Shanmugam <sup>(5)</sup>	Independent Non-Executive Director
YBhg Dato' Vaseehar Hassan Abdul Razack <sup>(6)</sup>	Non-Independent Non-Executive Chairman

<sup>(1)</sup> Appointed as Director on 3 December 2007 and appointed as Chairman on 15 January 2008

<sup>(2)</sup> Appointed as Director on 3 December 2007

<sup>(3)</sup> Appointed as Director on 3 January 2008

<sup>(4)</sup> Appointed as Managing Director on 8 October 2007

<sup>(5)</sup> Ceased as Director on 22 July 2007

<sup>(6)</sup> Resigned as Director/Chairman on 31 December 2007

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

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### BOARD OF DIRECTORS (CONTINUED)

#### Composition of the Board (continued)

YBhg Dato' Vaseehar Hassan Abdul Razack resigned as the Non-Independent Non-Executive Chairman on 31 December 2007. YBhg Datuk Haji Faisal @ Ibrahim Siraj was appointed as an Independent Non-Executive Director on 3 December 2007 and appointed as Chairman on 15 January 2008.

Prof Balachandran A. Shanmugam ceased as a Director on 22 July 2007.

Puan Jamelah Jamaluddin was appointed as the Managing Director on 8 October 2007.

Encik Ismael Fariz Ali was appointed as an Independent Non-Executive Director on 3 December 2007 while Encik Johari Abdul Muid was appointed as a Non-Independent Non-Executive Director on 3 January 2008.

The Board had in 2007, conducted the Board Effectiveness Evaluation for assessment year 2006 to assess the effectiveness of the Board and Board Committees as a whole, as well as the individual directors. The Board Effectiveness Evaluation for assessment year 2007 will be conducted accordingly. The Board Effectiveness Evaluation will be further enhanced with an improvement programme to achieve among others:

- Alignment on the Board's priorities;
- Intensify performance management; and
- Increase visibility in the area of human capital management.

Individually, the directors possess the knowledge and skills in identifying key issues, constructively challenge and collaborate to solve problems, propose solutions as well as support the management team of the Bank ('the Management'). Collectively, the Board reflects the ability with the skills and attributes that are required by the Bank in meeting its goals and objectives while at the same time serving the interests of shareholder and stakeholders.

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

There are clear division of responsibilities between the Board and the Managing Director ('MD') to ensure the balance of power and authority. The MD's primary responsibilities are to manage the Bank's day-to-day operations. MD is also ultimately responsible and accountable for the implementation of decisions or policies as approved by the Board, spearheading the Management and instilling corporate culture. The MD together with the Non-Executive Directors also ensure that the strategies are fully discussed and examined, and taking into account the long term interests of the various stakeholders including shareholder, employees, customers, suppliers and the various communities in which the Bank conducts its business with. Each director further brings an independent judgment to bear on issues of strategy, performance, resources and standards of conduct.

Following the expiry of the Contract of Service of the previous Chief Executive Officer ('CEO'), Mr Khalid Mahmud Bhaimia on 28 February 2007, the Board upon BNM's endorsement, appointed a new CEO, Puan Jamelah Jamaluddin, on 6 August 2007. The new CEO was also appointed as the Managing Director on 8 October 2007.

Following a group-wide strategic transformation programme in 2007 ('Transformation Exercise'), there is a significant change in the organisational and reporting structure of all the companies within the RHB Banking Group. The core businesses, which were conducted by various legal entities within RHB Banking Group, has been streamlined into four Strategic Business Units ('SBUs') comprising Retail, Corporate & Investment Banking, Islamic and International, alongside four Strategic Functional Units ('SFUs'), namely Operations & Support, Finance, Risk Management and Human Resources. A Central Management Committee ('CMC') comprising of key management personnel of RHB Banking Group has been established to among others manage the operations of the Group and provide strategic guidance to the SBUs and SFUs. The CMC also recommends to the Boards of the respective companies on the implementation of key strategic business plans and policies and assists the Boards of the respective companies in reviewing the performance and business efficiency.

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)****BOARD OF DIRECTORS (CONTINUED)****Composition of the Board (continued)**

All decisions of the Board are based on the decision of the majority and no single Board member can make any decisions on behalf of the Board, unless duly authorised by the Board of Directors. As such, no individual or a group of individuals dominates the decision making process. This enables the Board to effectively discharge its principal responsibilities as set out in the Code and Revised BNM/GP1-i.

**Board Meetings**

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

The Board convened 24 meetings during the financial year ended 31 December 2007. The attendance of each director in office at the end of the financial year at the aforesaid Board meetings are set out below:

Name of Director	Total Meetings Attended	Percentage of Attendance (%)
YBhg Dato' Vaseehar Hassan Abdul Razack <sup>(1)</sup>	23/24	96
YBhg Dato Abdullah Mat Noh	24/24	100
YBhg Dato' Mohd Salleh Haji Harun	20/24	83
YBhg Dato' Othman Jusoh	21/24	88
Mr Michael Joseph Barrett	20/24	83
YBhg Datuk Haji Faisal @ Ibrahim Siraj <sup>(2)*</sup>	3/3	100
Encik Ismael Fariz Ali <sup>(2)*</sup>	1/3	33
Puan Jamelah Jamaluddin <sup>(3)*</sup>	6/8	75

**Notes:**

<sup>(1)</sup> Resigned as director on 31 December 2007

<sup>(2)</sup> Appointed on 3 December 2007

<sup>(3)</sup> Appointed as Managing Director on 8 October 2007

\* Based on the number of meetings held since appointment to the Board

Pursuant to the Revised BNM/GP1-i, individual directors must attend at least 75% of the Board meetings held in each financial year. For the year under review, all directors complied with the attendance requirement as stipulated by BNM with the exception of Encik Ismael Fariz Ali, who was appointed towards the end of the year.

Scheduled board meetings are structured with a pre-set agenda. In line with the best practice, the Management will deliver the respective Board materials/papers to the Board Members at least seven (7) days prior to the scheduled Board Meeting date. This move will provide reasonable time for the Board members to digest the relevant information and be ready for the necessary deliberations during the meeting. The Board's principal focus amongst others is the overall strategic direction, financial and corporate developments of the Bank. Key matters such as the Bank's business and marketing strategy and budget, annual interim results, material contracts, major capital expenditures and credit policies and guidelines are usually reserved for the Board's deliberation and decision.

The Management shall provide all material information that is relevant for the Board to administer/monitor the overall running of the Bank.

The directors are kept abreast of the Bank's performance via the various monthly reports tabled at the Board meetings and Board Committee meetings. The reports include the financial reports, major capital expenditure reports, credit reports, risk reports, Information Technology ('IT') reports, compliance reports, audit reports and reports on major litigation cases. Minutes of meetings of the various committees of the Bank are tabled to the Board for notation.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### BOARD OF DIRECTORS (CONTINUED)

#### Board Meetings (continued)

The directors have full access to the information of the Bank and the Group through the Management as well as the advice and services of the Company Secretary. In addition, the directors may also seek independent professional advice, at the Bank's expense, if required. The directors shall consult with the Chairman and other Board members prior to seeking any independent professional advice.

#### Directors' Training

The Bank is in compliance with the Revised BNM/GP1-i, which requires Islamic financial institutions to develop in-house orientation and education programmes for its newly appointed directors to familiarise them with the industry and the Bank. In addition, the members of the Board keep abreast with the relevant developments in business, banking and finance industry as well as new regulatory requirements on a continuous basis via various conferences, seminars and training programmes organised within the Group and by other external organisers. The topics presented at these programmes are wide-ranging and provide the directors with current updates on various business, management, compliance and legal issues.

#### Appointment to the Board and Re-election of Directors

The proposed appointments of new Board members, as well as re-appointment of the Board members are recommended by the Group Nominating Committee, which functions at the ultimate holding company of the Bank i.e. RHB Capital Berhad ('RHB Capital'). The Group Nominating Committee thereafter recommends its findings to the Board of the Bank for approval. The appointments are further subject to BNM's approval. In the case of a re-appointment of a director for an additional term, the particular director's performance evaluation under the Board Effectiveness Evaluation shall be referred to in assessing among others his knowledge, skills, mindset, contributions and collaboration with other fellow directors as well as the Management.

In accordance with the Bank's Articles of Association, one-third (1/3) of the directors shall retire from office but shall be eligible for re-election at each Annual General Meeting. Directors who are appointed by the Board during the financial year are also subject to re-election by the shareholder at the next Annual General Meeting following their appointments.

#### Directors' Remuneration

There is a formal and transparent procedure for fixing the directors' remuneration packages. The levels of remuneration are sufficient to attract and retain directors of calibre to navigate the Bank accordingly. The Group Remuneration and Human Resource Committee, which functions at RHB Capital, will review the remuneration framework of directors, Board Committee members and key senior management officers of the Bank.

In the case of Non-Executive Directors, their level of remuneration reflects the level of responsibilities undertaken by the particular Non-Executive Director in the Bank. As for the MD, her remuneration is structured so as to link the remuneration and other rewards/benefits to her contributions and achievements, in tandem with the Bank and the Bank's and the Group's corporate objectives, culture and strategy.

Group Remuneration and Human Resource Committee determines the remuneration packages of the Non-Executive Directors subject to the shareholder's approval for the directors' fees. The Directors' fees for Non-Executive Directors is RM60,000 per director. Meeting attendance have been fixed at RM1,000 per meeting per director.

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)****DISCLOSURE OF BOARD COMMITTEES****Audit Committee**

The Board has established an Audit Committee ('the AC') since 17 March 2005. The Committee presently comprises three (3) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2007, a total of 11 meetings were held and details of attendance of each member at the Audit Committee meetings held during the year as at 31 December 2007 are as follows:

Composition of the Audit Committee	Attendance at the Committee meetings
1. YBhg Dato' Mohd Salleh Haji Harun (Chairman/Independent Non-Executive Director)	11 out of 11 meetings
2. YBhg Dato' Othman Jusoh (Member/Independent Non-Executive Director)	11 out of 11 meetings
3. YBhg Dato Abdullah Mat Noh (Member/Independent Non-Executive Director) – Appointed as Member on 22 July 2007	4 out of 4 meetings
<b>Previous Member</b>	
4. Prof Balachandran A. Shanmugam (Member/Independent Non-Executive Director) – Ceased as Member on 22 July 2007	7 out of 7 meetings

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

To ensure independence and objectivity of the external auditors, the Audit Committee meets the external auditors without the presence of the Management at least once a year.

**Terms of Reference of the Audit Committee****Objectives**

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

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)****DISCLOSURE OF BOARD COMMITTEES (continued)****Audit Committee (continued)****Terms of Reference of the Audit Committee (continued)****Primary Responsibilities**

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

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

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

**Authority**

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

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### DISCLOSURE OF BOARD COMMITTEES (continued)

#### Audit Committee (continued)

##### Meetings

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

##### Composition

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

#### Relationship with the Auditors

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

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

##### Objectives

- To ensure management of the various functions in the Bank is delegated to Managing Director (MD), whose role and responsibilities and authority limits are set by the respective Board. Appointment of such officer at the Bank requires the approval of the Board;
- To ensure specific responsibilities have been delegated to the relevant Board committees, all of which have written terms of reference. These committees have the authority to examine all matters within their scope of responsibility and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters however lies with the entire Board;

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)****DISCLOSURE OF BOARD COMMITTEES (continued)****Audit Committee (continued)****Terms of Reference of the Internal Audit and Internal Control Activities (continued)****Objectives (continued)**

- To ensure delegation of authority including authorisation limits at various levels of management and those requiring the Board's approval are documented and designed to ensure accountability and responsibility;
- To ensure that policies and procedures manuals for key processes are documented and regularly updated for application at the Bank. These are supplemented by operating standards set by the Bank, as required for the type of business or geographical location of the Bank;
- To ensure there is clear procedure for investment appraisal, including equity investment or divestment and capital expenditure;
- To ensure there are proper guidelines for hiring and termination of staff, training programmes for staff, annual performance appraisal and other relevant procedures in place to achieve the objective of ensuring staff are competent to carry out their responsibilities;
- To ensure that regular and comprehensive information is provided to management for monitoring of performance against the strategic plan approved by the Board, covering all key financial and operational indicators;
- To ensure that a detailed budgeting process is established requiring all key operating divisions in the Bank to prepare budgets annually, which are discussed and approved by the Board. Effective reporting system on actual performance against approved budgets is in place and significant variances are followed up by management and reported at the Board;
- Ongoing reviews of the internal control system are carried out by the internal auditors. Results of such reviews are reported to the Audit Committee. The work of the internal auditors is focused on areas of priority as identified by risk analysis and in accordance with the annual internal audit plan approved by the Audit Committee. The head of internal audit function reports to the Audit Committee;
- The Audit Committee holds regular meetings to deliberate on findings and recommendations for improvement by both the internal and external auditors on the state of the internal control system. The minutes of the Audit Committee meetings are tabled to the Board; and
- A Management Audit Committees ('MAC'), headed by the Head of Support & Services of the Bank was established to track and act on all the findings and lapses highlighted by BNM, Internal and External Auditors, and other regulatory bodies in their audit reports to ensure timely resolution. The status of audit findings and actions taken are to be tabled to the Audit Committee and the Board of Directors for review.

**Group Nominating Committee**

The Board has established the Nominating Committee ('NC') since 17 March 2005. On 1 January 2008, a Group Nominating Committee ('Group NC') was formally established at RHB Capital to undertake the roles and responsibilities of the NCs within the RHB Banking Group ('the Group'). Accordingly, the NC of the Bank has been dissolved on the same date.

The Group NC presently comprises directors within the RHB Banking Group i.e. three (3) Independent Non-Executive Directors of whom one (1) is the Chairman, and two (2) Non-Independent Non-Executive Directors, as follows:

1. YBhg Datuk Haji Faisal @ Ibrahim Siraj (Chairman)
2. YBhg Datuk Azlan Zainol
3. YBhg Datuk Tan Kim Leong
4. Encik Johari Abdul Muid
5. Encik Ismael Fariz Ali

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### DISCLOSURE OF BOARD COMMITTEES (continued)

#### Group Nominating Committee (continued)

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 completely and efficiently.

As a tool to assist the Group NC in its yearly assessment on the effectiveness of an individual director within the Group, the Bank and other major operating subsidiaries of RHB Bank Berhad ('RHB Bank') have 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.

#### Terms of Reference of the Group Nominating Committee

##### Objectives

- To provide a documented, formal and transparent procedure for the appointment of directors, board committee members, Group Shariah Committee members, chief executive officer and key senior management officers (Note : key senior management officers are defined as deputy chief executive officer, chief operating officer, chief financial officer and members of the Central Management Committee) as well as assessment of effectiveness of individual directors, board, board committees and Group Shariah Committee as a whole and performance of the chief executive officer, managing director and key senior management officers of RHB Capital Berhad ('RHB Capital') Group.
- To assist the Board in ensuring that appointments are made on merit against an agreed specification.
- To assist the Board in identifying and reviewing, on an annual basis, the required mix of skills, experience and other qualities, including core competencies which directors should bring to the Board and which the Board requires for it to function completely and efficiently.
- To examine the size of the Board with a view of determining the impact of the number upon its effectiveness.

##### Roles and Responsibilities

The Group Nominating Committee is responsible for:

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

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)****DISCLOSURE OF BOARD COMMITTEES (continued)****Group Nominating Committee (continued)****Terms of Reference of the Group Nominating Committee (continued)****Roles and Responsibilities (continued)**

- Recommending to the Board the removal of a director/Board committee member/chief executive officer/Group Shariah Committee member and key senior management officers from the Board/Board committee/management if the director/Board committee member/chief executive officer/Group Shariah Committee members/key senior management officer is ineffective, errant and negligent in discharging his responsibilities;
- Ensuring that all directors and Group Shariah Committee members receive an appropriate induction and continuous training program in order to keep abreast with the latest developments in the industry;
- Overseeing the appointment, management succession planning and performance evaluation of key senior management officers;
- Assessing, on an annual basis, that the directors, Group Shariah Committee members, chief executive officer and key senior management officers are not disqualified under the relevant regulations;
- Assessing the independence of the independent directors of RHB Capital Group on an annual basis; and
- To perform any other functions as defined by the Board.

**Authority**

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

**Meetings**

- Meetings shall be held at least once a year with a quorum of four (4) members and at least one (1) member present shall be an independent non-executive director. Additional meetings may be called at the discretion of the Chairman of the Committee.
- The Committee may invite any other director or members of management and employees of the Bank to be in attendance during meetings to assist in its deliberations.
- Meetings of the Committee shall be governed by the provisions of the Bank's Articles of Association relating to Board meetings except in so far as the same are amended in these terms of reference.
- The Company Secretary shall be the Secretary of the Committee.
- Minutes of each Committee meeting shall be kept and distributed to all Committee members. The minutes of the Committee meeting shall be presented at the Board Meeting and the Chairman of the Committee shall report on each Committee meeting to the Board.

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)****DISCLOSURE OF BOARD COMMITTEES (continued)****Group Nominating Committee (continued)****Terms of Reference of the Group Nominating Committee (continued)****Composition**

- The Nominating Committee shall consist of a minimum of five (5) members, of whom at least four (4) must be non-executive directors. The Committee should be chaired by an independent director.
- If the number of members of the Committee is reduced to below five (5) for any reasons, the Board shall within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of five (5) members.
- In order to avoid conflict of interest, a member of the Committee shall abstain from participating in discussions and decisions on matters involving him.

**Disclosure**

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

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

**Group Remuneration and Human Resource Committee**

The Board has established the Remuneration and Human Resource Committee ('RHRC') since 17 March 2005. On 1 January 2008, a Group Remuneration and Human Resource ('Group RHRC') has also been established at RHB Capital to undertake the role and responsibilities of the RHRCs within the RHB Banking Group. Arising therefrom, the RHRC of the Bank has been dissolved accordingly.

The Group RHRC presently comprises directors within the RHB Banking Group i.e. three (3) Independent Non-Executive Directors of whom one (1) is the Chairman, and two (2) Non-Independent Non-Executive Directors, as follows:

1. YBhg Datuk Tan Kim Leong (Chairman)
2. YBhg Datuk Azlan Zainol
3. YBhg Datuk Haji Faisal @ Ibrahim Siraj
4. Encik Johari Abdul Muid
5. Encik Ismael Fariz Ali

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

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### DISCLOSURE OF BOARD COMMITTEES (continued)

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

##### Terms of Reference of the Group Remuneration and Human Resource Committee

##### Objectives

- To provide a formal and transparent procedure for developing the remuneration policy for directors, Board committee members, chief executive officer, Group Shariah Committee members and key senior management officers (Note : key senior management officers are defined as deputy chief executive officer, chief operating officer, chief financial officer and members of the Central Management Committee) of RHB Capital Berhad ('RHB Capital') Group and ensuring that compensation is competitive and consistent with the RHB Capital Group's culture, objectives and strategy.
- To recommend to the Board on the policies, strategies and framework 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 RHB Capital Group.
- To oversee the disciplinary procedures, regulations and preventive measures as well as to ensure implementation and adherence to the disciplinary procedures.

##### Roles and Responsibilities

The Remuneration Committee is responsible for:

- Recommending a framework of remuneration for directors, board committee members, chief executive officer, Group Shariah Committee members and key senior management officers for the Board's approval. The remuneration framework and policy should be documented and approved by the Board and any changes thereto should be subject to the endorsement of the Board.

The remuneration framework should support the RHB Capital Group's culture, objectives and strategies and should reflect the responsibilities and commitments, which goes with Board membership, Board committee membership, Group Shariah Committee membership and responsibilities of the chief executive officer and key senior management officers.

There should be a balance in determining the remuneration package, which should be sufficient to attract and retain directors of calibre, and yet not excessive to the extent RHB Capital Group's funds are used to subsidise the excessive remuneration packages. The framework should cover all aspects of remuneration including directors' fee, salaries, allowance, bonuses, options and benefit-in-kind.

- Recommending specific remuneration packages for directors, Board committee members, chief executive officer, Group Shariah Committee members and key senior management officers. The remuneration package should be structured such that it is competitive and consistent with the RHB Capital Group's culture, objectives and strategy.

The remuneration packages for executive directors (if applicable) should be structured to link rewards to corporate and individual performances to encourage high performance standards. Salary scales drawn up should be within the scope of the general business policy and not be dependant on short-term performance to avoid incentives for excessive risk-taking.

As for non-executive directors and independent directors, the level of remuneration should be linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board. In addition, the remuneration of each Board member may differ based on their level of expertise, knowledge and experience.

- To ensure the establishment of a formal and transparent procedure for developing policies, strategies and framework for the remuneration of directors, management and staff, in general.

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)****DISCLOSURE OF BOARD COMMITTEES (continued)****Group Remuneration and Human Resource Committee (continued)****Terms of Reference of the Group Remuneration and Human Resource Committee (continued)****Roles and Responsibilities (continued)**

- To review the Management's succession planning programme and leadership framework.
- To review and assess the effectiveness of the Human Resources Division ('HR') in supporting the RHB Capital Group.
- To perform any other functions as defined by the Board.

**Authority**

- Each and every member of the Committee shall be vested with such power and authority, specific or general, as may from time to time be decided upon by the Board.
- The Committee is authorised by the Board to investigate any matter under its terms of reference, to obtain the resources which it needs, and to have full and unrestricted access to information.
- The Committee is authorised by the Board to seek appropriate professional advice as and when necessary or engage consultants at the RHB Capital Group's expense to aid the Committee in the discharge of its duties.

**Meetings**

- The Committee shall meet at least four (4) times a year with a quorum of three (3) members, among others to review the remuneration packages of the directors, board committee members, Group Shariah Committee members, chief executive officer and key senior management officers of RHB Capital Group. Additional meetings are to be held as and when necessary.
- The Committee may invite any other directors, management and staff to be in attendance during meetings to assist in its deliberation.
- Meetings of the Committee shall be governed by the provisions of the Bank's Articles of Association relating to Board meetings except in so far as the same are amended in these terms of reference.
- Minutes of each Committee meeting shall be kept and distributed to all members of the Committee. The minutes of the Committee meeting shall be presented at the Board meeting and the Chairman of the Committee shall report on each meeting to the Board.
- The Secretary to the Committee shall be the Company Secretary.

**Composition**

- The Committee shall comprise only non-executive directors, with at least three (3) members and should be chaired by an independent director.
- If the number of members of the Committee is reduced to below three (3) for any reasons, the Board shall within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.
- In order to avoid conflict of interest, a member of the committee shall abstain from participating in discussions and decisions on matters involving him.

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)****DISCLOSURE OF BOARD COMMITTEES (continued)****Group Remuneration and Human Resource Committee (continued)****Terms of Reference of the Group Remuneration and Human Resource Committee (continued)****Disclosure**

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

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

**Risk Management Committee**

The Board has established the Risk Management Committee ('RMC') since 17 March 2005. Currently, the Committee comprises three (3) Independent Non-Executive Directors of whom one (1) is the Chairman. During the financial year ended 31 December 2007, a total of 12 meetings were held and details of attendance of each member at the Risk Management Committee meetings held during the year as at 31 December 2007 are as follows:

**Composition of the Risk Management Committee****Attendance at the Committee meetings****Current Members:**

- |   |                       |
|---|-----------------------|
| 1. YBhg Dato' Mohd Salleh Haji Harun<br>(Chairman/Independent Non-Executive Director) | 12 out of 12 meetings |
| 2. YBhg Dato' Othman Jusoh<br>(Member/Independent Non-Executive Director)             | 11 out of 12 meetings |
| 3. YBhg Dato Abdullah Mat Noh<br>(Member/Independent Non-Executive Director)          | 12 out of 12 meetings |

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

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

A Statement on the Bank's Risk Management Framework is set out in Note 30 of the financial statements for the financial year ended 31 December 2007.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### DISCLOSURE OF BOARD COMMITTEES (continued)

#### Risk Management Committee (continued)

##### Terms of Reference of the Risk Management Committee

###### Preamble

- Risk management issues that do not involve concepts of and compliance to Islamic finance principles are overseen from a governance perspective by the Group Risk Management Committee ('Group RMC') of the RHB Banking Group.
- Notwithstanding the institution and functioning of the Group RMC, RHB Islamic Bank's, Risk Management Committee ('RMC') is instituted in recognition of the unique risks in Islamic financial and banking products, services and operations, which are not dealt with by the Group RMC.
- RHB Islamic Bank also has a Shariah Council that is tasked with the responsibilities of ensuring the businesses and operations of RHB Islamic are compliant and adhere to Shariah principles, and this includes the approval of new Islamic financial products and services.
- The terms of reference of the RMC is not meant to overlap with that of the Shariah Council. Rather, the RMC is expected to oversee the management of risks unique to Islamic finance, facilitated by the Bank's risk management personnel and Shariah advisors.

###### Objectives

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

###### Composition

- The RMC should comprise of only non-executive directors with at least three (3) members, and at least one (1) Shariah scholar from Shariah Council to be invited to advise the Committee in matters of Shariah interest. Members of the RMC shall be directors who are non-executive directors of RHB Islamic Bank.
- The RMC shall have a Chairman who shall be an independent director.

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)****DISCLOSURE OF BOARD COMMITTEES (continued)****Risk Management Committee (continued)****Terms of Reference of the Risk Management Committee (continued)****Meetings**

- The RMC shall meet quarterly or as and when necessary.
- Quorum for meetings shall be at least two (2) members.
- The Secretary of the RMC shall be the RHB Group Company Secretary or an official from Group Secretariat Division.
- Minutes of each meeting shall be kept and distributed to all members of the RMC.

**Disclosure**

The activities of the RMC should be briefly disclosed in the Directors' report of the relevant entity's annual report as follows:

- Membership of the RMC;
- Responsibilities of the RMC;
- Number of the RMC meetings as well as attendance of meetings by RMC members; and
- A statement on the Bank's risk management framework.

**Group Risk Management Committee**

Bank Negara Malaysia ('BNM') has approved the consolidation of the existing Risk Management Committees within RHB Capital Group, which includes RHB Islamic Bank Berhad. However, BNM still required the setting up of a dedicated Risk Management Committee to deal specifically with the risks and intricacies associated with Islamic finance.

A Group Risk Management Committee ('Group RMC') for RHB Capital Group has been established at RHB Capital effective from 1 November 2007. The Group RMC presently comprises directors within the RHB Banking Group i.e. five (5) Independent Non-Executive Directors of whom one (1) is the Chairman, as follows:

**Current members:**

1. YBhg Dato' Mohd Salleh Haji Harun (Chairman)
2. Tuan Haji Khairuddin Ahmad
3. Mr Patrick Chin Yoke Chin
4. YBhg Datin Khamarzan Ahmed Meah
5. YBhg Datuk Tan Kim Leong (appointed on 1 January 2008)

**Previous member:**

1. YBhg Dato' Vaseehar Hassan Abdul Razack (resigned on 31 December 2007)

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

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### DISCLOSURE OF BOARD COMMITTEES (continued)

#### Group Risk Management Committee (continued)

##### Terms of Reference of the Group Risk Management Committee

##### Overriding Objectives

- 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 risks in accordance with a risk-return performance management framework.
- To deliberate and make recommendations to the BODs of each relevant entity within the Group in respect of risk management matters of the respective entities.

##### Roles and Responsibilities

- The Group RMC's role will continue the in-depth governance of risks for each of the key operating subsidiaries as presently discharged by the individual Risk Management Committees.
- The key operating subsidiaries include RHB Capital Berhad, RHB Bank Berhad, RHB Investment Bank Berhad, RHB Islamic Bank Berhad, and RHB Insurance Berhad.
- In line with the BNM directives, RHB Islamic Bank should continue to have a dedicated risk management committee to deal with the risks and intricacies associated with Islamic finance.

##### The Group RMC is responsible for:

##### Risk Strategy

- Reviewing the respective licensed institutions' risk management philosophy and strategy and to recommend to the respective licensed institutions' BOD for approval.
- Reviewing the risk management policies, controls and systems of the Group in line with the approved risk management philosophy and strategy, and to recommend to the respective licensed institutions' BOD for approval.
- Reviewing and proposing the setting of the risk appetite/tolerance at enterprise and at strategic business unit levels of the respective licensed institutions.
- Maintaining continued awareness of any changes in the Group's risk profile to ensure that the Group's business activities are in line with the overall risk strategy.

##### Risk Organisation

- Overseeing the overall management of all risks covering market risk management, asset and liability management, credit risk management and operational risk management.
- Ensuring that there are clear and independent reporting lines and responsibilities for the overall business activities and risk management functions and recommending risk management derived organisational alignments where necessary to the relevant BODs.
- Cultivating a proactive risk management culture within the Group so that risk management processes are applied in the day-to-day business and activities.
- Appropriating independent review of the Group's risk management infrastructure, capabilities, environment and processes where necessary.

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)****DISCLOSURE OF BOARD COMMITTEES (CONTINUED)****Group Risk Management Committee (continued)****Terms of Reference of the Group Risk Management Committee (continued)****The Group RMC is responsible for: (continued)****Risk Measurement**

- Approving risk methodologies for measuring and managing risks arising from the Group's business and operational activities.
- Ensuring the appropriateness of the risk measurement methodologies (including assumptions made within the methodologies) under the prevailing business environment.
- Promoting the use of economic capital management.
- Reviewing and recommending risk limits to the relevant BODs for approval and ensuring the risk limits are appropriate for the business activities.

**Processes & Technology Enablers**

- Ensuring that risk management processes such as risk identification, risk measurement and analysis, risk exposure reporting, and risk mitigation/transformation mechanisms are in place within the RHB Capital Group and are operating in an efficient and effective manner.
- Periodically (e.g. monthly) reviewing risk exposures of the RHB Capital Group in line with its risk strategies and objectives.
- Ensuring the adequacy of tools, systems and resources for the successful management of risk management functions within the Group.
- Reviewing the progress of all core risk management initiatives within the Group.

**Composition**

- The Group RMC should comprise only non-executive directors with at least five (5) members. Members of the Group RMC shall be directors who are exclusively non-executive in all of their directorships in the RHB Capital Group.
- The Group RMC shall have a Chairman who shall be an independent director, and who shall be exclusively independent in all of his/her directorships in the RHB Capital Group.
- For RHB Capital Berhad, RHB Bank Berhad, RHB Investment Bank Berhad, RHB Islamic Bank Berhad and RHB Insurance Berhad respectively, shall have at least one (1) member of its Board of Directors represented on the Group RMC and additional allowance for the above requirement, where it can be fulfilled by common directors.

**Meetings**

- The Group RMC shall meet monthly or as and when necessary.
- Quorum for meetings shall be at least three (3) members.
- The Secretary of the Group RMC shall be the Group Company Secretary or an official from Group Secretariat Division.
- Minutes of each meeting shall be kept and distributed to all members of the Group RMC.

**CORPORATE GOVERNANCE STATEMENT (CONTINUED)****DISCLOSURE OF BOARD COMMITTEES (CONTINUED)****Group Risk Management Committee (continued)****Terms of Reference of the Group Risk Management Committee (continued)****Confidentiality of Customer Information**

Members of the Group RMC shall be required to execute confidentiality undertakings in compliance to the secrecy requirement of the Banking and Financial Institutions Act 1989 (BAFIA) and other regulatory requirements in respect of information from entities which they do not hold directorship in.

**Disclosure**

The activities of the Group RMC should be briefly disclosed in the Directors' report of the relevant entity's annual report as follows:

- Membership of the Group RMC;
- Responsibilities of the Group RMC;
- Number of the Group RMC meetings as well as attendance of meetings by Group RMC members; and
- A statement on the Group's risk management framework.

**DISCLOSURE OF SHARIAH COMMITTEE**

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

During the financial year ended 31 December 2007, a total of 11 meetings were held and details of attendance of each member at the Group Shariah Committee meetings held during the year as at 31 December 2007 are as follows:

**Composition of the Group Shariah Committee****Attendance at the Committee meetings****Current Members:**

1. Professor Dr. Haji Abdul Samat Musa (Chairman)	11 out of 11 meetings
2. Professor Dr. Joni Tamkin Borhan (Member)	9 out of 11 meetings
3. Dr. Ahmed Mohieldin Ahmed (Member)	7 out of 11 meetings
4. Professor Dr. Mohd Ma'sum Billah (Member)	6 out of 11 meetings
5. Assistant Professor Dr. Abdulazeem Abozaid (Member)	6 out of 8 meetings
– Appointed as Member on 1 April 2007	

\* Based on the number of meetings held since appointment to the committee

**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 Compliance staff are:

- i) Advising the Bank on all Shariah matters in order to ensure that the business operations of the Bank comply with Shariah Principles, BNM/GPS 1 'Guideline on the Governance of Shariah Committee for Financial Institutions' and other BNM Circular and Guidelines.
- ii) Endorse the Shariah Meeting Minutes and resolutions to make sure that all of the resolutions are stated in clear and specific manners based on correct Shariah foundations.
- iii) Endorse the relevant manuals, which specify the manner in which a submission or request for advice be made to the Group Shariah Committee, the conduct of the Group Shariah Committee meeting and the manner of compliance with any decision thereof.
- iv) Endorsements and validations of the following relevant documentation:
  - a) the terms and conditions contained in the proposal form, contract, agreement or other legal documentation used in executing the transactions;
  - b) the product manual, marketing advertisements, sales illustrations and brochures used to describe the product; and
  - c) providing assistance to related parties of the Bank such as its legal counsel, auditor or consultant on Shariah matters to ensure compliance with Shariah principles.
- v) Preparations of written Shariah opinions particularly in the following circumstances:
  - a) Where the Bank submits applications to Bank Negara Malaysia ('BNM') or the National Shariah Advisory Council ('NSAC') for new product approval in accordance with guidelines on product approval issued by BNM and NSAC.
  - b) Explanation on the Shariah issues involved and the recommendations for a decision, which must be supported by relevant Shariah jurisprudential literature from the established sources to assist the NSAC on any matters referred by the Bank and to ensure that all Group Shariah Committee decisions are properly implemented by the Bank.
- vi) Provide educational talks for both in-house Shariah training and external lecture session to the Bank's staff and the public (when arranged by the Bank) in order to equip them with related Shariah knowledge.

The profiles of the Shariah Committee members are disclosed in Notes 34 to the financial statements.

**RELATIONSHIP WITH SHAREHOLDERS**

The Bank maintains a high level of disclosure and extensive communication with its shareholder, RHB Bank, with the provision of clear, comprehensive and timely information through a number of readily accessible channels.

**ACCOUNTABILITY AND AUDIT****Financial Reporting**

In presenting the annual audited financial statements and quarterly announcements of results to stakeholders, the Directors take responsibility to present a balanced and understandable assessment of the Group's position and prospects. The Audit Committee assists by scrutinising the information to be disclosed, to ensure accuracy and adequacy.

**PERFORMANCE REVIEW FOR 2007**

For the year under review, the Bank recorded a profit before taxation of RM162.1 million (2006: RM121.7 million) and gross financing and advances amounted to RM4.7 billion (2006: RM4.3 billion). As at the end of 2007, the Bank's financing asset quality improved with net non - performing financing ratio of 4.1% (2006: 4.6%).

**BUSINESS PLAN AND OUTLOOK FOR THE COMING FINANCIAL YEAR 2008**

The Islamic Banking landscape continues to evolve with increasing liberalisation and globalisation, presenting new demands and challenges. Against this backdrop, the Bank will continue to focus on managing markets and segments proactively, leveraging on infrastructure within the RHB Banking Group, to provide our customers comprehensive Shariah compliant financial solutions.

While pursuing growth in targeted segments, RHB Islamic Bank Berhad will strive to manage funding costs actively and optimise delivery channel efficiency.

We believe that with the current business and industry outlook, the Bank will be able to outperform the satisfactory results achieved in previous year.

**HOLDING AND ULTIMATE HOLDING COMPANY**

The Directors regard RHB Bank Berhad ('RHB Bank') and Employee Provident Fund ('EPF'), both companies incorporated in Malaysia, as the holding and ultimate holding company respectively.

**AUDITORS**

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

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

**DATUK HAJI FAISAL @ IBRAHIM SIRAJ**  
CHAIRMAN

**JAMELAH JAMALUDDIN**  
MANAGING DIRECTOR

Kuala Lumpur  
28 February 2008

# report

## of the RHB Group Shariah Committee

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

We, Professor Dr. Haji Abdul Samat Musa, Professor Dr. Joni Tamkin Borhan and Assistant Professor Dr. Abdulazeem Abozaid, being three of members of Group Shariah Committee of RHB Islamic Bank Berhad, do hereby confirm on behalf of the members of the Committee, that we have reviewed the principles and the contracts relating to the transactions and applications introduced by the Bank during the year ended 31 December 2007.

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

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

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

In our opinion:

- a) main sources of income of the Bank during the year ended 31 December 2007 that we have reviewed are in compliance with the Islamic Shariah rules and principles;
- b) all investments that have been disclosed to us by the Bank conform to the basis that had been approved by us in accordance with Islamic Shariah rules and principles;
- c) the contracts and legal documents of the products used by the Bank that we reviewed are in compliance with the Islamic Shariah rules and principles;
- d) the products proposals including concept used by the Bank which have been reviewed and advised by us are in compliance with the Shariah rules and principles; and

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

Wassalamu Alaikum Wa Rahmatullahi Wa Barakatuh

**Professor Dr. Haji Abdul Samat Musa**  
Chairman of the Committee

**Professor Dr. Joni Tamkin Borhan**  
Member of the Committee

**Assistant Professor Dr. Abdulazeem Abozaid**  
Member of the Committee

Kuala Lumpur  
28 February 2008

# balance sheet

as at 31 December 2007

	Note	2007 RM'000	2006 RM'000
<b>ASSETS</b>			
Cash and short-term funds	2	1,934,461	1,314,283
Deposits and placements with banks and other financial institutions	3	300,000	1,220,000
Securities held for trading	4	362,892	314,620
Securities available-for-sale	5	145,167	18,781
Securities held-to-maturity	6	848,737	809,608
Financing and advances	7	4,514,812	4,147,573
Other assets	8	55,752	68,139
Deferred taxation assets	9	22,956	21,587
Tax recoverable		2,096	–
Statutory deposits	10	187,929	170,429
Property, plant and equipment	11	12,371	7,245
Intangible assets	12	17,263	–
<b>TOTAL ASSETS</b>		<b>8,404,436</b>	<b>8,092,265</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
Deposits from customers	13	6,849,686	6,680,424
Deposits and placements of banks and other financial institutions	14	378,041	444,923
Bills and acceptances payable		10,102	16,542
Other liabilities	15	427,173	280,718
Provision for taxation		–	17,984
<b>TOTAL LIABILITIES</b>		<b>7,665,002</b>	<b>7,440,591</b>
Ordinary share capital	16	523,424	523,424
Reserves	17	216,010	128,250
<b>SHAREHOLDER'S EQUITY</b>		<b>739,434</b>	<b>651,674</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>8,404,436</b>	<b>8,092,265</b>
<b>COMMITMENTS AND CONTINGENCIES</b>			
	29	2,077,585	2,536,550
<b>CAPITAL ADEQUACY</b>			
	32		
Core capital ratio		16.03%	15.84%
Risk-weighted capital ratio		17.89%	17.78%

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

# income statement

for the financial year ended 31 December 2007

	Note	2007 RM'000	2006 RM'000
Income derived from investment of depositors' funds	18	<b>372,443</b>	330,642
Income derived from investment of shareholder's funds	19	<b>107,023</b>	88,259
Allowance for losses on financing and advances	20	<b>(57,111)</b>	(22,177)
Profit equalisation reserve	15	<b>10,943</b>	(1,563)
Total distributable income		<b>433,298</b>	395,161
Income attributable to depositors	21	<b>(161,792)</b>	(181,239)
		<b>271,506</b>	213,922
Personnel expenses	22	<b>(33,779)</b>	(28,420)
Other overheads and expenditures	23	<b>(75,581)</b>	(63,740)
Profit before zakat and taxation		<b>162,146</b>	121,762
Zakat		–	1,166
Taxation	25	<b>(43,868)</b>	(36,566)
Profit for the financial year		<b>118,278</b>	86,362
Basic earnings per share (sen)	26	<b>22.60</b>	16.50
Interim dividend per share 8 sen (2006:NIL) less 27% taxation	27	<b>5.84</b>	–

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

# statement of changes in sharehoder's equity

for the financial year ended 31 December 2007

	Share Capital RM'000	Statutory Reserve RM'000	AFS Reserves RM'000	Retained Profits RM'000	Total RM'000
<b>31.12.2007</b>					
At beginning of year	523,424	63,923	404	63,923	651,674
Unrealised net gain on revaluation of securities available-for-sale	-	-	1,126	-	1,126
AFS reserve realised on disposal of AFS securities	-	-	(1,058)	-	(1,058)
Deferred taxation	-	-	(18)	-	(18)
Income and expenses recognised directly in equity	-	-	50	-	50
Profit for the financial year	-	-	-	118,278	118,278
Total recognised income and expenses for the financial year	-	-	50	118,278	118,328
Transfer to statutory reserves	-	59,139	-	(59,139)	-
Interim dividends paid	-	-	-	(30,568)	(30,568)
<b>At end of year</b>	<b>523,424</b>	<b>123,062</b>	<b>454</b>	<b>92,494</b>	<b>739,434</b>
<b>31.12.2006</b>					
At beginning of year	523,424	20,742	246	20,742	565,154
Unrealised net gain on revaluation of securities available-for-sale	-	-	563	-	563
AFS reserve realised on disposal of AFS securities	-	-	(343)	-	(343)
Deferred taxation	-	-	(62)	-	(62)
Income and expenses recognised directly in equity	-	-	158	-	158
Profit for the financial year	-	-	-	86,362	86,362
Total recognised income and expenses for the financial year	-	-	158	86,362	86,520
Transfer to statutory reserves	-	43,181	-	(43,181)	-
<b>At end of year</b>	<b>523,424</b>	<b>63,923</b>	<b>404</b>	<b>63,923</b>	<b>651,674</b>

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

# cash flow statement

for the financial year ended 31 December 2007

	Note	2007 RM'000	2006 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation for the financial year		162,146	121,762
Adjustments for:			
Depreciation of property, plant and equipment		1,002	782
Income from:			
– Investment on securities available-for-sale		(4,657)	(3,844)
– Investment on securities held-to-maturity		(12,846)	(9,699)
Net (gain)/loss on sale of securities available-for-sale		(1,127)	937
Accretion of discount less amortisation of premium		(23,316)	(22,855)
Unrealised gain from securities held for trading		(3,623)	(6,219)
Allowance for losses on financing and advances		57,111	22,177
(Write back)/Allowance for profit equalisation reserve		(10,943)	1,563
Operating profit before working capital changes		163,747	104,604
(Increase)/Decrease in operating assets:			
Deposits and placements with financial institutions		920,000	(770,000)
Financing and advances		(424,350)	(769,339)
Securities held for trading		(44,649)	324,883
Other assets		13,193	(39,474)
Statutory deposit with Bank Negara Malaysia		(17,500)	11,900
		610,441	(1,137,426)
Increase/(Decrease) in operating liabilities:			
Deposits from customers		169,262	1,168,779
Deposits and placements of banks and other financial institutions		(66,882)	(649,326)
Bills and acceptances payable		(6,440)	(17,495)
Other liabilities		157,399	(136,445)
Cash generated from/(used in) operating activities		863,780	(771,913)
Taxation paid		(65,335)	(19,250)
Zakat paid		–	(53)
Net cash generated/(used in) from operating activities		798,445	(791,216)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(6,129)	(1,447)
Purchase of intangible assets		(17,263)	–
Income received from disposal of:			
– Investment on securities available-for-sale		4,224	3,858
– Investment on securities held-to-maturity		12,472	9,764
Net proceeds from:			
– (Purchase)/Disposal of securities available-for-sale		(125,191)	128,498
– (Purchase)/Maturity of securities held-to-maturity		(15,812)	25,228
Net cash (used in)/generated from investing activities		(147,699)	165,901
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Interim dividend paid		(30,568)	–
Net cash used in financing activities		(30,568)	–
<b>ANALYSIS OF CASH AND CASH EQUIVALENT</b>			
Net increase/(decrease) in cash and cash equivalents		620,178	(625,315)
Cash and cash equivalent brought forward		1,314,283	1,939,598
Cash and cash equivalent at end of the year	2	1,934,461	1,314,283

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

# summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2007

## (A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 1 Basis of Preparation of the Financial Statements

The financial statements of the Bank have been prepared under the historical cost convention (unless otherwise indicated), and in accordance with the directives and guidelines issued by Bank Negara Malaysia ('BNM'), Financial Reporting Standards ('FRS'), the Malaysian Accounting Standard 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 preparation of financial statements requires the use of estimates and assumption that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported year. It also requires directors to exercise their judgement in the process of applying the Bank's accounting policies. Although these estimates are based on the directors' best knowledge of current events and actions, actual results may differ.

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

#### (a) Standards and technical pronouncements that are effective:

During the financial year, the Bank adopted the following new and revised FRS and other technical pronouncements issued by MASB that are relevant and effective for the Bank's financial year beginning on or after 1 January 2007 are as follows:

- FRS 117 Leases
- FRS 124 Related Party Disclosures

The adoption of the above new FRS does not have any significant financial impact on the results of the Bank. In relation to FRS 124, appropriate disclosures are included in Note 28 to the financial statements.

#### (b) Standards and amendments to published standards that are not yet effective and have not been early adopted

The new standards, amendments to published standards and interpretations that are relevant and mandatory for the Bank's financial periods beginning on or after 1 January 2008 or later periods, but which the Bank has not early adopted, are as follows:

Standard/Interpretation	Effective for accounting period beginning on or after
<ul style="list-style-type: none"> <li>• Amendment to FRS 112 Income Taxes – This revised standard has removed the requirements that prohibit recognition of deferred tax on reinvestment allowances or other allowances in excess of capital allowances.</li> </ul>	1 July 2007
<ul style="list-style-type: none"> <li>• Amendment to FRS 121 The Effects of Changes in Foreign Exchange Rates – Net Investment in Foreign Operation – This amendment requires exchange differences on monetary items that form part of the net investment in a foreign operation to be recognised in equity instead of in profit or loss regardless of the currency in which these items are denominated in.</li> </ul>	1 July 2007
<ul style="list-style-type: none"> <li>• FRS 139 Financial Instruments: Recognition and Measurement ('FRS 139') – This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Bank will apply this standard when it is effective. Nevertheless, the accounting policies of the Bank incorporate requirements of the Revised Guidelines on Financial Reporting for Licensed Islamic Banks ('BNM/GP8-i') which include selected principles of FRS 139.</li> </ul>	Yet to be determined by MASB

# summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2007 (continued)

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

### 1. Basis of Preparation of the Financial Statements (continued)

#### (b) Standards and amendments to published standards that are not yet effective and have not been early adopted (continued)

Standard/Interpretation	Effective for accounting period beginning on or after
Other revised standards that have no significant changes compared to the original standards are as follows:	1 July 2007
<ul style="list-style-type: none"> <li>FRS 107 Cash Flow Statements</li> <li>FRS 118 Revenue</li> <li>FRS 134 Interim Financial Reporting</li> <li>FRS 137 Provisions, Contingent Liabilities and Contingent Assets</li> </ul>	

The Bank will apply the above revised standards and amendments to published standards (except for FRS 139 of which the effective date has yet to be determined) from financial periods beginning on 1 January 2008. The adoption of these standards and amendments will not have any significant impact on the results of the Bank.

#### (c) Standards and interpretation to existing standards that are not yet effective and not relevant for the Bank's operations:

	Effective for accounting period beginning on or after
<ul style="list-style-type: none"> <li>FRS 120 Accounting for Government Grants and Disclosure of Government Assistance</li> <li>FRS 111 Construction Contracts</li> <li>IC Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities</li> <li>IC Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments</li> <li>IC Interpretation 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</li> <li>IC Interpretation 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</li> <li>IC Interpretation 7 Applying the Restatement Approach under FRS 129<sub>2004</sub> Financial Reporting in Hyperinflationary Economies</li> </ul>	1 July 2007 1 July 2007 1 July 2007 1 July 2007 1 July 2007 1 July 2007

### 2. Securities

The Bank classifies its securities portfolio into the following categories: held for trading securities ('HFT'), available-for-sale securities ('AFS') and held-to-maturity securities ('HTM').

#### (i) Securities Held For Trading

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

# summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2007 (continued)

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

### 2. Securities (continued)

#### (ii) Securities Held-To-Maturity

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

#### (iii) Securities Available-For Sale

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

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

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

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

### 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.

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

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

Computer software which is not an integral part of the computer hardware is treated as an intangible asset (please refer to Note 4 for accounting policy on intangible asset).

Depreciation rates, methods and residual values underlying the calculation of depreciation of items of property, plant and equipment are kept under review to account for any change in circumstances. When deciding on depreciation rates and methods, the principal factors Bank takes into account are the expected rate of technological developments and expected market requirements for, and the expected pattern of usage of the assets.

When reviewing the residual values, the Bank estimates the amount that it would currently obtain for the disposal of the asset after deducting the estimated cost of disposal if the asset were already of the age and condition expected at the end of its useful economic life.

# summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2007 (continued)

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

### 3. Property, Plant and Equipment and Depreciation (continued)

At each balance sheet date, the Bank assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount. See accounting policy Note 13 on impairment of non-financial assets.

### 4. Intangible Asset

Computer software is stated at costs less amortisation and provisions for impairment, if any.

The identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Bank, and where it is probable that future economic benefits exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense when incurred. Only computer software which is not an integral part of the related computer hardware is treated as an intangible asset.

Capitalised computer software are amortised five years on a straight line basis while computer software in progress are not amortised.

### 5. Bills and Acceptances Payable

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

### 6. Recourse Obligation on Financing Sold to Cagamas Berhad ('Cagamas')

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

### 7. Other Provisions

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

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

### 8. Profit Equalisation Reserve ('PER')

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

# summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2007 (continued)

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

### 9. Contingent Liabilities and Contingent Assets.

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

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

### 10. Income Recognition

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

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

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

### 11. Allowance for Non-Performing Financing and Advances

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

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

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

The basis for classification of non-performing financing and advances follows the period of default for non-performing financing of three months. Consistent with previous years, the Bank has adopted a more stringent classification policy on non-performing financing, whereby financing are classified as non-performing and sub-standard when repayments are in arrears for more than three months from the first date of default or after maturity date.

The Bank's allowance for non-performing financing and advances is in conformity with the minimum requirements of BNM's 'Guidelines on the Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts' 'BNM/GP3', which is deemed as in conformity with the requirement on the allowance for financing impairment under the BNM/GP8-i. BNM has granted indulgence to the Bank from complying with the requirement on the impairment of financing under the BNM/GP8-i if the allowance for non-performing financing are computed based on BNM/GP3 requirements.

# summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2007 (continued)

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

### 12. Employee Benefits

#### Short-term employee benefits

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

#### Defined contribution plans

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

#### Termination benefits

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

### 13. Impairment of Non-Financial Assets

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

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognised in the income statement. In respect of other assets, any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

### 14. Impairment of Securities Portfolio

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

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

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

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

# summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2007 (continued)

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

### 14. Impairment of Securities Portfolio (CONTINUED)

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

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that securities previously recognised, is removed from equity and recognised in the income statement. Impairment loss recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a financial instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

### 15. Income Taxes

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

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

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

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

Deferred tax related to fair value measurements of securities available for-sale, which are charged or credited directly to equity, is also charged or credited directly to equity and subsequently recognised in the income statement together with deferred gain or loss.

### 16. Currency Conversion And Translation

#### (a) Functional and presentation currency

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

#### (b) Transactions and balances

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

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

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

# summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2007 (continued)

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

### 17. Dividends

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

### 18. Cash and Cash Equivalents

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

### 19. Segment Reporting

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

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

## (B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Bank's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

### Allowance for losses on financing and advances

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

# notes to the financial statements

for the year ended 31 December 2007

## 1. GENERAL INFORMATION

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

There have been no significant changes in the nature of 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

	2007 RM'000	2006 RM'000
Cash and balances with banks and other financial institutions	1,451	21,283
Money at call and deposit placements maturing within one month	1,933,010	1,293,000
	<b>1,934,461</b>	<b>1,314,283</b>

## 3. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2007 RM'000	2006 RM'000
Licensed banks and other financial institutions	–	120,000
Bank Negara Malaysia	300,000	1,100,000
	<b>300,000</b>	<b>1,220,000</b>

## 4. SECURITIES HELD FOR TRADING

	2007 RM'000	2006 RM'000
<b>At fair value</b>		
<b>Money market instruments:</b>		
<b>Quoted</b>		
Government investment issues	9,869	–
<b>Unquoted</b>		
Bank Negara Malaysia negotiable notes	53,313	74,727
Islamic accepted bills	–	69,212
Private debt securities	299,710	170,681
<b>Total securities held for trading</b>	<b>362,892</b>	<b>314,620</b>

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 5. SECURITIES AVAILABLE-FOR-SALE

	2007 RM'000	2006 RM'000
<b>At fair value</b>		
<b>Money market instruments:</b>		
<b>Quoted</b>		
Khazanah bonds	9,738	9,405
Government investment issues	18,257	5,058
<b>Unquoted</b>		
Malaysian government Islamic treasury bills	38,833	3,743
Bank Negara Malaysia negotiable notes	57,375	–
Private debt securities	20,389	–
	144,592	18,206
<b>At cost</b>		
<b>Unquoted securities in Malaysia</b>		
Shares	575	575
Total securities available-for-sale	145,167	18,781

## 6. SECURITIES HELD-TO-MATURITY

	2007 RM'000	2006 RM'000
<b>At amortised cost</b>		
<b>Money market instruments:</b>		
<b>Quoted</b>		
Cagamas Mudharabah bonds	50,284	60,442
Khazanah bonds	516,703	521,752
Government Investment Issuance	82,552	80,964
<b>Unquoted</b>		
Private debt securities	199,198	146,450
Total securities held-to-maturity	848,737	809,608

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 7. FINANCING AND ADVANCES

	2007 RM'000	2006 RM'000
<b>(i) By type</b>		
Cashline	49,615	64,229
Term financing		
– housing financing	1,610,779	1,530,972
– syndicated term financing	319,793	521,264
– hire purchase receivables	506,009	296,126
– other term financing	1,131,094	1,021,230
Bills receivable	775,920	421,263
Trust receipts	9,625	20,776
Staff financing	8,908	5,305
Revolving financing	363,582	436,360
	4,775,325	4,317,525
Less: Unearned income	(84,229)	(44,071)
Gross financing and advances	4,691,096	4,273,454
Less : Allowance for bad and doubtful financing:		
– general	(82,948)	(77,059)
– specific	(93,336)	(48,822)
Net financing and advances	4,514,812	4,147,573
<b>(ii) By type of customer</b>		
Domestic non-bank financial institutions		
– Others	25,133	32,773
Domestic business enterprises		
– Small medium enterprises	557,394	548,509
– Others	2,038,887	1,948,256
Government and statutory bodies	101,153	101,153
Individuals	1,942,677	1,623,648
Other domestic entities	14,422	15,905
Foreign entities	11,430	3,210
	4,691,096	4,273,454
<b>(iii) Financing and advances analysed by contract are as follows:</b>		
Bai' Bithaman Ajil ('BBA')	2,652,618	3,143,001
Al-Ijarah Thumma Al-Bai' ('AITAB')	632,305	252,055
Murabahah	1,044,896	878,398
Istisna'	311,258	–
Others	50,019	–
	4,691,096	4,273,454

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 7. FINANCING AND ADVANCES (CONTINUED)

	2007 RM'000	2006 RM'000
<b>(iv) By profit rate sensitivity</b>		
Fixed rate		
– Home financing	1,610,779	1,491,077
– Hire-purchase receivables	507,096	252,055
– Other fixed rate financing	1,374,724	1,587,694
Variable rate		
– Cost-plus	1,198,497	942,628
	<b>4,691,096</b>	<b>4,273,454</b>
<b>(v) By purpose</b>		
Purchase of securities	185,180	366,627
Purchase of transport vehicles	359,898	140,519
Purchase of landed property:		
– Residential	1,610,779	1,461,866
– Non-residential	121,664	81,351
Purchase of property, plant and equipment other than land and building	204,634	139,877
Personal use	23,838	36,612
Purchase of consumer durables	324	377
Construction	125,895	130,836
Working capital	1,944,903	1,813,327
Other purposes	113,981	102,062
	<b>4,691,096</b>	<b>4,273,454</b>
<b>(vi) Movement in non-performing financing and advances</b>		
At beginning of year	241,786	210,657
Amount vested over from RHB Delta Finance Berhad	–	661
Classified as non-performing during the year	355,315	359,651
Reclassified as performing during the year	(272,723)	(278,858)
Amount recovered	(27,898)	(26,918)
Amount written off	(13,647)	(23,407)
At end of year	282,833	241,786
Specific allowance	(93,336)	(48,822)
Net non-performing financing and advances	<b>189,497</b>	<b>192,964</b>
Ratio of net non-performing financing and advances to net financing and advances	<b>4.1%</b>	<b>4.6%</b>

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 7. FINANCING AND ADVANCES (CONTINUED)

	2007 RM'000	2006 RM'000
<b>(vii) Movement in allowance for bad and doubtful financing and advances</b>		
<b>General allowance</b>		
At beginning of year	77,059	73,692
Amount vested over from RHB Delta Finance	–	13
Net allowance made during the year	5,889	3,354
At end of year	82,948	77,059
As % of gross financing and advances less specific allowance	1.8%	1.8%
<b>Specific allowance</b>		
At beginning of year	48,822	50,270
Amount vested over from RHB Delta Finance	–	194
Allowance made during the year	61,089	22,086
Amount recovered	(5,682)	(3,142)
Amount written off	(10,893)	(20,586)
At end of year	93,336	48,822
<b>(viii) Non-performing financing and advances analysed by purpose:</b>		
Purchase of securities	–	51
Purchase of transport vehicles	27	38
Purchase of landed property:		
– Residential	170,456	179,335
– Non-residential	3,788	2,807
Purchase of property, plant and equipment other than land and building	–	26,383
Personal use	5,299	7,705
Purchase of consumer durables	2	–
Construction	2,170	3,585
Working capital	101,091	21,882
	282,833	241,786

## 8. OTHER ASSETS

	2007 RM'000	2006 RM'000
Other debtors, deposits and prepayments	50,460	62,584
Income receivable	5,292	5,555
	55,752	68,139

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 9. DEFERRED TAXATION

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

	2007 RM'000	2006 RM'000
Deferred tax assets	23,353	22,522
Deferred tax liabilities	(397)	(935)
	<b>22,956</b>	<b>21,587</b>

The deferred tax assets and liabilities have been adjusted to take into account the reduction in tax rate to 26% in Year of Assessment 2008 and 25% in Year of Assessment 2009 and thereafter, adjustments are made based on amounts of temporary differences expected to be reversed in the prospective years.

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

### Deferred tax assets/(liabilities)

	Property, plant & equipment RM'000	Securities available- for-sale RM'000	General allowance on financing and advances RM'000	Others temporary differences RM'000	Total RM'000
<b>2007</b>					
At beginning of the financial year	(777)	(158)	20,035	2,487	21,587
Credited to income statement	556	–	702	129	1,387
Charged to equity	–	(18)	–	–	(18)
At end of the financial year	<b>(221)</b>	<b>(176)</b>	<b>20,737</b>	<b>2,616</b>	<b>22,956</b>
<b>2006</b>					
At beginning of the financial year	(813)	(96)	20,634	3,018	22,743
(Charged)/credited to income statement	36	–	(599)	(531)	(1,094)
Charged to equity	–	(62)	–	–	(62)
At end of the financial year	<b>(777)</b>	<b>(158)</b>	<b>20,035</b>	<b>2,487</b>	<b>21,587</b>

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 10. STATUTORY DEPOSITS

	2007 RM'000	2006 RM'000
Statutory deposits with Bank Negara Malaysia	187,929	170,429

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

## 11. PROPERTY, PLANT AND EQUIPMENT

	Renovations in progress RM'000	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
<b>2007</b>						
<b>Cost</b>						
Balance as at beginning of the financial year	3,531	344	733	4,816	597	10,021
Additions	1,429	222	444	3,621	413	6,129
Transferred out to RHB Bank	–	–	–	(3)	–	(3)
Disposals/written off	–	–	(96)	–	–	(96)
Balance as at the end of the financial year	4,960	566	1,081	8,434	1,010	16,051
<b>Accumulated depreciation</b>						
Balance as at beginning of the financial year	–	256	498	1,859	163	2,776
Charge for the year	–	19	109	715	159	1,002
Transferred out to RHB Bank	–	–	–	(2)	–	(2)
Disposals/written off	–	–	(96)	–	–	(96)
Balance as at the end of the financial year	–	275	511	2,572	322	3,680
<b>Net book value as at the end of the financial year</b>	4,960	291	570	5,862	688	12,371

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Renovations in progress RM'000	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
2006						
Cost						
Balance as at beginning of the financial year	2,519	270	595	4,594	650	8,628
Additions	1,013	73	138	222	1	1,447
Disposals/written off	–	–	–	–	(54)	(54)
Balance as at the end of the financial year	3,532	343	733	4,816	597	10,021
Accumulated depreciation						
Balance as at beginning of the financial year	–	226	451	1,272	99	2,048
Charge for the year	–	30	47	587	118	782
Disposals/written off	–	–	–	–	(54)	(54)
Balance as at the end of the financial year	–	256	498	1,859	163	2,776
Net book value as at the end of the financial year	3,532	87	235	2,957	434	7,245

## 12. INTANGIBLE ASSETS

	2007 RM'000	2006 RM'000
<b>Purchased at cost:</b>		
Computer software		
As at beginning of the financial year	–	–
Additions	17,263	–
As at the end of the financial year	17,263	–

The above purchased intangible assets are under construction during the financial year and hence, are not amortised.

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 13. DEPOSITS FROM CUSTOMERS

	2007 RM'000	2006 RM'000
<b>Non-Mudharabah Funds:</b>		
Demand deposits	1,901,638	2,299,718
Savings deposits	520,602	486,224
Negotiable Islamic Debt Certificates	91,297	142,411
	2,513,537	2,928,353
<b>Mudharabah Funds:</b>		
Demand deposits	321,276	291,261
General investment accounts	1,956,256	1,208,792
Special investment accounts	2,058,617	2,252,018
Total deposits	6,849,686	6,680,424
The deposits are sourced from the following classes of customers:		
Government and statutory bodies	1,713,217	1,664,822
Business enterprises	4,222,990	4,149,826
Individuals	770,047	723,189
Others	143,432	142,587
	6,849,686	6,680,424

## 14. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2007 RM'000	2006 RM'000
<b>Non-Mudharabah Fund:</b>		
Licensed Islamic banks	–	34,537
Licensed banks	18,731	52,280
Licensed investment banks	–	68,786
Other financial institutions	–	149,320
	18,731	304,923
<b>Mudharabah Fund:</b>		
Licensed Islamic banks	174,000	–
Licensed banks	–	140,000
Licensed investment banks	169,710	–
Other financial institutions	15,600	–
	378,041	444,923

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 15. OTHER LIABILITIES

	2007 RM'000	2006 RM'000
Sundry creditors	13,897	17,960
Profit equalisation reserve (see below)	7,899	18,842
Amount due to holding company (please refer to Note 28)	344,312	132,551
Other accruals and payables	61,065	111,365
	<b>427,173</b>	280,718

Profit equalisation reserve:

	2007 RM'000	2006 RM'000
Balance at beginning of the financial year	18,842	17,279
Net amount (written back)/transferred	(10,943)	1,563
Balance as at the end of the financial year	<b>7,899</b>	18,842

Profit equalisation reserve at the end of the financial year of which the shareholder's portion is RM583,910 (2006:RM1,474,314).

## 16. ORDINARY SHARE CAPITAL

	2007 RM'000	2006 RM'000
Authorised:		
<b>Ordinary shares of RM1.00 each</b>		
As at beginning/end of financial year	<b>1,000,000</b>	1,000,000
Issued and fully paid:		
<b>Ordinary shares of RM1.00 each</b>		
As at beginning/end of financial year	<b>523,424</b>	523,424

## 17. RESERVES

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

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

Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax credits under Section 108 of the Income Tax Act, 1967 to pay dividends out of its entire retained profits as at 31 December 2007.

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 17. RESERVES (CONTINUED)

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 will be 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.

## 18. INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

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

	2007 RM'000	2006 RM'000
Income derived from investment of:		
(i) General investment deposit	100,134	63,454
(ii) Other deposits	272,309	267,188
	<b>372,443</b>	330,642
(i) Income derived from investment of general investment deposits		
<b>Finance income and hibah:</b>		
Financing and advances	67,040	39,418
Securities held for trading	4,085	2,631
Securities available-for-sale	1,160	680
Securities held-to-maturity	3,198	1,716
Money at call and deposit with financial institutions	14,164	13,254
	<b>89,647</b>	57,699
Amortisation of premium less accretion of discount	5,805	4,043
Total finance income and hibah	<b>95,452</b>	61,742
Other operating income (note a to c)	4,682	1,712
	<b>100,134</b>	63,454
a) Fee income:		
Commission	851	368
Guarantee fees	404	417
	<b>1,255</b>	785
b) Net gain/(loss) from sale of:		
– Securities held for trading	3,489	(98)
– Securities available-for-sale	264	(166)
	<b>3,753</b>	(264)
c) Net unrealised (loss)/gain on revaluation of securities held for trading	(326)	1,191
Total other operating income	<b>4,682</b>	1,712

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

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

	2007 RM'000	2006 RM'000
(ii) Income derived from investment of other deposits		
<b>Finance income and hibah:</b>		
Financing and advances	182,311	165,979
Securities held for trading	11,110	11,076
Securities available-for-sale	3,153	2,863
Securities held-to-maturity	8,698	7,225
Money at call and deposit with financial institutions	38,517	55,809
	243,789	242,952
Amortisation of premium less accretion of discount	15,787	17,024
Total finance income and hibah	259,576	259,976
Other operating income (note a to c)	12,733	7,212
	272,309	267,188
a) Fee income:		
Commission	2,312	1,548
Guarantee fees	1,100	1,757
	3,412	3,305
b) Net gain/(loss) from sale of:		
– Securities held for trading	9,490	(412)
– Securities available-for-sale	717	(698)
	10,207	(1,110)
c) Net unrealised (loss)/ gain on revaluation of securities held for trading	(886)	5,017
Total other operating income	12,733	7,212

## 19. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	2007 RM'000	2006 RM'000
<b>Finance income and hibah:</b>		
Financing and advances	19,905	17,436
Securities held for trading	1,213	1,164
Securities available-for-sale	344	301
Securities held-to-maturity	950	759
Money at call and deposit with financial institutions	4,205	5,863
	26,617	25,523
Amortisation of premium less accretion of discount	1,724	1,788
Total finance income and hibah	28,341	27,311
Other operating income (note a to c)	78,682	60,948
	107,023	88,259

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 19. INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS (CONTINUED)

	2007 RM'000	2006 RM'000
a) Fee income:		
Commission	2,142	3,164
Service charges and fees	11,185	29,972
Guarantee and underwriting fees	556	967
Placement fees	63,725	25,936
Other fee income	56	498
	<b>77,664</b>	60,537
b) Net gain/(loss) from sale of:		
– Securities held for trading	1,037	(43)
– Securities available-for-sale	78	(73)
	<b>1,115</b>	(116)
c) Net unrealised (loss)/gain on revaluation of securities held for trading	(97)	527
Total other operating income	<b>78,682</b>	60,948

## 20. ALLOWANCES FOR LOSSES ON FINANCING AND ADVANCES

	2007 RM'000	2006 RM'000
Allowance for losses on financing and advances		
Specific allowance:		
– Made during the financial year	61,089	22,086
– Written back during the financial year	(5,682)	(3,142)
General allowance:		
– Made during the financial year	5,889	3,354
Bad financing recovered	(4,185)	(121)
	<b>57,111</b>	22,177

## 21. INCOME ATTRIBUTABLE TO DEPOSITORS

	2007 RM'000	2006 RM'000
Deposits from customers:		
– Mudharabah funds	133,657	129,446
– Non-mudharabah funds	20,631	18,460
Deposits and placements of banks and other financial institutions:		
– Mudharabah funds	3,388	14,464
– Non-mudharabah funds	4,116	18,869
	<b>161,792</b>	181,239

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 22. PERSONNEL EXPENSES

	2007 RM'000	2006 RM'000
<b>Personnel cost</b>		
– Salaries, allowances and bonuses	25,969	23,767
– Contributions to Employee Provident Fund	4,222	3,072
– Other staff related cost	3,588	1,581
	<b>33,779</b>	<b>28,420</b>

The number of employees as at the end of the financial year is 350 (31.12.2006: 256)

## 23. OTHER OVERHEADS AND EXPENDITURES

	2007 RM'000	2006 RM'000
<b>Establishment cost</b>		
– Depreciation	1,002	782
– Rental of premises	1,843	1,192
– Rental equipment	182	148
– Deposit insurance	673	303
– Other business related insurance	714	250
– Water and electricity	106	278
– Repair and maintenance	254	146
– Information technology expenses	1,026	1,176
– Security and escort expenses	1,526	1,184
– Others	112	65
	<b>7,438</b>	<b>5,524</b>
<b>Marketing expenses</b>		
– Advertisement and publicity	3,917	1,495
– Travelling expenses	1,335	637
– Motor vehicle expenses	539	475
– Others	2,770	186
	<b>8,561</b>	<b>2,793</b>
<b>Administration and general expenses</b>		
– Cost sharing fees	53,852	50,982
– Auditors' remuneration		
– PwC (i)	151	116
– Other professional fees	633	677
– Printing, stationery and postages	2,174	1,605
– Telecommunication expenses	1,002	884
– Others	1,770	1,159
	<b>59,582</b>	<b>55,423</b>
	<b>75,581</b>	<b>63,740</b>

Included in the administration and general expenses of the Bank are director's remuneration totalling RM709,000 (2006: RM720,000) as disclosed in Note 24.

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 23. OTHER OVERHEADS AND EXPENDITURES (CONTINUED)

	2007 RM'000	2006 RM'000
(i) PricewaterhouseCoopers ('PwC')		
Statutory audit	108	105
Fee for other services		
– Limited reviews	34	–
– Other services	9	11
	151	116

## 24. REMUNERATION OF MANAGING DIRECTOR ('MD') AND DIRECTORS

	2007 RM'000	2006 RM'000
Non-Executive Directors		
– Fees	303	352
– Others	406	368
	709	720
Current Managing Director ('MD') and Chief Executive Officer ('CEO') <sup>(1)</sup>		
– Salary and other remuneration	363	–
– Pension cost	58	–
Previous CEO <sup>(2)</sup>		
– Salary and other remuneration	1,000	1,829
– Benefit-in-kind	43	76
Shariah Committee members' fees	210	148
	2,383	2,773

<sup>(1)</sup> The current CEO was appointed on 6 August 2007

<sup>(2)</sup> The previous CEO ceased to be the Bank's CEO on 28 February 2007 upon expiry of contract of service

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

### MD

Puan Jamelah Jamaluddin

(Appointed with effect from 8 October 2007)

### Non-Executive Directors

YBhg Dato Abdullah Mat Noh

YBhg Dato' Mohd Salleh Haji Harun

YBhg Dato' Othman Jusoh

Mr Michael J Barrett

YBhg Datuk Haji Faisal @ Ibrahim Siraj

Encik Ismael Fariz Ali

YBhg Dato' Vaseehar Hassan Abdul Razack

Prof Balachandran A. Shanmugam

(Appointed with effect from 3 December 2007)

(Appointed with effect from 3 December 2007)

(Chairman)(Resigned with effect from 31 December 2007)

(Ceased as director with effect from 22 July 2007)

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 24. REMUNERATION OF MANAGING DIRECTOR ('MD') AND DIRECTORS (CONTINUED)

The number of Directors of the Bank whose total remuneration during the financial year fell within the following bands is analysed below:

Non-Executive RM	2007 Number of Directors	2006 Number of Directors
0 – 50,000	2	1
50,000 – 100,000	5	5

## 25. TAXATION

	2007 RM'000	2006 RM'000
Malaysian income tax:		
– Current tax	45,255	35,472
Deferred taxation (Note 9)	(1,387)	1,094
	<b>43,868</b>	36,566
<b>Current tax</b>		
Current year	43,664	35,472
Under provision in respect of prior years	1,591	–
	<b>45,255</b>	35,472
<b>Deferred tax</b>		
Origination and reversal of temporary differences	737	(538)
Change in tax rate	837	1,632
Benefit from previously unrecognised temporary difference	(2,961)	–
	<b>43,868</b>	36,566

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

	2007 %	2006 %
Malaysian tax rate of 27% (2006: 28%)	27.0	28.0
<b>Tax effect of:</b>		
Expenses not deductible for tax purposes	0.2	0.7
Effect of change in tax rate from 26% to 25% (2006: 28% to 26%)	0.5	1.3
Under provision in respect of prior years	1.0	–
Temporary difference not recognised in prior years	(1.6)	–
Average effective tax rate	<b>27.1</b>	30.0

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 26. EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary 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.

	2007	2006
Earnings per ordinary share are calculated as follows:		
Basic:		
Net profit for the financial year (RM'000)	118,278	86,363
Weighted average number of ordinary shares in issue ('000)	523,424	523,424
Basic earnings per share (sen)	22.60	16.50

## 27. DIVIDENDS OF ORDINARY SHARES

Dividend declared and proposed for financial year ended 31 December 2007 are as follows:

	2007		2006	
	Gross dividend per share sen	Amount of dividends, net of tax RM'000	Gross dividend per share sen	Amount of dividends, net of tax RM'000
Ordinary Shares				
Interim dividend	8.00	30,568	–	–

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

Dividend recognised as distribution to ordinary equity holder of the Bank:

	2007		2006	
	Gross dividend per share sen	Amount of dividends, net of tax RM'000	Gross dividend per share sen	Amount of dividends, net of tax RM'000
Ordinary Shares				
Interim dividend	8.00	30,568	–	–

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 28. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS

### (a) Related parties and relationships

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

Related parties	Relationship
EPF	Ultimate holding body (effective 3 July 2007)*
RHB Capital Berhad	Immediate holding company
Subsidiaries of EPF as disclosed in its financial statements	Subsidiary companies of the ultimate holding body
Subsidiaries and associates of RHB Capital Berhad as disclosed in its financial statements	Subsidiary and associated companies of the holding company
Subsidiaries and associates of RHB Bank Berhad as disclosed in its financial statements	Subsidiary and associated companies of the immediate holding company
Key management personnel	The key management personnel of the Group and the Bank consists of: <ul style="list-style-type: none"> <li>– All Directors of the Bank and RHB Capital Berhad</li> <li>– RHB Capital Berhad Central Management Committee members</li> <li>– Key management personnel of EPF who are in charge of the RHB Capital Group</li> </ul>
Related parties of key management personnel (deemed as related to the Bank)	(i) Close family members and dependents of key management 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

\* Rashid Hussain Berhad ceased to be the a parent of the penultimate holding company effective 3 July 2007

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

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

Other related companies comprise the other companies in the EPF Group and RHB Capital Berhad Group.

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 28. SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

	Holding company RM'000	Key Management Personnel RM'000	Other related companies RM'000
<b>2007</b>			
<b>Income</b>			
Commission	–	–	(294)
<b>Expenditure</b>			
Dividends on deposits (Hibah)	–	12	–
Rental of premises	–	–	151
Reimbursement of operating expenses to holding company	54,366	–	–
Dividends paid	30,568	–	–
	<b>84,934</b>	<b>12</b>	<b>(143)</b>
<b>Amount due to</b>			
Savings deposits	–	180	–
Current account and investment deposits	–	357	5,054
Deposits and placements of banks and other financial institutions	–	–	–
Other liabilities	344,312	–	82
	<b>344,312</b>	<b>537</b>	<b>5,136</b>
<b>2006</b>			
<b>Expenditure</b>			
Dividends on deposits (Hibah)	–	1	–
Profit on deposits and placements of banks and other financial institutions	–	–	–
Rental of premises	–	–	148
Reimbursement of operating expenses to holding company	50,967	–	–
Other	–	–	84
	<b>50,967</b>	<b>1</b>	<b>232</b>
<b>Amount due to</b>			
Savings deposits	–	57	–
Current account and investment deposits	–	245	5,322
Deposits and placements of banks and other financial institutions	–	–	2,006
Other liabilities	132,551	–	59
	<b>132,551</b>	<b>302</b>	<b>7,387</b>

## notes to the financial statements

for the financial year ended 31 December 2007 (continued)

### 29. COMMITMENTS AND CONTINGENCIES

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

Risk weighted exposures of the Bank are as follows:

	Principal Amount RM'000	Credit Equivalent Amount *	Risk Weighted Amount RM'000
<b>2007</b>			
Transaction-related contingent items	101,306	50,653	46,332
Short-term self-liquidating trade-related contingencies	131,568	26,314	26,138
Obligations under underwriting agreements	215,000	107,500	107,500
Irrevocable commitments to extend credit:			
– maturity more than one year	255,926	127,963	112,811
– maturity less than one year	1,355,644	–	–
Miscellaneous	18,141	–	–
<b>Total</b>	<b>2,077,585</b>	<b>312,430</b>	<b>292,781</b>
<b>2006</b>			
Transaction-related contingent items	94,141	47,071	46,259
Short-term self-liquidating trade-related contingencies	205,560	41,112	40,790
Obligations under underwriting agreements	50,000	25,000	25,000
Housing financing sold to Cagamas with recourse	41,064	41,064	20,532
Irrevocable commitments to extend credit:			
– maturity more than one year	335,794	167,897	147,109
– maturity less than one year	1,792,447	–	–
Miscellaneous	17,544	–	–
<b>Total</b>	<b>2,536,550</b>	<b>322,144</b>	<b>279,690</b>

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

### 30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

#### OVERVIEW

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

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

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

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

## notes to the financial statements

for the financial year ended 31 December 2007 (continued)

### 30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Overriding Objectives of the Group RMC:

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

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

#### Major Areas of Risk

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

- (i) *Market risk* – the risk of potential loss resulting from adverse movements in the level of market prices, profit rate and foreign currency exchange.
- (ii) *Liquidity risk* – the risk of the Bank being unable to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost.
- (iii) *Credit risk* – the risk of potential loss due to changes in the quality of counter-parties and the market price for credit risk (collateral).
- (iv) *Operational risk* – the risk of loss resulting from inadequate or failed internal processes, people, systems or external events as well as the risk of breaches of applicable laws and regulatory requirements.

To counter the following business risks the Bank faces, it has put in place the following:

#### (a) 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 arising from these, and reports independently to the Group RMC.

Advanced risk measurement techniques and stress testing regimes are applied to RHB Islamic Bank's portfolio on a regular basis.

## notes to the financial statements

for the financial year ended 31 December 2007 (continued)

### 30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### (a) Market risk (continued)

For Currency Risk:

- Approved position limits are applied for each currency and there is also an overall total limit. Trading loss limits are imposed on each trading desk and on each individual dealer. The levels of these exposures (including off-balance sheet items), by currency and overall total for both intra-day and overnight positions, are monitored daily for compliance with the approved limits. These limits are reviewed regularly and are in line with strategies set by the Asset and Liability Committee ('ALCO').
- Foreign and overseas investments, which are funded by purchases with resultant open foreign exchange positions, are monitored and appropriate hedging strategies are undertaken in line with market trends.

For Profit Rate Risk:

- The 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.

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

#### PROFIT RATE RISK

2007	Non-trading book						Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000			
<b>Assets</b>									
Cash and short term funds	1,933,010	–	–	–	–	1,451	–	1,934,461	3.57
Deposits and placements with financial institutions	300,000	–	–	–	–	–	–	300,000	3.54
Securities held for trading	–	–	–	–	–	–	362,892	362,892	3.84
Securities available-for-sale	–	–	105,946	23,239	15,407	575	–	145,167	3.57
Securities held-to-maturity	–	–	291,680	438,492	118,565	–	–	848,737	4.25
Financing and advances									
– performing	470,851	465,886	704,696	982,180	1,784,650	–	–	4,408,263	5.78
– non-performing	–	–	–	–	–	106,549*	–	106,549	–
Other assets	–	–	–	–	–	55,752	–	55,752	–
Deferred tax assets	–	–	–	–	–	22,956	–	22,956	–
Tax recoverable	–	–	–	–	–	2,096	–	2,096	–
Statutory deposits	–	–	–	–	–	187,929	–	187,929	–
Property, plant and equipment	–	–	–	–	–	12,371	–	12,371	–
Intangible asset	–	–	–	–	–	17,263	–	17,263	–
<b>Total assets</b>	<b>2,703,861</b>	<b>465,886</b>	<b>1,102,322</b>	<b>1,443,911</b>	<b>1,918,622</b>	<b>406,942</b>	<b>362,892</b>	<b>8,404,436</b>	

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

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### PROFIT RATE RISK (CONTINUED)

2007	Non-trading book						Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000			
<b>Liabilities</b>									
Deposits from customers	3,313,239	1,042,045	1,177,908	65,784	–	1,250,710	–	6,849,686	2.38
Deposits and placements of banks and other financial institutions	378,041	–	–	–	–	–	–	378,041	3.84
Bills and acceptances payable	–	–	–	–	–	10,102	–	10,102	3.75
Other liabilities	–	–	–	–	–	427,173	–	427,173	–
<b>Total liabilities</b>	<b>3,691,280</b>	<b>1,042,045</b>	<b>1,177,908</b>	<b>65,784</b>	<b>–</b>	<b>1,687,985</b>	<b>–</b>	<b>7,665,002</b>	<b>–</b>
Total shareholder's equity	–	–	–	–	–	739,434	–	739,434	–
	<b>3,691,280</b>	<b>1,042,045</b>	<b>1,177,908</b>	<b>65,784</b>	<b>–</b>	<b>2,427,419</b>	<b>–</b>	<b>8,404,436</b>	<b>–</b>

**Total profit-sensitivity gap** (987,419) (576,159) (75,586) 1,378,127 1,918,622

2006	Non-trading book						Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000			
<b>Assets</b>									
Cash and short term funds	1,293,000	–	–	–	–	21,283	–	1,314,283	3.49
Deposits and placements with financial institutions	–	1,220,000	–	–	–	–	–	1,220,000	3.61
Securities held for trading	–	–	–	–	–	–	314,620	314,620	3.94
Securities available-for-sale	3,743	–	–	14,463	–	575	–	18,781	3.59
Securities held-to-maturity	–	24,832	20,055	702,411	62,310	–	–	809,608	3.97
Financing and advances									
– performing	418,003	436,596	658,305	743,898	1,774,866	–	–	4,031,668	5.73
– non-performing	–	–	–	–	–	115,905*	–	115,905	–
Other assets	–	–	–	–	–	68,139	–	68,139	–
Deferred taxation assets	–	–	–	–	–	21,587	–	21,587	–
Statutory deposits	–	–	–	–	–	170,429	–	170,429	–
Property, plant and equipment	–	–	–	–	–	7,245	–	7,245	–
<b>Total assets</b>	<b>1,714,746</b>	<b>1,681,428</b>	<b>678,360</b>	<b>1,460,772</b>	<b>1,837,176</b>	<b>405,163</b>	<b>314,620</b>	<b>8,092,265</b>	

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

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### PROFIT RATE RISK (CONTINUED)

2006	Non-trading book						Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000			
Liabilities									
Deposits from customers	3,409,145	1,063,863	870,685	97,034	200	1,239,497	–	6,680,424	2.40
Deposits and placements of banks and other financial institutions	240,134	79,484	78,370	46,935	–	–	–	444,923	3.71
Bills and acceptances payable	–	–	–	–	–	16,542	–	16,542	3.63
Taxation and zakat	–	–	–	–	–	17,984	–	17,984	–
Other liabilities	–	–	–	–	–	280,718	–	280,718	–
Total liabilities	3,649,279	1,143,347	949,055	143,969	200	1,554,741	–	7,440,591	–
Total shareholder's equity	–	–	–	–	–	651,674	–	651,674	–
	3,649,279	1,143,347	949,055	143,969	200	2,206,415	–	8,092,265	–
Total profit-sensitivity gap	(1,934,533)	538,081	(270,695)	1,316,803	1,836,976				

### CREDIT MANAGEMENT RISK

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

2007	Short term funds and deposits and placements with financial institutions RM'000	Securities held-for- trading RM'000	Securities available- for-sale RM'000	Securities held- to-maturity RM'000	Financing and advances # RM'000	Other financial assets* RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Agriculture	–	–	–	–	286,682	–	286,682	165,409
Mining and quarrying	–	–	–	–	976	–	976	192
Manufacturing	–	146,035	–	–	885,805	–	1,031,840	602,287
Electricity, gas and water	–	85,978	–	50,548	112,230	–	248,756	75,254
Construction	–	–	–	–	184,773	–	184,773	279,555
Real estate	–	–	–	–	46,606	–	46,606	613
Purchase of landed property	–	–	–	–	1,910,759	–	1,910,759	73,010
General commerce	–	–	–	–	402,521	–	402,521	387,262
Transport, storage and communication	–	42,586	–	132,244	118,242	–	293,072	35,698
Finance, insurance and business service	–	5,111	20,389	16,460	427,106	–	89,066	357,196
Government and government agencies	2,233,010	63,182	124,203	649,485	–	–	3,069,880	11,364
Others	–	–	–	–	222,060	–	222,060	89,745
	2,233,010	362,892	144,592	848,737	4,597,760	–	8,186,991	2,077,585
Assets not subject to credit risk	1,451	–	575	–	–	57,848	59,874	–
	2,234,461	362,892	145,167	848,737	4,597,760	57,848	8,246,865	2,077,585

# Excludes general allowance amounting to RM82,948,748

\* Excludes statutory deposit with BNM of RM187,928,732, deferred taxation assets of RM22,956,311, property, plant and equipment of RM12,370,391 and intangible assets of RM17,263,334.

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### CREDIT MANAGEMENT RISK (CONTINUED)

2006	Short term funds and deposits and placements with financial institutions RM'000	Securities held-for-trading RM'000	Securities available-for-sale RM'000	Securities held-to-maturity RM'000	Financing and advances # RM'000	Other financial assets* RM'000	On balance sheet total RM'000	Commitments and contingencies RM'000
Agriculture	—	—	—	—	361,036	—	361,036	174,815
Mining and quarrying	—	—	—	—	2,004	—	2,004	192
Manufacturing	—	120,403	—	—	624,028	—	744,431	1,035,746
Electricity, gas and water	—	40,844	—	—	127,896	—	168,740	182,943
Construction	—	—	—	119,538	179,419	—	298,957	168,544
Real estate	—	48,736	—	16,857	—	—	65,593	315
Purchase of landed property	—	—	—	—	1,577,796	—	1,577,796	158,519
General commerce	—	—	—	—	308,376	—	308,376	551,553
Transport, storage and communication	—	24,936	—	—	84,940	—	109,876	726
Finance, insurance and business service	2,513,000	4,973	—	—	711,751	—	3,229,724	111,145
Government and government agencies	—	74,728	18,781	673,213	134,917	—	901,639	79,015
Purchase of securities	—	—	—	—	—	—	—	—
Purchase of transport vehicles	—	—	—	—	—	—	—	—
Consumption credit	—	—	—	—	—	—	—	—
Others	—	—	—	—	112,469	—	112,469	73,037
	2,513,000	314,620	18,781	809,608	4,224,632	—	7,880,641	2,536,550
Assets not subject to credit risk	21,283	—	—	—	—	68,139	89,422	—
	2,534,283	314,620	18,781	809,608	4,224,632	68,139	7,970,063	2,536,550

# Excludes general allowance amounting to RM77,059,269

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

### OPERATIONAL RISK

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

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

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 branches 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 or minimise unexpected losses.

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

In addition, fair value information is not provided for non-financial instruments and financial instruments that are excluded from the scope of FRS 132 which requires fair value information to be disclosed. These include property, plant and equipment and intangibles.

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

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

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

2007	Carrying value RM'000	Estimated fair value RM'000
Financial assets		
Securities held-to-maturity	848,737	856,045
Financing and advances	4,514,812	4,365,123*
2006	Carrying value RM'000	Estimated fair value RM'000
Financial assets		
Securities held-to-maturity	809,608	817,815
Financing and advances	4,147,573	3,797,696*

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

## notes to the financial statements

for the financial year ended 31 December 2007 (continued)

### 31. 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) Securities held for trading, available-for-sale and held-to-maturity

The estimated fair value is generally based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been 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 balance sheet 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 specific allowance being the expected recoverable amount.

#### (iv) Other assets and liabilities

The carrying value less any estimated 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

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.

# notes to the financial statements

for the financial year ended 31 December 2007 (continued)

## 32. CAPITAL ADEQUACY

	2007 RM'000	2006 RM'000
<b>Tier I Capital</b>		
Paid-up ordinary share capital	523,424	523,424
Retained profits	92,494	63,923
Statutory reserve	123,062	63,923
	<b>738,980</b>	651,270
Less:		
Deferred tax assets	(22,956)	(21,587)
Total Tier I capital	<b>716,024</b>	629,683
<b>Tier II Capital</b>		
General allowance for bad and doubtful financing	82,948	77,059
Total Tier II capital	<b>82,948</b>	77,059
Total capital base	<b>798,972</b>	706,742
<b>Capital ratios</b>		
Inclusive of market risk:		
Core capital ratio (inclusive of market risk)	16.03%	15.84%
Risk-weighted capital ratio (inclusive of market risk)	17.89%	17.78%

	2007	
	Principal RM'000	Risk Weighted RM'000
The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:		
(i) Credit Risk		
0%	3,177,098	–
10%	50,284	5,028
20%	126,731	25,346
50%	1,411,313	705,656
100%	3,640,729	3,640,729
	<b>8,406,155</b>	4,376,759
(ii) Market Risk Capital Adequacy Framework #	–	89,414
	<b>8,406,155</b>	4,466,173

## notes to the financial statements

for the financial year ended 31 December 2007 (continued)

### 32. CAPITAL ADEQUACY (CONTINUED)

	2006	Risk
	Principal RM'000	Weighted RM'000
The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:		
(i) Credit Risk		
0%	3,364,968	–
10%	60,442	6,044
20%	230,397	46,079
50%	1,310,241	655,121
100%	3,216,935	3,216,935
	8,182,983	3,924,179
(ii) Market Risk Capital Adequacy Framework #	–	51,458
	8,182,983	3,975,637

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

### 33. SEGMENT INFORMATION

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

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

#### Primary reporting format – by business segment

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

#### Corporate banking

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

#### Commercial banking

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

#### Consumer banking

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

#### 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.



2006	Corporate Banking RM'000	Commercial Banking RM'000	Consumer Banking RM'000	Treasury & Money Market RM'000	Transaction Banking RM'000	Others*	Elimination RM'000	Total RM'000
						RM'000		
External revenue	101,450	26,440	89,690	134,283	10,312	34,549	–	396,724
Inter-segment revenue #	(40,175)	(10,220)	(16,036)	15,830	52,548	(1,947)	–	–
Total revenue	61,275	16,220	73,654	150,113	62,860	32,602	–	396,724
Depositors' payout	(10,907)	(1,677)	(13,812)	(127,892)	(26,951)	–	–	(181,239)
Net income	50,368	14,543	59,842	22,221	35,909	32,602	–	215,485
Operating overheads	(7,797)	(11,129)	(47,171)	(8,660)	(14,117)	(3,286)	–	(92,160)
Segmental results	42,571	3,414	12,671	13,561	21,792	29,316	–	123,325
Segmental results								123,325
Profit equalisation reserve								(1,563)
Profit before taxation and zakat								121,762
Taxation and zakat								(35,400)
Net profit for the financial period								86,362

## notes to the financial statements

for the financial year ended 31 December 2007 (continued)

### 33. SEGMENT INFORMATION (CONTINUED)

2006	Corporate Banking RM'000	Commercial Banking RM'000	Consumer Banking RM'000	Treasury & Money Market RM'000	Transaction Banking RM'000	Others*	Elimination RM'000	Total RM'000
Segment assets	1,823,392	670,004	1,624,046	3,738,588	2,304,622	116,304	(2,213,293)	8,063,663
Deferred taxation assets	—	—	—	—	—	—	—	21,587
Unallocated assets	—	—	—	—	—	—	—	7,015
<b>Total assets</b>	<b>1,823,392</b>	<b>670,004</b>	<b>1,624,046</b>	<b>3,738,588</b>	<b>2,304,622</b>	<b>116,304</b>	<b>(2,213,293)</b>	<b>8,092,265</b>
Segment liabilities	1,599,214	579,478	1,531,870	3,578,818	2,249,162	97,358	(2,213,293)	7,422,607
Taxation and zakat	—	—	—	—	—	—	—	17,984
	1,599,214	579,478	1,531,870	3,578,818	2,249,162	97,358	(2,213,293)	7,440,591
Other segment items								
Capital expenditure	145	217	695	203	187	—	—	1,447
Depreciation	79	117	375	109	102	—	—	782
Financing loss provision	5,413	8,977	7,687	—	—	100	—	22,177
Net accretion of discount	—	—	—	22,855	—	—	—	22,855

# Basis of pricing for inter-segment transfers:

Inter-segmental charges are computed on the profit bearing assets and liabilities of each business segment with rates applied based on the profit yield curve according to the term structure of maturity.

\* Others comprise of Corporate Finance and Automobile

### 34. DISCLOSURE OF SHARIAH ADVISORS

#### The Shariah Committee Members' Profiles

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

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

##### Dr. Ahmed Mohieldin Ahmed

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

## notes to the financial statements

for the financial year ended 31 December 2007 (continued)

### 34. DISCLOSURE OF SHARIAH ADVISORS (CONTINUED)

#### **Professor Dr. Joni Tamkin Borhan**

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

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

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

#### **Assistant Professor Dr. Abdulazeem Abozaid**

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

### 35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 27 February 2008.

# statement by directors

pursuant to Section 69(15) of the Companies Act, 1965

We, Datuk Haji Faisal @ Ibrahim Siraj and Jamelah Jamaluddin, 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 44 to 88 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2007 and of the results and cash flows of the Bank for the financial year ended on that date in accordance with the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

On behalf of the Board in accordance with a resolution of the Board of Directors.

**DATUK HAJI FAISAL @ IBRAHIM SIRAJ**  
CHAIRMAN

**JAMELAH JAMALUDDIN**  
MANAGING DIRECTOR

Kuala Lumpur  
28 February 2008

# statutory declaration

pursuant to Section 69(16) of the Companies Act, 1965

I, Haryadi Katmun @ Katmon, the officer primarily responsible for the financial management of RHB Islamic Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 44 to 88 are, in my opinion correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declaration Act, 1960.

**HARYADI KATMUN @ KATMON**

Subscribed and solemnly declared by the abovenamed Haryadi Katmun @ Katmon at Kuala Lumpur in Wilayah Persekutuan on 28 February 2008.

Before me:

COMMISSIONER FOR OATHS  
Kuala Lumpur

# report of the auditors

to the members of RHB Islamic Bank Berhad

We have audited the financial statements set out on pages 44 to 88. These financial statements are the responsibility of the Bank's directors. It is our responsibilities to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with the Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

In our opinion:

(a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965, Bank Negara Malaysia Guidelines and the MASB approved accounting standards in Malaysia for Entities Other Than Private Entities so as to give a true and fair view of:

- (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (ii) the state of affairs of the Bank as at 31 December 2007 and of the results and cash flows of the Bank for the financial year ended on that date;

and

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

## PRICEWATERHOUSECOOPERS

(No.AF:1146)

Chartered Accountants

## MOHAMMAD FAIZ BIN MOHAMMAD AZMI

(No.2025/03/08 (J))

Partner of the firm

Kuala Lumpur

28 February 2008

# RHB Islamic Bank branches

- |   |   |   |
|---|---|---|
| <p><b>1 Main Branch</b><br/>No. 19A-1-1 &amp; 19A-1-2<br/>Level 1, UOA Centre<br/>No. 19, Jalan Pinang<br/>50450 Kuala Lumpur<br/>Tel : (03) 2161 1599<br/>Fax : (03) 2161 0599</p> | <p><b>4 Kuala Terengganu Marketing Centre</b><br/>1st Floor<br/>59, Jalan Sultan Ismail<br/>20200 Kuala Terengganu<br/>Terengganu<br/>Tel : (09) 626 2627<br/>Fax : (09) 625 2527</p>                                   | <p><b>7 Kelana Jaya Marketing Centre</b><br/>A-G-03, Jalan SS 6/5A<br/>Dataran Glomac<br/>Pusat Bandar Kelana Jaya<br/>47301 Kelana Jaya<br/>Selangor<br/>Tel : (03) 7805 7500<br/>Fax : (03) 7805 7600</p> |
| <p><b>2 Regional Office East Malaysia</b><br/>Lot 363, Jalan Kulas<br/>93400 Kuching, Sarawak<br/>Tel : (082) 274 950<br/>Fax : (082) 234 803</p>                                   | <p><b>5 Jalan Masjid India Marketing Centre</b><br/>No. 137, Jalan Bonus<br/>Off Jalan Masjid India<br/>50100 Kuala Lumpur<br/>Tel : (03) 2693 6300<br/>Fax : (03) 2693 7300</p>  | <p><b>8 Jalan Satok Marketing Centre</b><br/>192-E &amp; 192-F<br/>Jalan Satok, 93400 Kuching<br/>Sarawak<br/>Tel : (082) 258 800<br/>Fax : (082) 243 900</p>   |
| <p><b>3 Kota Bharu Marketing Centre</b><br/>1185, Jalan Kebun Sultan<br/>15350 Kota Bharu<br/>Kelantan<br/>Tel : (09) 747 2525<br/>Fax : (09) 747 2526</p>                          | <p><b>6 Taman Indah Automobile Business Centre</b><br/>7 &amp; 9, 2nd Floor, Jalan SS2/1<br/>Off Jalan Balakong, Taman Indah<br/>Bt 11, 43200 Cheras<br/>Selangor<br/>Tel : (03) 9075 5959<br/>Fax : (03) 9075 3872</p> | <p><b>9 Jalan Gaya Marketing Centre</b><br/>Lot 104, Ground &amp; 1st Floor<br/>Jalan Gaya<br/>88000 Kota Kinabalu<br/>Sabah<br/>Tel : (088) 266 600<br/>Fax : (088) 265 500</p>                            |