

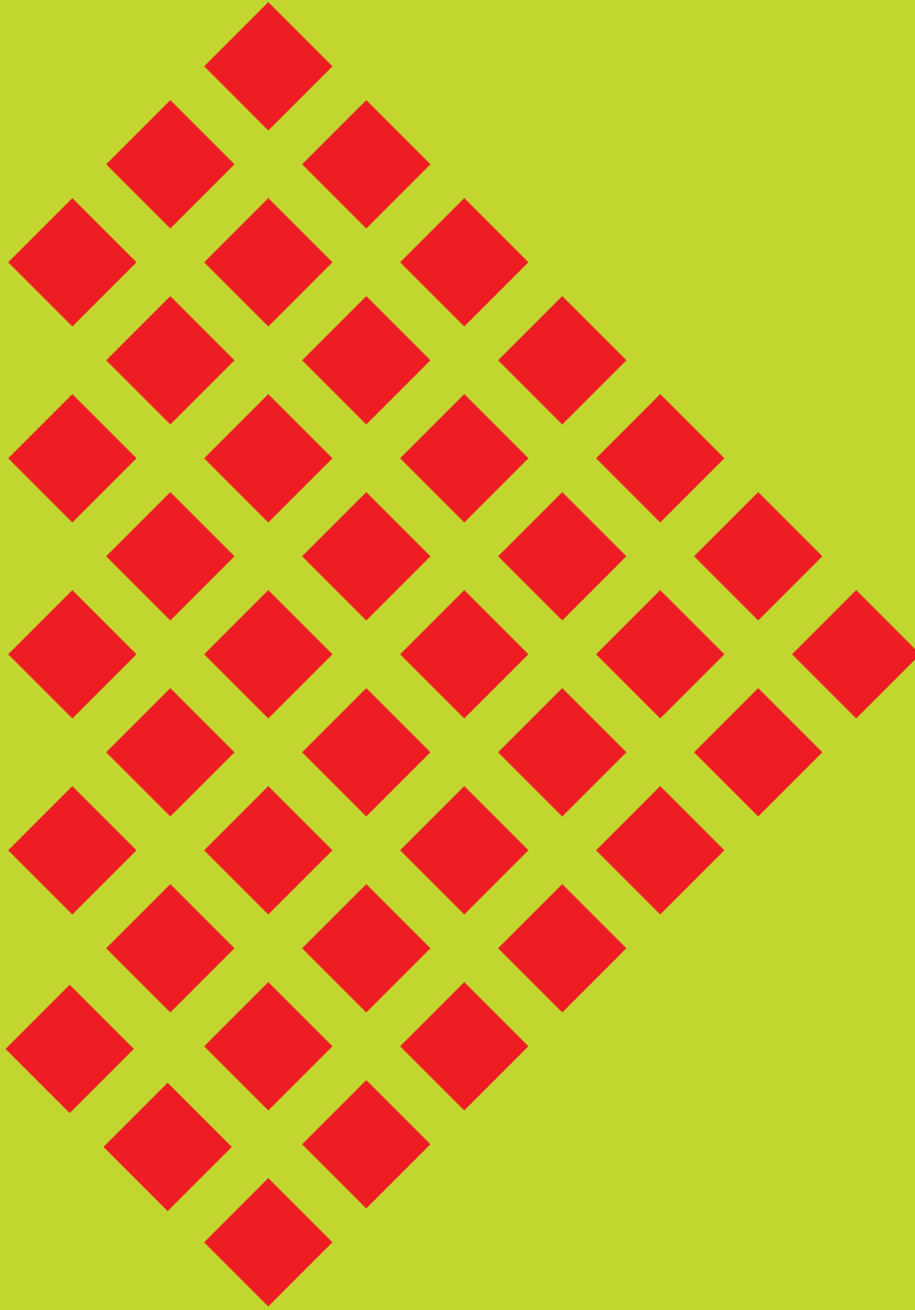
RHB ISLAMIC BANK BERHAD

Level 11, Menara Yayasan Tun Razak
200, Jalan Bukit Bintang
55100 Kuala Lumpur
Tel : 603-2171 5000
Fax : 603-2171 5001

rhb.com.my



RHB ISLAMIC BANK BERHAD
ANNUAL REPORT **2008**



our core values



innovation

- “Innovation is the ability to see change as an opportunity – not a threat”
- Keep an open mind
- Ways to enhance the lives of our customers and those around us
- Apply “Start, Stop, Continue” in all we do



quality service

- “Service which exceeds the service expectation of our customers”
- Efficient, reliable and consistent
- Take ownership and accountability of what we do
- Have passion, commitment and drive to serve



teamwork

- “Serving one another to achieve a common objective”
- Lend a helping hand
- “One RHB team with one RHB face”
- Working together with each other



customer focus

- “Our Customers are No1: We shall understand their needs, build a strong and lasting relationship with them, and take all efforts to exceed their expectations”
- Provide best “Customer Service Experience”
- Simplified processes
- Walk that extra mile



respect

- “Treat others the way you would want to be treated”
- Be honest and sincere
- Take responsibility for your actions
- Express empathy and selflessness



The RHB Banking Group is **moving forward with confidence**

on the back of a successful transformation programme that has helped enhance the Group's standing and reputation, both locally and regionally. With our building blocks well in place, we are well on track to be one of the top three financial services providers in ASEAN by 2020.

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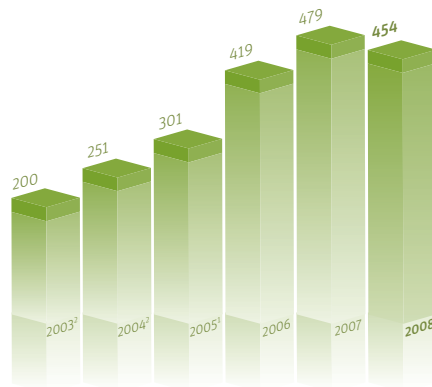
financial highlights

	2008 RM'000	2007 RM'000	2006 RM'000	2005 ¹ RM'000	2004 ² RM'000	2003 ² RM'000
RESULTS						
Operating revenue	454,203	479,466	418,901	300,982	250,685	200,269
Net income	239,138	271,506	213,922	142,544	92,657	68,670
Profit before taxation	114,421	162,146	121,762	72,804	44,525	33,579
BALANCE SHEET						
Shareholders' equity	843,396	739,434	651,675	565,154	503,279	367,853
Total assets	9,369,580	8,404,436	8,092,265	7,623,666	6,213,078	6,000,921
Financing and advances	5,351,744	4,514,812	4,147,573	3,400,411	3,754,579	2,793,342
Total deposits	8,229,041	7,227,727	7,125,347	6,605,894	4,961,238	5,212,963
RATIOS						
Return on average equity (%)	14.46	23.31	20.01	13.62	8.85	9.13
Return on average assets (%)	1.27	1.97	1.55	1.05	0.72	0.56
Risk Weighted Capital Ratio (%)	13.54	17.89	17.78	18.73	14.20	12.40
Core Capital Ratio (%)	12.07	16.03	15.84	16.49	12.20	10.80

1. Islamic Banking window up to 15 March 2005 and RHB Islamic Bank thereafter.
2. Islamic Banking window.
3. The capital adequacy ratios have incorporated operational risk pursuant to BNM's guideline on Capital Adequacy Framework for Islamic Banks ('CAFIB') under Basel II requirement, which is effective from 31 January 2008.

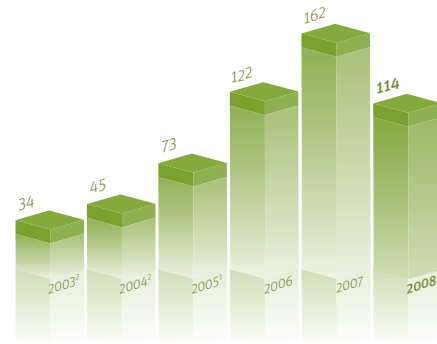
OPERATING REVENUE

RM Million



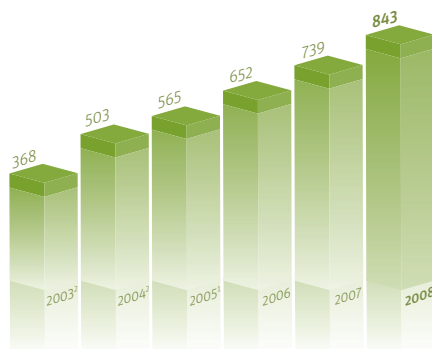
PROFIT BEFORE TAXATION

RM Million



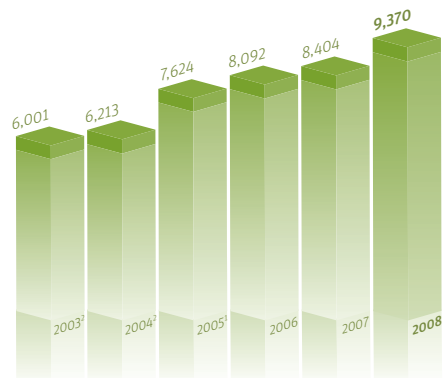
SHAREHOLDER'S EQUITY

RM Million



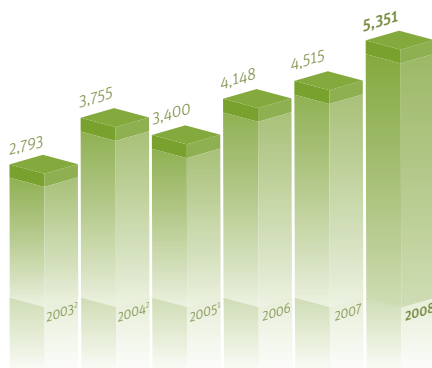
TOTAL ASSETS

RM Million



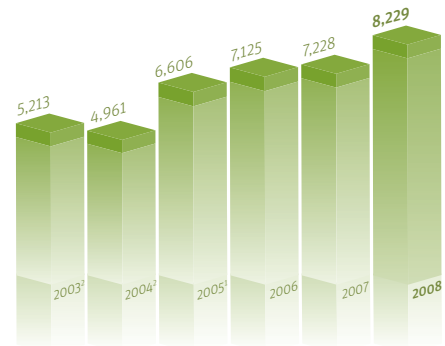
FINANCING AND ADVANCES

RM Million



TOTAL DEPOSITS

RM Million



corporate information

BOARD OF DIRECTORS

Datuk Haji Faisal Siraj
Independent Non-Executive
Chairman

SECRETARY

Azman Shah Md Yaman

BOARD COMMITTEES

Risk Management Committee[^]

Dato' Mohd Salleh Hj Harun
Chairman

Dato Abdullah Mat Noh

Datuk Haji Faisal Siraj

Group Audit Committee^{*}

Ong Seng Pheow
Chairman

Dato' Mohd Salleh Hj Harun

Dato' Othman Jusoh

Patrick Chin Yoke Chung

Datuk Tan Kim Leong

Group Credit Committee^{*} (formerly known as Central Loans Committee)

Dato Abdullah Mat Noh
Chairman

Johari Abdul Muid

Dato' Mohamed Khadar Merican

Haji Khairuddin Ahmad

Group Risk Management Committee[#]

Dato' Mohd Salleh Hj Harun
Chairman

Datin Khamarzan Ahmed Meah

Datuk Tan Kim Leong

Haji Khairuddin Ahmad

Patrick Chin Yoke Chung

Group Nominating Committee[#]

Datuk Haji Faisal Siraj
Chairman

Datuk Azlan Zainol

Datuk Tan Kim Leong

Johari Abdul Muid

Ismael Fariz Ali

Group Remuneration and Human Resource Committee[#]

Datuk Tan Kim Leong
Chairman

Datuk Azlan Zainol

Datuk Haji Faisal Siraj

Johari Abdul Muid

Ismael Fariz Ali

Dato' Mohd Salleh Hj Harun

Senior Independent Non-Executive Director

Dato' Abdullah Mat Noh

Independent Non-Executive Director

Ismael Fariz Ali

Independent Non-Executive Director

Johari Abdul Muid

Non-Independent Non-Executive Director

Charles Lew Foon Keong

Independent Non-Executive Director

Jamelah Jamaluddin

Managing Director

SENIOR MANAGEMENT

Michael Joseph Barrett
Group Managing Director

Dato' Tajuddin Atan
Managing Director, RHB Bank Berhad
(effective 1 May 2009)

Norazzah Sulaiman
Chief Operating Officer, RHB Capital Berhad

Kellee Kam Chee Khiong
Chief Financial Officer, RHB Capital Berhad

Chay Wai Leong
Head, Corporate & Investment Banking

Jamelah Jamaluddin
Head, Islamic Banking

Renzo Christopher Viegas
Head, Retail Banking

Michael Lim Kheng Boon
Chief Operating Officer, RHB Banking Group

Koh Heng Kong
Head, Insurance

Sharifatul Hanizah Said Ali
Head, Investment Management

Nik Hasniza Nik Ibrahim
Head, Group Human Resource

REGISTERED OFFICE

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

BUSINESS ADDRESS

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

Or

P.O. Box No. 10145
50907 Kuala Lumpur
Tel : (603) 2171 5000
Fax : (603) 2171 5001
Swift : RHBAMYKL
Call Centres: (603) 9206 8118 /
(6082) 276 118

AUDITORS

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

[^] The Committee resides at RHB Islamic Bank Berhad. BNM requires a dedicated Risk Management Committee to deal with risks and intricacies associated with Islamic finance.

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

[#] The Committee resides at RHB Capital Berhad and is shared with the relevant subsidiaries of the Group.

profile of the board of directors

DATUK HAJI FAISAL SIRAJ

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

Datuk Haji Faisal Siraj (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. 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") 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.

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

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

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. He also serves as a Member of Risk Management Committee of RHB Islamic Bank, the Chairman of the Group Nominating Committee and a Member of Group Remuneration and Human Resource Committee.

DATO ABDULLAH MAT NOH

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

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

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

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. Dato Abdullah was re-designated as Independent Non-Executive Director on 6 September 2007 after Utama Banking Group Berhad ceased to be a substantial shareholder of Rashid Hussain Berhad on 22

May 2007. Dato Abdullah also serves as the Chairman of the Group Credit Committee (formerly known as Central Loans Committee) and a Member of the Risk Management Committee of RHB Islamic Bank.

DATO' MOHD SALLEH HJ HARUN

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

Dato' Mohd Salleh Hj Harun (Dato' Salleh) has 34 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 a Member of the Malaysian Institute of Certified Public Accountants.

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

Dato' 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 of RHB Islamic Bank, the Chairman of the Group Risk Management Committee and a Member of the Group Audit Committee.

ISMAEL FARIZ ALI

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

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, privatisation, mergers and acquisitions, investment advisory and valuations, project finance, restructuring, incorporations and overseas investments. His last held position in AMMB was General Manager, Project Advisory.

He holds a Bachelor of Arts (Economics & Business Administration) from Knox College, Galesburg, Illinois, and Master in Business Administration in Finance from University of Iowa, Iowa City, Iowa, United States of America.

Encik Fariz's current directorships in public companies include Pharmaniaga Berhad, Axiata Group Berhad (formerly known as TM International Berhad) and RHB Bank (L) Ltd (Chairman).

Encik Fariz was appointed as a Director of RHB Islamic Bank on 3 December 2007. He also serves as a Member of the Group Remuneration and Human Resource Committee and Group Nominating Committee.

JOHARI ABDUL MUID

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

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 Deputy Chief Executive Officer 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 (In Members' Voluntary Liquidation), RHB Capital Berhad, RHB Bank Berhad and Iskandar Investment Berhad (formerly known as South Johor Investment Corporation 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. He also serves as a Member of the Group Remuneration and Human Resource Committee, Group Nominating Committee and Group Credit Committee (formerly known as Central Loans Committee).

CHARLES LEW FOON KEONG

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

Charles Lew Foon Keong (Mr Lew) has more than 25 years of investment banking experience. He started his career in 1983 in London with Wardley James Capel (then the merchant banking and stockbroking operations of the Hong Kong Bank Group) and subsequently worked for British merchant bank, Robert Fleming prior to joining Credit Commercial de France in 1989. In 1990, he returned to Asia to join Hoare Govett Asia in Singapore,

where he was responsible for the regional corporate finance business. In 1997, following the sale of Hoare Govett Asia to ABN AMRO Bank, Mr Lew was appointed as the Managing Director of ABN AMRO's investment banking operations in Singapore. In late 1999, Mr Lew founded Equator Capital Pte Ltd, an investment management and advisory company primarily active in trading of US equities options and managed futures. He has also participated in a number of private equity and pre-Initial Public Offerings (IPOs) investments in the region. Over the years, he has been involved in a wide range of investment banking work, including global IPOs, equities placements, corporate takeovers and mergers, debt/equity restructuring and venture capital financing.

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

Mr Lew's other directorship in public company includes RHB Investment Bank Berhad.

Mr Lew was appointed as an Independent Non-Executive Director of RHB Islamic Bank Berhad on 14 October 2008.

JAMELAH JAMALUDDIN

(52 years of age – Malaysian)
Managing Director

Jamelah Jamaluddin (Puan Jamelah) is currently the Managing Director of RHB Islamic Bank Berhad. She has about 21 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 and Division Director of Investment Banking Group of Macquarie Bank.

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 15 April 2009



RHB CAPITAL BERHAD

Commercial Banking Group

RHB Bank Berhad

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

Investment Banking Group

RHB Investment Bank Berhad

- ◆ RHB Investment 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
- ◆ Vietnam Securities Corporation (*Vietnam*) (49%)

Others

RHB Insurance Berhad (79.5%)

- ◆ RHB Equities Sdn Bhd ⁽¹⁾
- ◆ KYB Sdn Bhd
- ◆ RHB Capital (Jersey) Limited (*Jersey Island*)
- ◆ Rashid Hussain Securities (Philippines), Inc. (*Philippines*) ⁽²⁾
 - ◆ PT Rashid Hussain Securities (*Indonesia*) (85%) ⁽³⁾
- ◆ RHB Hartanah Sdn Bhd
- ◆ Positive Properties Sdn Bhd (50%)
- ◆ Straits Asset Holdings Sdn Bhd
- ◆ SSSB Services (Melaka) Sdn Bhd
 - ◆ SFSB Services (Melaka) Sdn Bhd
- ◆ RHBF Sdn Bhd
 - ◆ KYF Sdn Bhd

Notes:

The subsidiary companies are wholly-owned unless otherwise stated.

Dormant company

Associate company

Jointly Controlled Entity

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

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

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

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. 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

(Retired on 31 March 2009)

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.

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

(Retired on 31 March 2009)

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.

ASSISTANT PROFESSOR DR. AZNAN HASAN ("DR. AZNAN")

(Appointed on 1 April 2009)

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



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 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 2008.

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 2008 that we have reviewed are in compliance with the Shariah (Islamic Law) rules and principles;
- b) all investments that have been disclosed to us by the Bank conform to the basis that had been approved by us in accordance with Shariah rules and principles;
- c) the contracts and legal documents of the products used by the Bank that we reviewed are in compliance with the Shariah rules and principles;
- d) the products proposals including concept used by the Bank which have been reviewed and advised by us are in compliance with the Shariah rules and principles; and
- e) The Bank is not required to pay Zakat. This should be paid by shareholders on their shareholding.

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

Wassalamu Alaikum Wa Rahmatullahi Wa Barakatuh

PROF. DR. HAJI ABDUL SAMAT MUSA
Chairman of the Committee

PROF. DR. JONI TAMKIN BORHAN
Member of the Committee

DR. ABDULAZEEM ABOZAID
Member of the Committee

Kuala Lumpur
11 March 2009

statement on corporate governance

The Board of Directors (“Board”) of RHB Islamic Bank Berhad (“RHB Islamic Bank”) believes that good corporate governance is the foundation of a successful organization. Therefore, the Board continuously strives to ensure that best practices are adopted in establishing accountability and integrity of the Board and the Management. The corporate governance structure of RHB Islamic Bank is principally based on the Malaysian Code on Corporate Governance (“the Code”) as well as the Guidelines on Corporate Governance for Licensed Islamic Banks (“Revised BNM/GP1-i”) issued by Bank Negara Malaysia (“BNM”).

In driving the objectives, the Board takes cognizance that by advocating good corporate governance and upholding ethical standards, RHB Islamic Bank could maintain its competitive advantage which is crucial for the long-term success of RHB Islamic Bank. In addition thereto, realizing that the business is not only responsible to its shareholder but also to its stakeholders, the Board constantly reviews its corporate responsibility initiatives in ensuring positive social impact as well as long term sustainability and growth.

The Board has developed a charter that sets out the key corporate governance principles adopted by the Board (“Charter”). In adhering to the responsibilities set out in the Charter, the Members of the Board are expected to perform their duties with integrity, honesty and in a professional manner in accordance with the law in serving the interest of its shareholder and stakeholders. The Charter addresses among others, the following matters:

- Responsibilities of the Board;
- Board Meetings;
- Supply of Information;
- Maintaining Board Independence and Board Balance;
- Remuneration levels of Directors;
- Re-election, retirement and resignation of Directors;
- Continuous education by Directors;
- Responsibilities of Directors;
- Responsibilities of Senior Independent Non-Executive Director;
- Responsibility of the Chairperson;
- Financial Reporting;
- Investor relations and shareholder communication; and
- Relationship with other stakeholders.

BOARD OF DIRECTORS

Duties And Responsibilities Of The Board

Core responsibilities of the Board include the following:

- review, approve and monitor the implementation of RHB Islamic Bank’s strategic business plans and fundamental policies;
- maintain an effective system of internal controls as well as identifying and managing principal risks in ensuring efficient operations and stable financial environment;
- providing guardianship of RHB Islamic Bank’s corporate values and ethical principles in parallel with the goal to enhance shareholder’s value;
- monitor as well as evaluate the performance of the Management to ensure that the performance criteria remains dynamic; and
- formulate a succession plan for RHB Islamic Bank in ensuring long-term business continuity.

The day-to-day management of RHB Islamic Bank is delegated to the Managing Director (“MD”) who is responsible to among others, ensure the successful implementation of the Board’s decisions. The distinct and separate duties and responsibilities of the MD and other Non-Executive Directors (“NEDs”) ensure a balance of power and authority towards the establishment of an effective Board.

statement on corporate governance

In addition thereto, pursuant to the transformation exercise undertaken by the RHB Banking Group in late 2007, the MD of RHB Islamic Bank is also recognised as the Head of Islamic Banking and is a Member of the RHB Banking Group's Central Management Committee ("CMC") which comprises of key management personnel of the Group. Among the objectives of the CMC are as follows:-

- to provide strategic guidance to the Strategic Business Units and Strategic Functional Units;
- to recommend to the Board of the ultimate holding Company and other entities within the Group in respect of the implementation of key strategic business plans and policies; and
- to assist the Board of the ultimate holding Company and other entities in reviewing performances and business efficiencies of the Group.

The CMC is governed by its own terms of reference.

Board Composition And Balance

The Board currently comprises one (1) Independent Non-Executive Chairman, four (4) Independent Non-Executive Directors, one (1) Non-Independent Non-Executive Director and the MD. The composition is in compliance with the Revised BNM/GP1-i. Being a financial services group, the Board recognizes that its Members must have the appropriate mix of skills as well as the necessary knowledge, experience and commitment to effectively contribute towards the growth and expansion of RHB Islamic Bank. Furthermore, being on the Board of a bank would require the Members to be responsive to the constantly changing and challenging global financial landscape.

The Chairman ensures the orderly conduct of the Board and that issues presented to the Board are adequately discussed and assessed before a decision is taken. To further increase the effectiveness of the Board, the independent directors bring with them independent and objective judgement to the decision making process and is responsible to protect the interests of the shareholder/stakeholders.

The Board periodically review its size and composition in maintaining the right mix of skills experience and expertise.

A brief profile of each Director is presented on pages 6 to 7 of this Annual Report.

Code Of Ethics And Business Conduct

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

- establish the appropriate ethical standards for Directors based on acceptable beliefs and values;
- uphold the spirit of corporate responsibility and accountability in line with the governing laws, regulations and guidelines; and
- document and emphasise to the Directors, the integral obligation of each Director in performing his duty to act in a manner that is lawful, honest, ethical and free from any conflict of interest situations or perceived conflict of interest.

The Group had also implemented a Group Code of Ethics and Conduct that is applicable to all its employees with the objective to maintain a high standard of ethical and professional conduct of its employees.

Board Meetings and Access to Information

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

The Board is provided with meeting papers in advance of the meeting dates, in allowing the Members of the Board to digest the issues at hand, seek clarification from the Management, if required and, formulate opinion on matters to be deliberated at the meetings. In line with the best practices, Board materials/papers are circulated to Members of the Board at least seven (7) days prior to the scheduled Board Meeting date. At each Meeting, the Board receives updates from the representative of the Islamic Risk Management Committee and the Group Audit Committee on matters that have been deliberated at these committees, as well as on matters that require attention. This practice also applies for the rest of the entities of the Group. The Board also receives regular management reports and information on corporate and business issues in enabling reviews to be conducted on performance against business targets and objectives.

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

The Board has direct access to the information of RHB Islamic Bank through the Senior Management as well as the advice and services of the Company Secretary. In addition, Directors may also seek independent professional advice, at RHB Islamic Bank's expense, when deemed necessary for the proper discharge of their duties.

The Board convened seventeen (17) meetings for the financial year ended 31 December 2008. 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 (%)
Datuk Haji Faisal Siraj	17/17	100
Dato Abdullah Mat Noh	17/17	100
Dato' Mohd Salleh Hj Harun	15/17	88
Dato' Othman Jusoh ¹	16/17	94
Ismael Fariz Ali	15/17	88
Johari Abdul Muid	15/17	88
Charles Lew Foon Keong ^{2*}	2/3	67
Eirvin Bee Knox ^{3*}	3/3	100
Jamelah Jamaluddin	17/17	100

Notes:

- 1 Ceased to be a Director on 22 February 2009
- 2 Appointed as a Director on 14 October 2008.
- 3 Appointed as a Director on 24 October 2008 and resigned on 2 March 2009.
- * Based on the number of Board meetings held since his appointment to the Board.

Appointments And Re-election To The Board

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

The Group Nominating Committee will review and assess the proposed re-appointments of Directors. The result of the individual assessment conducted via the Board Effective Evaluation ("BEE") exercise will be highlighted to the Board. Upon the approval by the Board, the application for the re-appointment will be submitted to BNM for approval.

The Board had also adopted an internal guideline on the Tenure of Appointment and Re-appointment of Independent Directors with the main objective of preserving the independence of independent Directors and address long serving Directors of the Group.

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

Directors' Training

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

Conferences, seminars and training programs attended by the Directors of RHB Islamic Bank in 2008 encompassed various topics on Board & Corporate Governance, Islamic Banking and Finance, Banking & Finance, Investment Banking, Risk Management and other related issues.

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The Non-Executive Directors of RHB Islamic Bank also attend local and/or overseas training programs organized by credible training organizations under the Board High Performance Program (“BHPP”) which serves as a platform to equip the Directors with the necessary knowledge and tools to effectively discharge their duties and responsibilities as well as provide the Directors with global business perspectives and skills that would engender organizational excellence.

Board Performance Evaluation

The Board had continuously conducted the BEE exercise on the Board and Board Committees with the objective of assessing the effectiveness of the Board and Board Committees as a whole, as well as the individual directors. The BEE is based on a combination of self and peer assessment methodologies performed via a customised questionnaire. The results of the BEE are presented to the Group Nominating Committee as well as the Board of RHB Islamic Bank for notation. Overall, the 2008 assessment produced satisfactory results.

Apart from the BEE exercise, during the year, the Board also engaged an external consultant to perform a Board Performance Improvement Program (“BPIP”) which is an enhancement of the BEE. Among the objective of the BPIP is to conduct an independent review of the structure, processes and documentation with regards to the Board in governing RHB Islamic Bank. The findings and results from the work performed by the external consultant as well as the recommendations thereof in addressing the gaps and issues identified were tabled to the Group Nominating Committee and the Board of RHB Islamic Bank for deliberation and Management’s further action.

Group Shariah Committee

The Group has established its Group Shariah Committee, which is housed at RHB Islamic Bank Berhad. The Group Shariah Committee comprise of qualified local and foreign Shariah scholars to act as the Shariah advisor for the Group.

The Committee met 7 times during the financial year 2008.

The composition of the Committee and the attendance of the members at meetings held in 2008 are as follows:

	Attendance at Meetings
Prof. Dr. Haji Abdul Samat Musa (Chairman)	5/7 (71%)
Prof. Dr. Joni Tamkin Borhan (Member)	7/7 (100%)
Prof. Dr. Mohd Ma’sum Billah ¹ (Member)	6/7 (86%)
Dr. Ahmed Mohieldin Ahmed ¹ (Member)	5/7 (71%)
Asst. Prof. Dr. Abdulazeem Abozaid (Member)	7/7 (100%)
Asst. Prof. Dr. Aznan Hasan ² (Member)	–

1 Retired on 31 March 2009

2 Appointed on 1 April 2009

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

- to advise the Group on Shariah matters in order to ensure that the business operations of the Group comply with Shariah Principles;
- to endorse Shariah Compliance Manuals which must specify the manner in which a submission or request for advice be made to the Group Shariah Committee, the conduct of GSC's meeting and the manner of compliance with any decision thereof;
- to endorse and validate relevant documentation such as terms and conditions contained in the proposal forms, contract, agreement or other legal documentation used in executing the transactions, the product manual, marketing advertisement, sales illustration and brochures used to describe the product;
- to provide assistance to related parties of the Group such as its legal counsel, auditor or consultant on Shariah matters. Group Shariah Committee is expected to provide assistance to them so that compliance with Shariah principles can be ensured completely;
- to advise the Group to consult Shariah Advisory Council (SAC) of Bank Negara Malaysia (BNM) (where relevant) on any Shariah matters which have not been resolved or endorsed by the SAC of BNM;
- to explain the Shariah issues involved and the recommendations for a decision which must be supported by relevant Shariah jurisprudential literature from the established sources. Group Shariah Committee is also expected to assist the SAC on any matters referred by the Group. Upon obtaining any advice from SAC, Group Shariah Committee shall ensure that all the SAC's decisions are properly implemented by the Group; and
- where the issues involved relate directly to or falls under the purview of the Securities Commission (SC), the Group Shariah Committee is responsible to ensure that the formulation on policies of the Group relating to matters concerning the securities industry comply with the Shariah principles at all times.

Board Committees

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

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

The Group Audit Committee and Group Credit Committee (formerly known as Central Loans Committee) were formed at RHB Bank Berhad and also deliberate matters pertaining to RHB Islamic Bank. Notwithstanding the Group Risk Management Committee residing at RHB Capital, BNM still requires a dedicated Risk Management Committee (RMC) at RHB Islamic Bank to deal specifically with the risks and intricacies associated with Islamic finance.

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

The relevant minutes/extract minutes of meetings of all Group Board Committees/Islamic RMC are tabled to the Board for notation.

Group Nominating Committee

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

Meetings of the Group Nominating Committee are held as and when required and at least once a year. The Group Nominating Committee met 9 times during financial year 2008.

statement on corporate governance

The composition of the Group Nominating Committee and the attendance of the members at meetings held in 2008 are as follows:

	Attendance at Meetings
Datuk Haji Faisal Siraj (Independent Non-Executive Director/Chairman)	9/9 (100%)
Datuk Azlan Zainol (Non-Independent Non-Executive Director)	8/9 (89%)
Datuk Tan Kim Leong (Independent Non-Executive Director)	9/9 (100%)
Johari Abdul Muid (Non-Independent Non-Executive Director)	7/9 (78%)
Ismael Fariz Ali (Independent Non-Executive Director)	8/9 (89%)

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

- to provide a documented, formal and transparent procedure for the appointment of directors, board committee members, Group Shariah Committee members, chief executive officers and key senior management officers as well as assessment of effectiveness of individual directors, the board as a whole and the various committees of the board, the chief executive officers and key senior management officers of the Group;
- to assist the Board in ensuring that appointments are made on merit against 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.

Group Audit Committee

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

The Group Audit Committee meets regularly with the internal auditors. Whenever deemed necessary, the Group Audit Committee together with the senior management of the respective companies in the Group meet with the external auditors in reviewing financial reporting including RHB Islamic Bank. They also discuss the nature, scope and results of audit reviews and the effectiveness of the system of internal controls. During the financial year, a total of 10 Group Audit Committee meetings were held.

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

The composition of the Group Audit Committee and the attendance of the members thereof together with the terms of reference and activities of the Group Audit Committee during the financial year are set out in the Group Audit Committee Report at page 27 to page 32 of this Annual Report.

Group Remuneration and Human Resource Committee

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

Meetings of the Group Remuneration and Human Resource Committee are held as and when required and at least once a year. The Committee met 12 times during the financial year 2008.

The composition of the Group Remuneration and Human Resource Committee and the attendance of the members at meetings held in 2008 are as follows:

	Attendance at Meetings
Datuk Tan Kim Leong (Independent Non-Executive Director/Chairman)	12/12 (100%)
Datuk Azlan Zainol (Non-Independent Non-Executive Director)	10/12 (83%)
Datuk Haji Faisal Siraj (Independent Non-Executive Director)	12/12 (100%)
Johari Abdul Muid (Non-Independent Non-Executive Director)	9/12 (75%)
Ismael Fariz Ali (Independent Non-Executive Director)	9/12 (75%)

The salient Terms of Reference of the Committee are as follows:

- to provide a formal and transparent procedure for developing the remuneration policy for directors, board committee members, chief executive officers, Group Shariah Committee members and key senior management officers of the Group and ensuring that their compensation is competitive and consistent with the Group's culture, objectives and strategy;
- to recommend to the Board 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/programs of the Group; and
- to oversee the disciplinary procedures, regulations and preventive measures as well as to ensure implementation and adherence to the disciplinary procedures.

statement on corporate governance

Group Risk Management Committee

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

The Committee met 12 times during the financial year 2008.

The composition of the Committee and the attendance of the members at meetings held in 2008 are as follows:

	Attendance at Meetings
Dato' Mohd Salleh Hj Harun (Independent Non-Executive Director/Chairman)	12/12 (100%)
Datin Khamarzan Ahmed Meah (Independent Non-Executive Director)	9/12 (75%)
Datuk Tan Kim Leong (Independent Non-Executive Director)	11/12 (92%)
Haji Khairuddin Ahmad (Independent Non-Executive Director)	12/12 (100%)
Patrick Chin Yoke Chung (Independent Non-Executive Director)	12/12 (100%)

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

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

Islamic Risk Management Committee

The Islamic Risk Management Committee comprises NEDs, all of whom are independent.

The Committee met 13 times during the financial year 2008.

The composition of the Committee and the attendance of the members at meetings held in 2008 are as follows:

	Attendance at Meetings
Dato' Mohd Salleh Hj Harun (Independent Non-Executive Director/Chairman)	13/13 (100%)
Dato' Othman Jusoh ¹ (Independent Non-Executive Director)	12/13 (92%)
Dato Abdullah Mat Noh (Independent Non-Executive Director)	12/13 (92%)
Datuk Haji Faisal Siraj ² (Independent Non-Executive Director)	–

1 Ceased to be a Director/Member on 22 February 2009

2 Appointed as a Member on 22 February 2009

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

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

statement on corporate governance

Group Credit Committee (formerly known as Central Loans Committee)

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

The Committee met 27 times during the financial year 2008.

The composition of the Committee and the attendance of the members at meetings held in 2008 are as follows:

	Attendance at Meetings
Dato Abdullah Mat Noh (Independent Non-Executive Director/Chairman)	27/27 (100%)
Johari Abdul Muid (Non-Independent Non-Executive Director)	16/27 (59%)
Dato' Mohamed Khadar Merican (Independent Non-Executive Director)	24/27 (89%)
Haji Khairuddin Ahmad ^{1*} (Independent Non-Executive Director)	23/24 (96%)
Previous Member:	
Dato' Othman Jusoh ² (Independent Non-Executive Director)	2/3 (67%)
Ismael Fariz Ali ³ (Independent Non-Executive Director)	3/7 (43%)

1 Appointed as a Member on 1 March 2008

2 Resigned as a Member on 1 March 2008

3 Resigned as a Member on 29 April 2008

* Based on the number of meetings held since his appointment to the Committee

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

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

DIRECTORS' REMUNERATION

The remuneration of Directors is determined at levels which enable RHB Islamic Bank to attract and retain Directors with the relevant experience and expertise required to navigate RHB Islamic Bank effectively. For the NEDs, the level of remuneration reflects the level of responsibilities undertaken by the particular NED concerned in RHB Islamic Bank.

All NEDs are paid directors' fees as well as attendance allowances for Board and Board Committee meetings that they attend. The directors' fees payable to the NEDs are subject to the approval of the shareholder.

Under the existing remuneration framework, the annual directors' fees for NEDs is RM60,000.00 per director. Apart from the abovementioned, meeting attendance allowances are paid for Board and Board Committee Members at the rate between RM1,000.00 and RM1,500.00 per meeting per director depending on the nature of the meeting. NEDs who hold memberships on the Board Committees are also entitled to Board Committee allowances payable on annual basis at the end of each financial year. The Board Committees allowance payable to NEDs are reflective of the duties and functions of the Board Committees in RHB Islamic Bank and of the Group.

The remuneration strategy for the MDs within the Group is to pay competitively, and through the use of an integrated pay and benefits structure, to reward corporate and individual performance in line with their contribution to the organization. The MD is not paid a Director's fee nor is she entitled to receive any meeting attendance allowance for any of the Board and Board Committee meetings that she attends. Her remuneration is solely derived from RHB Islamic Bank.

Further details on Directors' remuneration are disclosed under Note 24 of the Notes to the Financial Statements in this Annual Report.

COMMUNICATION WITH SHAREHOLDER AND INVESTORS

RHB Islamic Bank believes in maintaining an effective and open line of communication with its shareholder, RHB Bank or employees who have direct interest in RHB Islamic Bank, or customers whose interests are paramount for any business.

Information on new products and services is communicated to customers and shareholders through various media. RHB Islamic Bank receives wide media coverage for its notable business activities and product launches.

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

A Directors' Responsibility Statement for the Annual Audited Financial Statements of RHB Islamic Bank is set out on page 33 of this Annual Report.

Internal Control

An overview of RHB Islamic Bank's systems of internal control is contained in the Statement on Internal Control set out on pages 24 to 26 of this Annual Report.

Relationship with External Auditors

The Board maintains a formal and transparent professional relationship with the External Auditors via the Group Audit Committee. The role of the Group Audit Committee in relation to the External Auditors is disclosed in the Group Audit Committee Report set out on pages 27 to 32 of this Annual Report.

statement on internal control

INTRODUCTION

Pursuant to Paragraph 15.27(b) of the Bursa Malaysia Securities Berhad's Listing Requirements, a listed issuer must ensure that its Board of Directors ("Board") includes in its annual report a statement about the state of its internal control. The revised Malaysian Code on Corporate Governance requires listed companies to maintain a sound system of internal control to safeguard shareholders' investments and the Group's assets.

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

RESPONSIBILITY

The Board acknowledges the importance of maintaining a sound system of internal controls, risk management practices, and good corporate governance as well as affirming its overall responsibility for the Company's system of internal controls and 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 Company's business objectives, and can only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

KEY INTERNAL CONTROL PROCESSES

Risk Management Framework

The Company 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 via its Risk Management

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

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

In promoting synergies within the Group, the Company's risk management function also reports to the Group Risk Management Committee, which is delegated with risk management oversight authority by the Boards of the Group.

Amongst the other committees set up at the Group level to manage specific areas of risk of the Company are the Group Assets & Liabilities Committee, Central Loans Committee, Central Credit Committee, Group Shariah Committee and Group Basel II Steering Committee.

In line with regulatory guidance and industry best practices, the 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 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.

Internal Audit

The Group Internal Auditors perform regular reviews of the Company's operational processes and system of internal controls. Group Internal Audit adopts a risk-based approach to determine the auditable units and frequency of audit, and the annual audit plans are reviewed and approved by the Group Audit Committee ("Group AC").

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

The Group AC holds regular meetings to deliberate on findings and recommendations for improvement highlighted by both the internal and external auditors as

well as regulatory authorities on the state of the Company's internal control system. The minutes of the Group AC meetings are subsequently tabled to the Board for notation.

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

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

Compliance

The compliance function established at Group level is to monitor the compliance with the regulatory requirements among others, Bursa Malaysia Securities Berhad's Listing Requirements. In addition, a compliance management function is established at the Company to assist the Group compliance function in monitoring the credit, market, and operational compliance activities of the Company.

Reporting of compliance function activities to the Board is done on a monthly basis to keep the Board apprised of the Company's state of compliance with laws, regulations, policies and procedures, and internal codes.

Shariah Compliant

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

statement on internal control

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

In addition, the Shariah Reporting Structure and the Shariah Governance Structure have accordingly been approved by the Board of RHB Capital Berhad.

Other Key Elements Of Internal Control

The other key elements of the Company's internal control system which have been reviewed by the Board are described below:

- The Group Managing Director oversees the operations of the Strategic Business Units (“SBU”) and Strategic Functional Units (“SFU”) within the Group. In addition to that, the Central Management Committee (comprising key management personnel of the Group) manages the Group’s strategic direction and provides strategic guidance to the SBUs and SFUs. Appointment of the key management personnel of the Group requires the approval of their respective Boards and relevant regulatory authorities, where applicable;
- Specific responsibilities have been delegated to the relevant Board committees, all of which have written terms of references. These committees have the authority to examine all matters within their scope of responsibilities and report back to the Board with their recommendations. The ultimate responsibility for the final decision on all matters however lies with the 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 Company;
- 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, formal training programmes for staff, annual performance appraisal and other relevant procedures in place to ensure that staff are adequately trained and competent in carrying out their duties and 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; and
- A detailed budgeting process is established requiring all key operating units in the Company 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.

To complement the Group’s system of internal controls, a comprehensive incident reporting and incident management framework has been rolled out across the Group to ensure proper escalation and management of incidents that had occurred as well as ensuring necessary steps are taken to effectively mitigate any potential risks that may arise.

group audit committee report

ACTIVITIES OF THE AUDIT COMMITTEE / GROUP AUDIT COMMITTEE AND THE INTERNAL AUDIT FUNCTION DURING THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

On 1 July 2008, a Group Audit Committee (“Group AC”) was formally established at RHB Bank Berhad to undertake the roles and responsibilities of the Audit Committees of RHB Bank Berhad, RHB Islamic Bank Berhad, RHB Investment Bank Berhad and RHB Insurance Berhad. Accordingly, the Audit Committee (“AC”) of RHB Islamic Bank Berhad (“the Company”) was dissolved on the same date.

Audit Committee – Composition And Attendance Of Meetings

Up to 30 June 2008, a total of six (6) AC meetings were held. The AC comprised the following members and details of attendance of each member at the AC meetings held up to 30 June 2008 are as follows:

Composition Of The AC	No. Of Meetings Attended Whilst In Office
1. Dato’ Mohd Salleh Hj Harun – ceased to be Chairman on 30 June 2008 (Chairman/Independent Non-Executive Director)	6 out of 6 meetings
2. Dato’ Othman Jusoh – ceased to be member on 30 June 2008 (Member/Independent Non-Executive Director)	5 out of 6 meetings
3. Dato Abdullah Mat Noh – ceased to be member on 7 April 2008 (Member/Independent Non-Executive Director)	3 out of 3 meetings
4. Datuk Haji Faisal Siraj – appointed as member on 7 April 2008 and ceased to be member on 30 June 2008 (Member/Independent Non-Executive Director)	3 out of 3 meetings

group audit committee report

Group Audit Committee – Composition And Attendance Of Meetings

The Group AC presently comprises directors from RHB Bank Berhad, RHB Islamic Bank Berhad, RHB Investment Bank Berhad and RHB Insurance Berhad. From 1 July 2008 to 31 December 2008, a total of ten (10) Group AC meetings were held.

The Group AC comprises the following members and details of attendance of each member at the Group AC meetings held from 1 July 2008 to 31 December 2008 are as follows:

Composition Of The Group AC	No. Of Meetings Attended Whilst In Office
1. Ong Seng Pheow (Chairman/Independent Non-Executive Director)	10 out of 10 meetings
2. Dato' Mohd Salleh Hj Harun (Member/Independent Non-Executive Director)	10 out of 10 meetings
3. Dato' Othman Jusoh (Member/Independent Non-Executive Director)	9 out of 10 meetings
4. Datuk Tan Kim Leong (Member/Independent Non-Executive Director)	9 out of 10 meetings
5. Patrick Chin Yoke Chung (Member/Independent Non-Executive Director)	9 out of 10 meetings

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

Reviewed the unaudited quarterly and half-year financial results and the annual audited financial statements of the Company and the Group prior to their approval by the Board of Directors (“the Board”). It also considered the accounting standards applicable in the preparation of the consolidated financial statements;

- Reviewed the related party transactions entered into by the Company;
- Reviewed with the external auditors, their audit plan, audit strategy and scope of work for the year, as well as the results of their annual audit;
- Met twice with the external auditors for discussion without the presence of the Management;
- Reviewed the non-audit services rendered by the external auditors and the related fees;
- Evaluated the performance of the external auditors and made recommendations to the Board on their appointment and audit fees;

- Reviewed and approved the annual internal audit plan to ensure adequacy of scope and coverage of the identified auditable areas including staffing requirements;
- Reviewed the status of completion of the internal audit plan, the internal audit reports, audit recommendations made and Management’s response to these recommendations as well as actions taken to improve the system of internal controls and procedures;
- Reviewed the new Terms of Reference of the Group AC and recommended the same for approval by the Board;
- Reviewed the new Group Internal Audit Charter of the Group Internal Audit function and recommended the same for approval by the Board;
- Reviewed the inspection and examination reports issued by the regulatory authorities and the appropriate remedial actions taken in respect of any findings to satisfy itself that all matters highlighted in these reports have been adequately and promptly addressed by the Management; and
- Tabled the Minutes of each AC/Group AC meeting to the Board for notation, and for further direction by the Board, where necessary.

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

- (a) Banking and Finance
 - Financial Institutions Directors Education program.
- (b) Board and Corporate Governance
 - Effective governance the way forward.
 - Director's duties, liabilities and governance reform 2008.
- (c) Risk Management
 - Risk and capital management.
- (d) Investment Banking
 - The Malaysian capital market - Capital Markets and Services Act, 2007 and regulation of the securities market.

Internal Audit Function

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

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

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

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

TERMS OF REFERENCE OF THE GROUP AUDIT COMMITTEE

Objectives

1. To provide independent oversight over the management of the financial reporting and internal control system and ensuring checks and balances for entities within RHB Banking Group ("the Group"), namely, RHB Bank Berhad, RHB Investment Bank Berhad, RHB Islamic Bank Berhad, and RHB Insurance Berhad.
2. To review the financial condition and performance of the Group.
3. To assist the Boards of the respective entities in the discharge of their responsibilities by reviewing the effectiveness, adequacy and integrity of the Group's internal control systems and management information systems, including systems for risk management, governance processes and compliance with applicable laws, regulations, rules, directives and guidelines.
4. To reinforce the independence of the external auditors and thereby help assure that they will have free rein in the audit activities.
5. To provide, by way of regular meetings, a line of communication between the respective Boards and the external auditors.
6. To provide emphasis on the internal audit function by ensuring the objectivity and independence of the internal auditors and provide a forum for discussion that is among others independent of the Management.
7. To review the quality of the audits conducted by the internal and external auditors.
8. To enhance the perceptions held by stakeholders (including shareholders, regulators, creditors, and employees) of the credibility and objectivity of financial reports.

group audit committee report

Duties and Responsibilities

1. The Group AC is directly accountable to the Boards of the respective entities and the Boards will continue to be accountable for all matters relating to their respective entities.
2. To ensure that the Group Internal Audit is distinct and has the appropriate status within the overall organisational structure for the internal auditors to effectively accomplish their audit objectives.
3. To review the effectiveness of internal controls and risk management processes, including the scope of the internal audit programme and the appropriateness of the risk assessment methodology employed to determine the frequency and scope of audits.
4. To ensure that the reporting relationships of the internal audit staff do not impede the exercise of independent judgement by the internal auditors. In particular, the reports of internal auditors should not be subject to the clearance of the managing director/chief executive officer/any executive directors.
5. To ensure that all findings and recommendations are resolved effectively and in a timely manner.
6. To make appropriate public disclosure of the terms of reference and the activities of the Group AC in the respective licensed entities' financial statements.
7. To review the respective entities' quarterly results and year-end financial statements and to recommend the same to the respective Boards for approval whilst ensuring that they are prepared in a timely and accurate manner complying with all applicable accounting and regulatory requirements and are promptly published.
8. To review regularly the adequacy of provisions made and to recommend the same to the respective Boards for approval.
9. To review any related party transaction and conflict of interest situation that may arise within the Group, including any transaction, procedure or course of conduct that raises questions of management integrity.
10. To review with the external and internal auditors whether the employees of the Group have given them appropriate assistance in discharging their duties.
11. To review the adequacy of the scope, functions and resources of the internal audit function and that it has the necessary authority to carry out its work.
12. To review and approve the internal audit plan, audit charter and the budget for the audit plan.
13. To ensure that internal audit staff receives necessary training to perform audit work. There shall be a programme of continuing education and training to enable the internal auditors to keep abreast of business trends and latest developments at both the institution and industry levels, as well as to enhance technical skills required to effectively support the audit function.
14. To appraise the performance of the head of internal audit and to review the appraisals of senior staff members of the internal audit function.
15. To approve any appointment or termination of the head of internal audit and senior staff members of the internal audit function and to review any resignations of internal audit staff members and provide resigning staff members an opportunity to submit reasons for resigning, where necessary.
16. To review with the external auditors, the nature and scope of their audit plan, their evaluation of the system of internal controls and their management letter and discuss any matter that the external auditors may wish to raise in the absence of Management, where necessary.
17. To recommend to the respective Boards on the appointment and the annual reappointment of the external auditors and assessing their audit fee, after taking into consideration the independence and objectivity of the external auditors and the cost effectiveness of their audit.
18. To discuss and review with the external auditors any proposal from them to resign as auditors.

19. To investigate reasons for any request made by Management to dismiss the external auditors, or any resignation by the external auditors. The results of the investigation shall be disclosed to the respective full Board together with the recommendations on proposed actions to be taken.
20. To review the non-audit services rendered by the external auditors together with the related fees and thereafter approving or recommending the same to the respective Boards for approval (whichever is relevant), in accordance with the Group Policy on Non-Audit Fees payable to the external auditors.
21. To review the co-ordination of audit activities between the external and internal auditors.
22. To review the effectiveness of the infrastructure for ensuring Shariah compliance.
23. To review inspection and examination reports issued by any regulatory authority and to ensure prompt and appropriate actions are taken in respect of any findings.
24. To review the following pertaining to RHB Insurance Berhad:
 - (i) The Chairman's statement, interim financial reports, and preliminary announcements;
 - (ii) Corporate governance disclosures made in the Directors' Report pursuant to the requirement in JPI/GPI 25: Prudential Framework of Corporate Governance for Insurers; and
 - (iii) All representation letters signed by Management, and be satisfied that the information provided is complete and appropriate.
25. To ensure that RHB Insurance Berhad complies with Section 95 of the Insurance Act, 1996, which requires RHB Insurance Berhad to publish its accounts within fourteen (14) days of the laying of its accounts at its annual general meeting.
26. To perform any other functions as authorised by the respective Boards.

Authority

1. The Chairman of the Group AC should engage on a continuous basis with senior management, such as, the managing director/chief executive officer, the chief operating officer, the chief financial officer, the head of internal audit and the external auditors in order to be kept informed of matters affecting the Group.
2. The Group AC is authorised by the respective Boards to investigate any matter within its terms of reference, to obtain the resources which it needs, and to have full and unrestricted access to relevant information. It is also authorised to seek any information it requires from any employee of the Group and all employees are directed to co-operate with any request made by the Group AC.
3. The Group AC shall have direct communication channels with the external and internal auditors.
4. The Group AC is authorised by the respective Boards to obtain independent professional or other advice and to invite outsiders with relevant experience and expertise to attend meetings, if it considers this necessary.

Meetings

1. Meetings shall be held at least four (4) times a year and the frequency of meetings shall reflect the wider and increased responsibilities assumed. Meetings shall convene with a minimum quorum of two-thirds of the members and the majority of members present shall be independent non-executive directors.
2. The Group AC should not convene any meeting to discuss specific issues of a particular entity without the presence of the representative of the said entity.
3. The head of internal audit shall be in attendance at meetings of the Group AC. The Group AC may invite the external auditors, the managing director / chief executive officer, the chief operating officer, the chief financial officer, any other directors or members of the Management and employees of the Group to be in attendance during meetings to assist in its deliberations.



group audit committee report

4. At least twice a year, the Group AC shall meet with the external auditors without the presence of the Management or any executive Board members and upon the request of the external auditors, the Chairman of the Group AC shall convene a meeting to consider any matter which the external auditors believe should be brought to the attention of the respective Boards or shareholders.
5. The Company Secretary shall act as Secretary of the Group AC and shall be responsible for drawing up the agenda with the concurrence of the Chairman and circulating it, supported by explanatory documentation, to Group AC members within a reasonable timeframe prior to each meeting.
6. The Company Secretary shall also be responsible for keeping the minutes of meetings of the Group AC, their timely circulation to Group AC members and other members of the Boards, and following-up on outstanding matters in relation to the meetings.
7. The Chairman of the Group AC shall provide reports to the respective Boards on the deliberations of the Group AC on a regular basis. In addition, the Chairman shall also present summary of all significant matters (highlighting the risks and implications) and resolutions made by the Group AC at the Board meetings.
8. The Minutes of each Group AC meeting shall be tabled to the respective Boards. Thereafter, a copy of the Minutes of the Group AC meeting pertaining to RHB Investment Bank Berhad shall be submitted to Bursa Malaysia Securities Berhad within thirty (30) days from the date of the Minutes having been adopted by the Board.
3. The Chairman of the Group AC shall be an independent non-executive director.
4. No Group AC member shall be employed in an executive position in the Group, or otherwise have a relationship which in the opinion of the respective Boards will interfere with the exercise of independent judgment in carrying out the functions of the Group AC. In addition, members of the Group AC shall not be directly responsible for, or part of any committee involved in, the management functions within the Group.
5. No alternate director shall be appointed as a member of the Group AC.
6. Disclosure of customers' information to the members of the Group AC to be strictly on need to know basis and the members are to provide undertaking to preserve the confidentiality of the customers' information.
7. Collectively, the Group AC shall have a wide range of necessary skills to undertake its duties and responsibilities and are expected to be familiar with the areas included in the scope of internal audit, including the area of risk management.
8. All members of the Group AC shall be financially literate and at least one member shall be a member of an accounting association or body.
9. Details of the activities of the Group AC, the number of audit meetings held in a year, details of attendance of each member in respect of meetings, and the details of relevant training attended by each member should be documented in an informative way.

Membership

1. The membership of the Group AC, including the position of Chairman shall be approved by the respective Boards based on the recommendation made by the Group Nominating Committee.
2. The Group AC shall comprise at least three (3) members and there should be a fair representation on the Group AC, from each entity within the Group. All members of the Group AC should be non-executive directors with majority of whom are independent.
10. The term of office and performance of the Group AC and each of its members must be reviewed by the respective Boards at least once every two (2) years.
11. If a member of the Group AC resigns or for any other reason ceases to be a member with the result that the number of members is reduced to below three (3), the respective Board shall within three (3) months of that event, appoint such number of new members as may be required to make up the minimum number of three (3) members.

responsibility statement by the board of directors

In the course of preparing the annual financial statements of the Group and of the Bank, the Directors are collectively responsible in ensuring that these financial statements are drawn up in accordance with the requirements of the applicable Approved Accounting Standards in Malaysia, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

It is the responsibility of the Directors to ensure that the financial reporting of the Group and the Bank present a true and fair view of the state of affairs of the Group and of the Bank as of the end of the financial year and the results and cash flows for the 12 months then ended.

The Directors have applied the appropriate and relevant accounting policies on a consistent basis and made judgements and estimates that are reasonable and fair in preparing the financial statements of the Group and of the Bank.

The financial statements are prepared on the going concern basis and the Directors have ensured that proper accounting records are kept so as to enable the preparation of the financial statements with reasonable accuracy.

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

The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out in page 105 of the audited financial statements.



statutory financial statements

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directors' report

The directors submit herewith their report together with the audited financial statements of the Bank for the financial year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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

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

FINANCIAL RESULTS

	RM'000
Profit before taxation	114,421
Taxation	(28,535)
<hr/>	
Net profit for the financial year	85,886

DIVIDENDS

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

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

RESERVES AND PROVISIONS

All material transfers to or from reserves 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 have been taken in relation to the writing off of bad financing and advances and the making of allowances for non-performing financing and advances, and satisfied themselves that all known bad financing and advances have been written off and adequate allowances had been made for non-performing financing and advances.

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

directors' report (continued)

CURRENT ASSETS

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

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

VALUATION METHOD

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

CONTINGENT AND OTHER LIABILITIES

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

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

No contingent or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Bank to meet 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:

Datuk Haji Faisal Siraj	Independent Non-Executive Director and Chairman
Dato Abdullah Mat Noh	Independent Non-Executive Director
Dato' Mohd Salleh Haji Harun	Independent Non-Executive Director
Dato' Othman Jusoh	Independent Non-Executive Director <i>(ceased as director on 22 February 2009)</i>
Michael Joseph Barrett	Non-Independent Non-Executive Director <i>(ceased as director on 20 September 2008)</i>
Ismael Fariz Ali	Independent Non-Executive Director
Johari Abdul Muid	Non-Independent Non-Executive Director
Jamelah Jamaluddin	Non-Independent Executive Director / Managing Director
Charles Lew Foon Keong	Independent Non-Executive Director <i>(appointed on 14 October 2008)</i>
Eirvin Bee Knox	Non-Independent Non-Executive Director <i>(appointed on 24 October 2008 and resigned on 2 March 2009)</i>

In accordance with Article 68 of the Bank's Articles of Association, Dato Abdullah Mat Noh and Jamelah Jamaluddin 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, Charles Lew Foon Keong who was appointed during the financial year, retires at the forthcoming Annual General Meeting and, being eligible, offer himself for re-election.

DIRECTORS' BENEFITS

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

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

DIRECTORS' INTERESTS IN SECURITIES

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

	Number of Ordinary Shares of RM1 each			As at 31.12.2008
	As at 1.1.2008	Bought	Sold	
Penultimate holding company				
RHB Capital Berhad				
Dato' Mohd Salleh Hj Harun				
- Direct	15,000	15,000	-	30,000

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

directors' report (continued)

CORPORATE GOVERNANCE STATEMENT

Introduction

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

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

(A) BOARD OF DIRECTORS

Composition of the Board

The Board currently has seven (7) members, comprising an Independent Non-Executive Chairman, one (1) Non-Independent Non-Executive Director, four (4) Independent Non-Executive Directors and a Managing Director, details of which are as follows:

Name of Director	Designation
Datuk Haji Faisal Siraj	Independent Non-Executive Chairman
Dato Abdullah Mat Noh	Independent Non-Executive Director
Dato' Mohd Salleh Hj Harun	Independent Non-Executive Director
Ismael Fariz Ali	Independent Non-Executive Director
Johari Abdul Muid	Non-Independent Non-Executive Director
Charles Lew Foon Keong (appointed on 14 October 2008)	Independent Non-Executive Director
Jamelah Jamaluddin	Managing Director

Michael Joseph Barrett ceased as a Non-Independent Non-Executive Director with effect from 20 September 2008 while Dato' Othman Jusoh ceased as an Independent Non-Executive Director with effect from 22 February 2009.

Mr Eirvin Bee Knox who was appointed as a Non-Independent Non-Executive Director on 24 October 2008 has resigned on 2 March 2009.

Duties And Responsibilities Of The Board

The Board's core responsibilities included among others, the review and approval of the Bank's strategic directions, fundamental policies, monitoring financial performance and overseeing as well as evaluating the performance of the Management. In discharging its responsibilities, the Board always ensures that best practices in governance are subscribed to and ethical standards are upheld. Realising that the business is not only responsible to its shareholders but also to its stakeholders, the Board continuously review its corporate responsibility initiatives in ensuring positive social impact as well as long term sustainability and growth.

The day-to-day management of the Bank is delegated to the Managing Director ('MD') who is responsible to among others, ensure the successful implementation of the Board's decision. The distinct and separate duties and responsibilities of the MD and the other Non-Executive Directors ensures a balance of power and authority towards the establishment of an effective Board.

In addition thereto, pursuant to the transformation exercise undertaken by the Group in November 2007, the MD of the Bank is also now overseeing the day-to-day management of Islamic Banking Strategic Business Unit ('SBU') of the Group in her capacity as the Head.

directors' report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(A) BOARD OF DIRECTORS (CONTINUED)

Board Meetings

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

The Board is provided with the meeting papers in advance of meetings to enable it to request for clarifications from the Management on issues at hand, if required and, formulate opinion on matters to be deliberated at the meetings. In line with the best practices, the Management will deliver Board materials/papers to Board Members at least seven (7) days prior to the scheduled Board Meeting date. At each Meeting, the Board receives updates from the respective Chairmen/representatives of the Group Audit Committee and Group Risk Management Committee/Islamic Risk Management Committee on matters that have been deliberated at these committees as well as on matters that require attention. The Board also receives regular management reports and information on corporate and business issues to enable reviews of performance against business targets and objectives.

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

The Board has direct access to information of the Bank and the Group through the Senior Management as well as the advice and services of the Company Secretary. In addition, Directors may also seek independent professional advice, at the Bank's expense, when deemed necessary for the proper discharge of the duties.

The Board convened seventeen (17) meetings for the financial year ended 31 December 2008. 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 (%)
Datuk Haji Faisal Siraj	17/17	100
Dato Abdullah Mat Noh	17/17	100
Dato' Mohd Salleh Harun	15/17	88
Dato' Othman Jusoh ⁽¹⁾	16/17	94
Ismael Fariz Ali	15/17	88
Johari Abdul Muid	15/17	88
Charles Lew Foon Keong ^{(2)*}	2/3	67
Eirvin Bee Knox ^{(3)*}	3/3	100
Jamelah Jamaluddin	17/17	100

Notes

⁽¹⁾ Ceased on 22 February 2009.

⁽²⁾ Appointed on 14 October 2008.

⁽³⁾ Appointed on 24 October 2008 and resigned on 2 March 2009.

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

Pursuant to the Revised BNM/GP1, individual directors must attend 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 Charles Lew Foon Keong, who was appointed towards the end of the year. BNM had, via its letter dated 7 January 2009, noted the non-compliance with the attendance requirement by Charles Lew Foon Keong for financial year ended 2008.

directors' report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

BOARD COMMITTEES

Group Audit Committee

The Board has established an Audit Committee ('AC') since 17 March 2005. On 1 July 2008, the Group Audit Committee ('Group AC') was formally established at RHB Bank to undertake the roles and responsibilities of the ACs within the RHB Banking Group (comprising RHB Bank, RHB Investment Bank Berhad, RHB Islamic Bank Berhad and RHB Insurance Berhad). Accordingly, the AC of RHB Islamic Bank has been dissolved on the same date.

Currently, the Group AC comprises directors within RHB Bank, RHB Investment Bank Berhad, RHB Islamic Bank Berhad and RHB Insurance Berhad i.e. five (5) Independent Non-Executive Directors of whom one (1) is the Chairman. During the period from 1 July 2008 to 31 December 2008, a total of 10 meetings were held and the details of attendance of each member at the Group AC Meetings held during the financial year ended 31 December 2008 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Ong Seng Pheow (Chairman)	10/10	100
Dato' Mohd Salleh Harun	10/10	100
Dato' Othman Jusoh	9/10	90
Patrick Chin Yoke Chung	9/10	90
Datuk Tan Kim Leong	9/10	90

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

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

DISCLOSURE OF BOARD COMMITTEES

Group Nominating Committee

The Board has established the Nominating Committee ('NC') since 17 March 2005. On 1 January 2008, the Group Nominating Committee ('Group NC') was formally established at RHB Capital to undertake the roles and responsibilities of the NCs with the RHB Banking Group. Accordingly, the NC of RHB Islamic 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. During the financial year ended 31 December 2008, a total of 9 meetings were held and the details of attendance of each member at the Group NC Meetings held during the financial year ended 31 December 2008 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Datuk Haji Faisal Siraj (Chairman)	9/9	100
Datuk Azlan Zainol	8/9	89
Datuk Tan Kim Leong	9/9	100
Johari Abdul Muid	7/9	78
Ismael Fariz Ali	8/9	89

directors' report (continued)

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 has adopted the Board Effectiveness Evaluation methodology for its Board, Board Committees and the individual directors, in line with the Corporate Governance Standards.

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

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, the Group Remuneration and Human Resource Committee ('Group RHRC') has also been established at RHB Capital to undertake the roles and responsibilities of the RHRCs within the RHB Banking Group. Arising therefrom, the RHRC of RHB Islamic Bank has been dissolved.

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. During the financial year ended 31 December 2008, a total of 12 meetings were held and the details of attendance of each member at the Group RHRC Meetings held during the financial year ended 31 December 2008 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Datuk Tan Kim Leong (Chairman)	12/12	100
Datuk Azlan Zainol	10/12	83
Datuk Haji Faisal Siraj	12/12	100
Johari Abdul Muid	9/12	75
Ismael Fariz Ali	9/12	75

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

directors' report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

DISCLOSURE OF BOARD COMMITTEES (CONTINUED)

Risk Management Committee

The Board has established the Risk Management Committee 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 2008, a total of 13 meetings were held and details of attendance of each member at the Risk Management Committee meetings held during the year as at 31 December 2008 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Dato' Mohd Salleh Hj Harun (Chairman)	13/13	100
Dato' Othman Jusoh ⁽¹⁾	12/13	92
Dato Abdullah Mat Noh	12/13	92
Datuk Haji Faisal Siraj ⁽²⁾		

Notes: -

⁽¹⁾ Ceased on 22 February 2009.

⁽²⁾ Appointed on 22 February 2009.

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

BNM has approved the consolidation of the existing Risk Management Committees within RHB Capital Group, which includes RHB Islamic Bank Berhad. However, BNM still requires a dedicated Risk Management Committee at the Bank to deal specifically with the risks and intricacies associated with Islamic finance. The Group Risk Management Committee was established on 1 November 2007.

Group Risk Management Committee

The Group Risk Management Committee ('RMC') for RHB Capital Group has been established at RHB Capital effective 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. During the financial year ended 31 December 2008, a total of 12 meetings were held and the details of attendance of each member at the Group RMC Meetings held during the financial year ended 31 December 2008 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Dato' Mohd Salleh Hj Harun (Chairman)	12/12	100
Haji Khairuddin Ahmad	12/12	100
Patrick Chin Yoke Chung	12/12	100
Datin Khamarzan Ahmed Meah	9/12	75
Datuk Tan Kim Leong ⁽¹⁾	11/12	92

Notes: -

⁽¹⁾ Appointed on 1 January 2008.

directors' report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

DISCLOSURE OF BOARD COMMITTEES (CONTINUED)

Group Risk Management Committee (continued)

The Group RMC monitors in-depth the governance of risks for 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.

Central Loans Committee

RHB Bank has established the Loans Committee ('LC') since 4 July 2001. The LC has been renamed as Central Loans Committee ('CLC') in June 2007 to reflect its functions of affirming, imposing additional covenants or vetoing credits of RHB Banking Group [comprising RHB Bank, RHB Bank (L) Ltd, RHB Islamic Bank Berhad and RHB Investment Bank Berhad] which were duly approved by the Central Credit Committee.

BNM had, via, its letter dated 16 April 2008, approved for RHB Islamic Bank Berhad to leverage on the centralised functions of credit evaluation and approval at the group level. Accordingly, with effect from May 2008, RHB Islamic Bank Berhad subscribed to the CLC.

Currently, the CLC comprises directors within RHB Bank, RHB Bank (L) Ltd, RHB Islamic Bank Berhad and RHB Investment Bank Berhad i.e. three (3) Independent Non-Executive Directors of whom one (1) is the Chairman, and a Non-Independent Non-Executive Director. During the financial year ended 31 December 2008, a total of 27 meetings were held and the details of attendance of each member at the CLC Meetings held during the financial year ended 31 December 2008 are as follows:

Name of Member	Total Meetings Attended	Percentage of Attendance (%)
Dato Abdullah Mat Noh (Chairman)	27/27	100
Johari Abdul Muid	16/27	59
Dato' Mohamed Khadar Merican	24/27	89
Haji Khairuddin Ahmad ^{(1)*}	23/24	96
Previous Member:		
Dato' Othman Jusoh ^{(2)*}	2/3	67
Ismael Fariz Ali ^{(3)*}	3/7	43

Notes:-

⁽¹⁾ Appointed on 1 March 2008

⁽²⁾ Resigned on 1 March 2008

⁽³⁾ Resigned on 29 April 2008

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

directors' report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(B) RISK MANAGEMENT

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

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

- (i) Risk governance from the Board of Directors;
- (ii) Clear understanding of risk management ownership;
- (iii) Institutionalisation of a risk focused organization;
- (iv) Alignment of risk management to business strategies; and
- (v) Optimisation of risk adjusted economic and financial returns

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

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

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

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

The financial risk management objectives and policies of the Bank are set out in Note 30 to the Financial Statements.

(C) INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES

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

directors' report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

(C) INTERNAL AUDIT AND INTERNAL CONTROL ACTIVITIES (CONTINUED)

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

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

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

(D) MANAGEMENT REPORTS

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

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

DISCLOSURE OF SHARIAH COMMITTEE

The RHB Capital Group Shariah Committee (the Group Shariah Committee), 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 2008 a total of 7 meetings were held and details of attendance of each member at the Group Shariah Committee meetings held during the year as at 31 December 2008 are as follows:

Composition of the Group Shariah Committee

Attendance at the Committee meetings

Current Members:

1. Professor Dr. Haji Abdul Samat Musa (Chairman)	5 out of 7 meetings
2. Professor Dr. Joni Tamkin Borhan (Member)	7 out of 7 meetings
3. Dr. Ahmed Mohieldin Ahmed (Member)	5 out of 7 meetings
4. Dr. Mohd Ma'sum Billah (Member)	6 out of 7 meetings
5. Dr. Abdulazeem Abozaid (Member)	7 out of 7 meetings

directors' report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

DISCLOSURE OF SHARIAH COMMITTEE (CONTINUED)

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

- 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 circulars 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 Shariah Advisory Council ('SAC') for new product approval in accordance with guidelines on product approval issued by BNM and SAC.
 - 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 SAC 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.

RELATIONSHIP WITH SHAREHOLDER

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.

directors' report (continued)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

PERFORMANCE REVIEW FOR 2008

For the year under review, the Bank recorded a profit before taxation of RM114.4 million (2007: RM162.1 million) and gross financing and advances amounted to RM5.5 billion (2007: RM4.7 billion). As at the end of 2007, the Bank's financing asset quality improved with net non-performing financing ratio of 3.3% (2007: 4.2%).

2009 BUSINESS PLAN AND OUTLOOK

2009 is expected to be a challenging year for the banking industry given the prospects of a shaper and more prolonged global economic downturn leading to potential threats to asset quality and demand for banking products and services. The Bank expects a GDP growth for Malaysia in 2009 to be lower than the growth recorded in 2008. In addition, domestic demand is expected to weaken in 2009 as the decline in external demand for the country's exports threatens to hurt business and consumer confidence. As a result, consumer spending is envisaged to slow down and business spending will likely drop. However, with the proactive measures undertaken by the Government and Bank Negara in the introduction of a stimulus package to cushion the downturn as well as reduction in the interest rates, we are optimistic that there will be continued loan growth and demand for banking products and services, albeit at a slower rate.

The Bank will focus on 3 key areas in 2009 to maintain the momentum of its financial performance and compete effectively in the more challenging operating conditions in 2009.

Firstly, the Bank will continue to keep close with our customers and continue to deliver relevant products and services to meet their changing needs. We are cognizant of the fact that the changes in the economic environment impact our customers in a variety of ways and we must keep pace with the changing needs to meet their expectations.

Secondly, we shall increase focus on the quality of assets and the repayment ability of our customers, putting greater emphasis on monitoring and prevention as well as restructuring of financing, if viable, to better match the changes in our customer's cashflows. The RHB Banking/Group has invested significant amount of resources directed to provide a robust risk management framework and effective collection capabilities. These efforts are expected to keep rises in delinquencies under control and cushion the Bank from significant deterioration in asset quality. The focus on financing would be on seeking quality customers from both the retail and business segments.

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

Thirdly, we shall implement effective cost containment and improvements in efficiency by leveraging on the RHB Banking Group's scale, technology and effective expense management. The creation of centralized shared services pursuant to the Transformation Program allows the Bank to leverage on its scale and introduce greater transparency and control in expenses throughout the Bank.

Overall, we expect the banking sector to remain resilient and the Bank expects the operating conditions to be challenging yet manageable in 2009. We believe that the RHB Banking Group Transformation Program introduced in 2007 and the adoption of the Universal Banking Structure will allow the Bank to better navigate the more challenging operating environment expected in 2009.

IMMEDIATE HOLDING COMPANY, PENULTIMATE HOLDING COMPANY AND ULTIMATE HOLDING COMPANY

The directors regard RHB Bank Berhad ('RHB Bank') and RHB Capital Berhad, both companies incorporated in Malaysia, and the Employees Provident Fund ('EPF'), a statutory body established in Malaysia, as the immediate holding company, penultimate and ultimate holding body 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 SIRAJ

Chairman

Kuala Lumpur
11 March 2009

JAMELAH JAMALUDDIN

Managing Director

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 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 2008.

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 2008 that we have reviewed are in compliance with the Shariah (Islamic Law) rules and principles;
- b) all investments that have been disclosed to us by the Bank conform to the basis that had been approved by us in accordance with Shariah rules and principles;
- c) the contracts and legal documents of the products used by the Bank that we reviewed are in compliance with the Shariah rules and principles;
- d) the products proposals including concept used by the Bank which have been reviewed and advised by us are in compliance with the Shariah rules and principles; and
- e) The Bank is not required to pay Zakat. This should be paid by shareholders on their shareholding.

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

Wassalamu Alaikum Wa Rahmatullahi Wa Barakatuh

PROF. DR. HAJI ABDUL SAMAT MUSA
Chairman of the Committee

PROF. DR. JONI TAMKIN BORHAN
Member of the Committee

DR. ABDULAZEEM ABOZAID
Member of the Committee

Kuala Lumpur

11 March 2009

balance sheet

as at 31 December 2008

	Note	2008 RM'000	2007 RM'000
ASSETS			
Cash and short-term funds	2	1,342,901	1,934,461
Deposits and placements with banks and other financial institutions	3	–	300,000
Securities held-for-trading	4	404,464	362,892
Securities available-for-sale	5	730,582	145,167
Securities held-to-maturity	6	1,147,357	848,737
Financing and advances	7	5,351,744	4,514,812
Other assets	8	114,907	55,752
Deferred tax assets	9	19,960	22,956
Tax recoverable		9,273	2,096
Statutory deposits with Bank Negara Malaysia	10	199,440	187,929
Property, plant and equipment	11	19,434	12,371
Intangible assets	12	29,518	17,263
TOTAL ASSETS		9,369,580	8,404,436
LIABILITIES AND SHAREHOLDER'S EQUITY			
Deposits from customers	13	7,347,306	6,849,686
Deposits and placements of banks and other financial institutions	14	881,735	378,041
Bills and acceptances payable		34,786	10,102
Other liabilities	15	262,357	427,173
Provision for taxation		–	–
TOTAL LIABILITIES		8,526,184	7,665,002
Ordinary share capital	16	523,424	523,424
Reserves	17	319,972	216,010
TOTAL EQUITY		843,396	739,434
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		9,369,580	8,404,436
COMMITMENTS AND CONTINGENCIES			
	29	1,863,813	2,077,585
CAPITAL ADEQUACY			
Core capital ratio	32	12.07%	16.03%
Risk-weighted capital ratio		13.54%	17.89%

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

income statement

for the financial year ended 31 December 2008

	Note	2008 RM'000	2007 RM'000
Income derived from investment of depositors' funds	18	403,394	372,443
Income derived from investment of shareholder's funds	19	50,809	107,023
Allowance for losses on financing and advances	20	(34,470)	(57,111)
Profit equalisation reserve	15	2,163	10,943
<hr/>			
Total distributable income		421,896	433,298
Income attributable to depositors	21	(182,758)	(161,792)
<hr/>			
		239,138	271,506
Personnel expenses	22	(46,006)	(33,779)
Other overheads and expenditures	23	(78,711)	(75,581)
<hr/>			
Profit before taxation		114,421	162,146
Taxation	25	(28,535)	(43,868)
<hr/>			
Net profit for the financial year		85,886	118,278
<hr/>			
Basic earnings per share (sen)	26	16.41	22.60
<hr/>			
Interim dividend per share –nil (2007:8 sen) less 27% Taxation	27	–	5.84
<hr/>			

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

statement of changes in equity

for the financial year ended 31 December 2008

	Note	Non-distributable		Distributable		Total RM'000
		Share Capital RM'000	Statutory Reserve RM'000	AFS Reserves RM'000	Retained Profits RM'000	
Balance as at 1 January 2008		523,424	123,062	454	92,494	739,434
Unrealised net gain on revaluation of securities available-for-sale ('AFS')		-	-	25,041	-	25,041
Net transfer to income statement on disposal of AFS securities		-	-	(630)	-	(630)
Deferred tax	9	-	-	(6,335)	-	(6,335)
Income recognised directly in equity		-	-	18,076	-	18,076
Net profit for the financial year		-	-	-	85,886	85,886
Total recognised income for the financial year		-	-	18,076	85,886	103,962
Transfer to statutory reserves		-	42,943	-	(42,943)	-
Balance as at 31 December 2008		523,424	166,005	18,530	135,437	843,396
Balance as at 1 January 2007		523,424	63,923	404	63,923	651,674
Unrealised net gain on revaluation of securities available-for-sale ('AFS')		-	-	1,126	-	1,126
Net transfer to income statement on disposal of AFS securities		-	-	(1,058)	-	(1,058)
Deferred tax	9	-	-	(18)	-	(18)
Income recognised directly in equity		-	-	50	-	50
Net 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)	-
Ordinary dividends	27	-	-	-	(30,568)	(30,568)
Balance as at 31 December 2007		523,424	123,062	454	92,494	739,434

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

cash flow statement

for the financial year ended 31 December 2008

	Note	2008 RM'000	2007 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation for the financial year		114,421	162,146
Adjustments for:			
Depreciation of property, plant and equipment		1,869	1,002
Income from:			
- Investment on securities available-for-sale		(14,065)	(4,657)
- Investment on securities held-to-maturity		(21,494)	(12,846)
Net gain on sale of securities available-for-sale		(3,182)	(1,127)
Accretion of discount less amortisation of premium		(20,141)	(23,316)
Unrealised loss from securities held-for-trading		(6,170)	(3,623)
Allowance for losses on financing and advances		34,470	57,111
Write back for profit equalisation reserve		(2,163)	(10,943)
<hr/>			
Operating profit before working capital changes		83,545	163,747
 (Increase)/Decrease in operating assets:			
Deposits and placements with financial institutions		300,000	920,000
Financing and advances		(871,402)	(424,350)
Securities held-for-trading		(35,402)	(44,649)
Other assets		(47,801)	13,193
Statutory deposit with Bank Negara Malaysia		(11,511)	(17,500)
<hr/>			
		(582,571)	610,441
 Increase/(Decrease) in operating liabilities:			
Deposits from customers		497,620	169,262
Deposits and placements of banks and other financial institutions		503,694	(66,882)
Bills and acceptances payable		24,684	(6,440)
Other liabilities		(162,653)	157,399
<hr/>			
Cash generated from operating activities		280,774	863,780
Taxation paid		(39,051)	(65,335)
<hr/>			
Net cash generated from operating activities		241,723	798,445
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cash flow statement

for the financial year ended 31 December 2008 (continued)

	Note	2008 RM'000	2007 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(8,932)	(6,129)
Purchase of intangible assets		(12,255)	(17,263)
Income received from disposal of:			
– Investment on securities available-for-sale		9,159	4,224
– Investment on securities held-to-maturity		15,045	12,472
Net proceeds from:			
– Purchase of securities available-for-sale		(557,534)	(125,191)
– Purchase of securities held-to-maturity		(278,766)	(15,812)
Net cash used in from investing activities		(833,283)	(147,699)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interim dividend paid		–	(30,568)
Net cash used in financing activities		–	(30,568)
ANALYSIS OF CASH AND CASH EQUIVALENT			
Net (decrease)/increase in cash and cash equivalents		(591,560)	620,178
Cash and cash equivalent at the beginning of the financial year		1,934,461	1,314,283
Cash and cash equivalent at end of the financial year	2	1,342,901	1,934,461

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 2008

(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. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

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 in this summary of significant accounting policies), and in accordance with 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 certain critical accounting 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 financial 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 certain degree of judgement and complexity are disclosed in Section (B).

(a) Standards, amendments to published standards and interpretations to existing standards that are effective:

During the financial year, the Bank adopted the following revised FRS issued by MASB that are relevant and effective for financial periods beginning 1 January 2008. The revised FRS that is relevant to the Bank are as follows:

- FRS 107 Cash Flows Statements
- FRS 112 Income Taxes
- FRS 118 Revenue
- FRS 121 The Effects of Changes in Foreign Exchange Rates
- FRS 134 Interim Financial Reporting
- FRS 137 Provisions, Contingent Liabilities and Contingent Assets

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

(b) Standards, amendments to published standards and interpretation to existing standards that are not yet effective and have not been early adopted are as follows:

The new accounting standards and interpretations to existing standards that are relevant and mandatory for the Bank for financial periods beginning 1 January 2009 or later periods, but which the Bank has not early adopted are as follows:

- IC Interpretation 9 Reassessment of Embedded Derivatives (effective for accounting periods beginning on or after 1 January 2010). IC Interpretation 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The adoption of IC 9 does not have any significant financial impact on the results of the Bank.

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1 Basis of Preparation of the Financial Statements (continued)

(b) Standards, amendments to published standards and interpretation to existing standards that are not yet effective and have not been early adopted are as follows: (continued)

- IC Interpretation 10 Interim Financial Reporting and Impairment (effective for accounting periods beginning on or after 1 January 2010). IC Interpretation 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The adoption of IC 10 does not have any significant financial impact on the results of the Bank.
- FRS 139 Financial Instruments: Recognition and Measurement (effective for accounting periods beginning on or after 1 January 2010). FRS139 establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Bank will apply this standard when effective. Nevertheless, the accounting policies of the Bank incorporate requirements of the Guidelines on Financial Reporting for Licensed Islamic Banks ('BNM/GP8i') which includes selected principles of FRS 139.
- FRS 8 Operating Segments (effective for accounting periods beginning on or after 1 January 2009). FRS 8 replaces FRS 114 2004 Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of FRS 8 will require additional disclosure requirements in the Bank's financial statements.
- FRS 7 Financial Instruments: Disclosure (effective for accounting periods beginning on or after 1 January 2010). FRS 7 replaces the disclosures requirements currently in FRS 132: Financial Instruments: Disclosures and Presentation. FRS 7 requires disclosure of quantitative and qualitative information about exposure to risks arising from financial instruments, including minimum disclosures about credit risk, market risk and liquidity risk. The adoption of FRS 7 will require additional disclosure requirements in the Bank's financial statement.

In respect of FRS139 and FRS 7, the Bank have applied the transitional provision in the respective standards which exempts the Bank from disclosing the possible impact arising from the initial application of the standard on the Bank's financial statements.

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'). Classification of the securities is determined at initial recognition.

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2 Securities (continued)

(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 and subsequently carried at fair value. Any gain or loss arising from a change in the fair value or arising from derecognition of such securities is recognised in the income statement.

Pursuant to amendments to BNM Revised Guidelines on Financial Reporting for Licensed Islamic banks (BNM/GP8-i), the Bank is now permitted by BNM for the period from 1 July 2008 to 31 December 2008 to reclassify non-derivative held-for-trading securities into held-to-maturity securities or available-for-sale securities.

Reclassifications are made at fair value as at the date of the reclassification. The fair value of the securities on the date of the reclassification becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before the reclassification date are subsequently made. The effective profit rates for the securities reclassified to Securities HTM are determined at the reclassification date. Further increases in estimates of cash flows adjust the effective profit rates prospectively.

(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 subsequently carried at amortised cost using the effective profit method less accumulated impairment loss. Any gain or loss is recognised in the income statement when the securities are derecognised or impaired and through the amortisation process. See accounting policy 16 on impairment of securities.

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

If the Bank sold or reclassified more than an insignificant amount of the held-to-maturity securities portfolio before maturity (other than under those conditions specified in BNM/GP8-i) during the current financial year or the last two preceding financial years, the entire category would be tainted and reclassified as available-for-sale securities at fair value. The difference between the carrying value and fair value at the date of reclassification is recognised directly in equity.

(iii) Securities Available-For-Sale

Securities available-for-sale are securities that are not classified as held-for-trading or held-to-maturity. Securities available-for-sale are measured at fair value at initial recognition and subsequently carried at fair value less accumulated impairment loss. Any gain or loss arising from a change in fair value, net of income tax, is recognised directly in equity, except for impairment losses and foreign exchange gains and losses. See accounting policy Note 16 on impairment of securities.

Until the securities available-for-sale are derecognised or impaired, at which time the cumulative gains or losses previously recognised in equity shall be transferred to the income statement.

Equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less any impairment loss.

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2 Securities (continued)

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

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.

For loans converted into debt or equity instrument/impaired securities, the Bank shall assess whether there is any objective evidence that the securities or group of securities arising from conversion scheme/other securities are impaired, and the impairment rules shall be applied. See accounting policy Note 16 on impairment of securities.

3 Financing and advances

Financing and advances are recognised when cash is disbursed to customers. They are initially recorded at fair value, which is the cash given to originate the financing and advances, and subsequently are carried at amortised cost, which is represented by the outstanding balance, net of allowances for bad and doubtful debts and unearned profit. They are derecognised when either customers repay their obligations, or the financing and advances are written off, or substantially all the risks and rewards of ownership are transferred. See accounting policy Note 13 on allowance for losses on financing and advances.

4 Other Receivables

Other receivables are carried at cost, net of allowance for bad and doubtful debts (anticipated realisable values). An estimate is made for allowance for bad and doubtful debts based on the review of all outstanding amounts at the end of the financial year. Bad debts are written off during the financial year in which they are identified.

5 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 down their cost to residual values 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 6 for accounting policy on intangible asset).

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5 Property, Plant and Equipment and Depreciation (continued)

The assets residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date. Gains or losses on disposal are determined by comparing proceeds with carrying amount and are included in the income statement.

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 15 on impairment of non-financial assets.

6 Intangible Asset

Computer software is stated at costs less amortisation and accumulated impairment loss.

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.

7 Bills and Acceptances Payable

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

8 Other Provisions

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

9 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.

10 Contingent Liabilities and Contingent Assets

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

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10 Contingent Liabilities and Contingent Assets (continued)

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.

11 Cash and Cash Equivalents

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

For the purpose of the cash flow statements, the cash and cash equivalents are presented net of bank overdrafts.

12 Income Recognition

(i) Finance income is recognised on an accruals basis. Income earned on cashline, home and term financing, and hire purchase/Al-Ijarah Thumma Al-Bai' ('AITAB') is recognised 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 profit earned on non-performing financings are recognised on a 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.

13 Allowance for losses on 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 (3) months. In line with the classification of non-performing financing, the Bank's basis for specific allowance is also from default period of three (3) months.

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

13 Allowance for losses on Financing and Advances (continued)

The Bank's allowance for non-performing financing and advances is in conformity with the minimum requirements of revised BNM's 'Guidelines on the Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts' ('Revised BNM/GP3'). BNM has granted indulgence to the Bank from complying with the requirement on the impairment of financing and advances under the revised BNM/GP3 which states that impaired credit facilities should be measured at their estimated recoverable amount (present value of estimated future cash flows discounted at original effective interest rate).

14 Employee Benefits

(i) Short-term employee benefits

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

(ii) Defined contribution plans

A defined contribution plan is a pension plan under which the Bank pays fixed contributions to the national pension scheme, Employees' Provident Fund ('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 legal or constructive obligations.

(iii) Termination benefits

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

15 Impairment of Non-Financial Assets

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

The recoverable amount is the higher of an non-financial asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, non-financial 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. Any subsequent increase in recoverable amount is recognised in the income statement.

16 Impairment of Securities

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

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16 Impairment of Securities (continued)

(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.

(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 the income statement, the impairment loss is reversed through the income statement.

17 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.

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

18 Zakat

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

19 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.

20 Dividends Payable

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

21 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.

summary of significant accounting policies and critical accounting estimates and assumptions

for the financial year ended 31 December 2008 (continued)

(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Allowance for losses on financing and advances

The Bank makes allowance for losses based on assessment of recoverability. Whilst management's judgement is guided by the relevant BNM guidelines, judgement is made about the future and other key factors in respect of the recoverability 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 financial year ended 31 December 2008

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 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

	2008 RM'000	2007 RM'000
Cash and balances with banks and other financial institutions	(7,470)	1,451
Money at call and deposit placements maturing within one month	1,350,371	1,933,010
	1,342,901	1,934,461

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2008 RM'000	2007 RM'000
Bank Negara Malaysia	-	300,000
	-	300,000

4 SECURITIES HELD-FOR-TRADING

	2008 RM'000	2007 RM'000
<u>At fair value</u>		
<u>Money market instruments:</u>		
Malaysian Government Investment Issues	85,736	9,869
Bank Negara monetary notes	-	53,313
<u>Unquoted Securities</u>		
<u>In Malaysia</u>		
Private debt securities	318,728	299,710
	404,464	362,892

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

5 SECURITIES AVAILABLE-FOR-SALE

	2008 RM'000	2007 RM'000
<u>At fair value</u>		
<u>Money market instruments:</u>		
Khazanah bonds	-	9,738
Malaysian Government Investment Issues	326,673	18,257
Malaysian Government Islamic Treasury Bills	-	38,833
Bank Negara Malaysia monetary notes	-	57,375
<u>Unquoted securities:</u>		
<u>In Malaysia</u>		
Private debt securities	403,334	20,389
	730,007	144,592
<u>At cost</u>		
<u>Unquoted securities</u>		
<u>In Malaysia</u>		
Shares	575	575
	730,582	145,167

6 SECURITIES HELD-TO-MATURITY

	2008 RM'000	2007 RM'000
<u>At amortised cost</u>		
<u>Money market instruments:</u>		
Cagamas Mudharabah bonds	215,122	50,284
Khazanah bonds	281,839	516,703
Malaysian Government Investment Issues	406,053	82,552
<u>Unquoted</u>		
<u>In Malaysia</u>		
Private debt securities	244,343	199,198
	1,147,357	848,737

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

7 FINANCING AND ADVANCES

	2008 RM'000	2007 RM'000
(i) By type		
Cashline	36,530	49,615
Term financing		
- housing financing	1,704,406	1,610,779
- syndicated term financing	555,504	319,793
- hire purchase receivables	807,349	506,009
- other term financing	1,349,326	1,131,094
Claims on customers under acceptance credit	677,058	775,920
Trust receipts	36,480	9,625
Staff financing	12,922	8,908
Revolving financing	502,942	363,582
	5,682,517	4,775,325
Unearned income	(140,208)	(84,229)
Gross financing and advances	5,542,309	4,691,096
Allowance for bad and doubtful financing:		
- general	(97,984)	(82,948)
- specific	(92,581)	(93,336)
Net financing and advances	5,351,744	4,514,812

(ii) Financing and advance analysed by type of customer are as follows:

	2008 RM'000	2007 RM'000
Domestic non-bank financial institutions		
- Others	20,555	25,133
Domestic business enterprises		
- Small medium enterprises	674,412	557,394
- Others	2,180,804	2,038,887
Government and statutory bodies	101,250	101,153
Individuals	2,231,902	1,942,677
Other domestic entities	10,220	14,422
Foreign entities	323,166	11,430
	5,542,309	4,691,096

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

7 FINANCING AND ADVANCES (CONTINUED)

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

	2008 RM'000	2007 RM'000
Bai' Bithaman Ajil ('BBA')	2,213,143	2,652,618
Al-Ijarah Thumma Al-Bai' ('AITAB')	1,451,681	632,305
Murabahah	1,252,689	1,044,896
Istisna'	409,949	311,258
Others	214,847	50,019
	5,542,309	4,691,096

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

	2008 RM'000	2007 RM'000
Fixed rate		
– Home financing	1,620,753	1,610,779
– Hire-purchase receivables	807,349	507,096
– Other fixed rate financing	1,513,692	1,374,724
Variable rate		
– BFR-plus	157,135	58,602
– Cost-plus	1,443,380	1,139,895
	5,542,309	4,691,096

(v) Financing and advances analysed by purpose are as follows:

	2008 RM'000	2007 RM'000
Purchase of securities	80,057	185,180
Purchase of transport vehicles	672,267	359,898
Purchase of landed property:		
– Residential	1,703,170	1,675,536
– Non-residential	147,146	121,664
Purchase of property, plant and equipment other than land and building	441,098	139,877
Personal use	20,322	23,838
Purchase of consumer durables	159	324
Construction	289,809	125,895
Working capital	2,040,232	1,944,903
Other purposes	148,049	113,981
	5,542,309	4,691,096

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

7 FINANCING AND ADVANCES (CONTINUED)

(vi) Movement in allowance for non-performing financing and advances are as follows:

	2008	2007
	RM'000	RM'000
Balance as at the beginning of financial year	282,833	241,786
Classified as non-performing during the financial year	272,830	355,315
Reclassified as performing during the financial year	(215,781)	(272,723)
Amount recovered	(36,382)	(27,898)
Amount written off	(36,143)	(13,647)
	<hr/>	<hr/>
Balance as at the end of financial year	267,357	282,833
Specific allowance	(92,581)	(93,336)
	<hr/>	<hr/>
Net non-performing financing and advances	174,776	189,497
	<hr/>	<hr/>
Ratio of net non-performing financing and advances to net financing and advances	3.3%	4.2%

(vii) Movement in allowance for bad and doubtful financing and advances are as follows:

	2008	2007
	RM'000	RM'000
General allowance		
Balance as at the beginning of financial year	82,948	77,059
Net allowance made during the financial year	15,036	5,889
	<hr/>	<hr/>
Balance as at the end of financial year	97,984	82,948
	<hr/>	<hr/>
As % of gross financing and advances less specific allowance	1.8%	1.8%
	<hr/>	<hr/>
Specific allowance		
Balance as at the beginning of financial year	93,336	48,822
Allowance made during the financial year	36,720	61,089
Amount recovered	(11,590)	(5,682)
Amount written off	(25,885)	(10,893)
	<hr/>	<hr/>
Balance as at the end of financial year	92,581	93,336

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

7 FINANCING AND ADVANCES (CONTINUED)

(viii) Non-performing financing and advances analysed by purpose are as follows:

	2008 RM'000	2007 RM'000
Purchase of transport vehicles	1,043	27
Purchase of landed property:		
– Residential	178,194	170,456
– Non-residential	3,889	3,788
Personal use	5,959	5,299
Purchase of consumer durables	–	2
Construction	1,896	2,170
Working capital	76,376	101,091
	267,357	282,833

8 OTHER ASSETS

	2008 RM'000	2007 RM'000
Income receivable	18,756	5,292
Deposits and prepayments	15,390	9,571
Sundry deposits debtors	6,363	1,031
Other debtors	74,398	39,858
	114,907	55,752

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:

	2008 RM'000	2007 RM'000
Deferred tax assets	19,960	23,353
Deferred tax liabilities	–	(397)
	19,960	22,956

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

9 DEFERRED TAXATION (CONTINUED)

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

2008	Property, plant and 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
Balance as at the beginning of the financial year	(221)	(176)	20,737	2,616	22,956
Transfer from/(to) income statement	-	-	3,910	(571)	3,339
Transfer to equity	-	(6,335)	-	-	(6,335)
Balance as at the end of the financial year	(221)	(6,511)	24,647	2,045	19,960
2007					
Balance as at the beginning of the financial year	(777)	(158)	20,035	2,487	21,587
Transfer to income statement	556	-	702	129	1,387
Transfer to equity	-	(18)	-	-	(18)
Balance as at the end of the financial year	(221)	(176)	20,737	2,616	22,956

10 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

	2008 RM'000	2007 RM'000
Statutory deposits with Bank Negara Malaysia	199,440	187,929

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

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

11 PROPERTY, PLANT AND EQUIPMENT

	Renovations RM'000	Office equipment, furniture and fixtures RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
2008					
Cost					
Balance as at the beginning of the financial year	5,526	1,081	8,434	1,010	16,051
Additions	5,414	357	2,709	452	8,932
Disposals/written off	-	-	(5)	-	(5)
Reclassification	(1,052)	1,052	-	-	-
Balance as at the end of the financial year	9,888	2,490	11,138	1,462	24,978
Accumulated depreciation					
Balance as at the beginning of the financial year	275	511	2,572	322	3,680
Charge for the financial year	166	357	1,095	251	1,869
Disposals/written off	-	-	(5)	-	(5)
Balance as at the end of the financial year	441	868	3,662	573	5,544
Net book value as at the end of the financial year	9,447	1,622	7,476	889	19,434
2007					
Cost					
Balance as at beginning of the financial year	3,875	733	4,816	597	10,021
Additions	1,651	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	5,526	1,081	8,434	1,010	16,051
Accumulated depreciation					
Balance as at the beginning of the financial year	256	498	1,859	163	2,776
Charge for the financial 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
Net book value as at the end of the financial year	5,251	570	5,862	688	12,371

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	2008 RM'000	2007 RM'000
Cost		
Renovations	7,532	4,961
Computer equipment and software	4,835	4,517
	12,367	9,478

12 INTANGIBLE ASSET

	2008 RM'000	2007 RM'000
Computer software		
Cost		
Balance as at the beginning of the financial year	17,263	-
Additions	12,255	17,263
Balance as at the end of the financial year	29,518	17,263

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

13 DEPOSITS FROM CUSTOMERS

	2008 RM'000	2007 RM'000
Non-Mudharabah Funds:		
Demand deposits	1,535,447	1,901,638
Savings deposits	542,606	520,602
Negotiable Islamic Debt Certificates	59,850	91,297
	2,137,903	2,513,537
Mudharabah Funds:		
Demand deposits	332,007	321,276
General investment accounts	1,512,965	1,956,256
Special investment accounts	3,364,431	2,058,617
	7,347,306	6,849,686

The deposits are sourced from the following classes of customers:

Government and statutory bodies	2,017,349	1,713,217
Business enterprises	3,758,692	4,222,990
Individuals	824,405	770,047
Others	746,860	143,432
	7,347,306	6,849,686

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

14 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	2008 RM'000	2007 RM'000
Non-Mudharabah Fund:		
Licensed Islamic banks	414,568	-
Licensed banks	345,250	18,731
Other financial institutions	121,917	-
	881,735	18,731
Mudharabah Fund:		
Licensed Islamic banks	-	174,000
Licensed investment banks	-	169,710
Other financial institutions	-	15,600
	881,735	378,041

15 OTHER LIABILITIES

	2008 RM'000	2007 RM'000
Sundry creditors	11,286	13,897
Profit equalisation reserve (i)	5,736	7,899
Amount due to holding company (ii)	172,393	344,312
Other accruals and payables	72,942	61,065
	262,357	427,173

(i) Profit equalisation reserve:

	2008 RM'000	2007 RM'000
Balance as at the beginning of the financial year	7,899	18,842
Net amount written back	(2,163)	(10,943)
Balance as at the end of the financial year	5,736	7,899

Profit equalisation reserve at the end of the financial year of which the shareholder's portion is RM373,414 (2007:RM583,910).

(ii) The amount due to holding company is unsecured, interest free and has no fixed terms of repayment.

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

16 ORDINARY SHARE CAPITAL

	2008 RM'000	2007 RM'000
Ordinary shares of RM1.00 each:		
Authorised		
Balance as at the beginning/the end of financial year	1,000,000	1,000,000
Issued and fully paid:		
Balance as at the beginning/the end of financial year	523,424	523,424

17 RESERVES

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

The AFS revaluation reserve is arising from a change in the fair value of securities classified as available-for-sale securities. The unrealised gains or losses are transferred to the income statement upon disposal, derecognition or impairment of such securities. The depositors' portion of unrealised gains on available-for-sale securities at the end of the financial year is RM17,324,045 (2007: RM420,816)

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.

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

Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax credits under Section 108(6) of the Income Tax Act, 1967 to pay dividends out of its entire retained profits as at 31 December 2008.

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

18 INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS

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

	2008 RM'000	2007 RM'000
Income derived from investment of:		
(i) General investment deposits	87,090	100,134
(ii) Other deposits	316,304	272,309
	403,394	372,443

(i) Income derived from investment of general investment deposits

Finance income and hibah:

Financing and advances	58,684	67,040
Securities held-for-trading	4,036	4,085
Securities available-for-sale	2,839	1,160
Securities held-to-maturity	4,338	3,198
Money at call and deposit with financial institutions	10,979	14,164
	80,876	89,647
Amortisation of premium less accretion of discount	4,065	5,805
Total finance income and hibah	84,941	95,452
Other operating income (note a to c)	2,149	4,682
	87,090	100,134

a) Fee income :

Commission	1,038	851
Guarantee fees	116	404
	1,154	1,255

b) Net gain/(loss) from sale of :

- Securities held-for-trading	(892)	3,489
- Securities available-for-sale	642	264
	(250)	3,753

c) Net unrealised gain/(loss) on revaluation of securities held-for-trading

	1,245	(326)
	2,149	4,682

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

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

(ii) Income derived from investment of other deposits:

	2008 RM'000	2007 RM'000
Finance income and hibah:		
Financing and advances	213,137	182,311
Securities held-for-trading	14,656	11,110
Securities available-for-sale	10,310	3,153
Securities held-to-maturity	15,756	8,698
Money at call and deposit with financial institutions	39,877	38,517
	293,736	243,789
Amortisation of premium less accretion of discount	14,764	15,787
Total finance income and hibah	308,500	259,576
Other operating income (note a to c)	7,804	12,733
	316,304	272,309
<hr/>		
a) Fee income:		
Commission	3,768	2,312
Guarantee fees	422	1,100
	4,190	3,412
<hr/>		
b) Net gain/(loss) from sale of:		
– Securities held-for-trading	(3,241)	9,490
– Securities available-for-sale	2,332	717
	(909)	10,207
<hr/>		
c) Net unrealised gain/(loss) on revaluation of securities held-for-trading	4,523	(886)
	7,804	12,733

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

19 INCOME DERIVED FROM INVESTMENT OF SHAREHOLDER'S FUNDS

	2008 RM'000	2007 RM'000
Finance income and hibah:		
Financing and advances	18,943	19,905
Securities held-for-trading	1,303	1,213
Securities available-for-sale	916	344
Securities held-to-maturity	1,400	950
Money at call and deposit with financial institutions	3,544	4,205
	26,106	26,617
Amortisation of premium less accretion of discount	1,312	1,724
Total finance income and hibah	27,418	28,341
Other operating income (note a to c)	23,391	78,682
	50,809	107,023
a) Fee income:		
Commission	2,002	2,142
Service charges and fees	20,511	11,185
Guarantee and underwriting fees	201	556
Placement fees	-	63,725
Foreign exchange gains	355	56
	23,069	77,664
b) Net (loss)/gain from sale of:		
- Securities held-for-trading	(287)	1,037
- Securities available-for-sale	207	78
	(80)	1,115
c) Net unrealised gain/(loss) on revaluation of securities held for trading		
	402	(97)
	23,391	78,682

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

20 ALLOWANCES FOR LOSSES ON FINANCING AND ADVANCES

	2008 RM'000	2007 RM'000
Allowance for losses on financing and advances		
Specific allowance:		
– Made during the financial year	36,720	61,089
– Written back during the financial year	(11,590)	(5,682)
General allowance:		
– Made during the financial year	15,036	5,889
Bad financing recovered	(5,696)	(4,185)
	34,470	57,111

21 INCOME ATTRIBUTABLE TO DEPOSITORS

	2008 RM'000	2007 RM'000
Deposits from customers:		
– Mudharabah funds	140,674	133,657
– Non-mudharabah funds	18,718	20,631
Deposits and placements of banks and other financial institutions:		
– Mudharabah funds	7,614	3,388
– Non-mudharabah funds	15,752	4,116
	182,758	161,792

22 PERSONNEL EXPENSES

	2008 RM'000	2007 RM'000
Salaries, allowances and bonuses	36,661	25,969
Contributions to Employee Provident Fund	5,698	4,222
Other staff related cost	3,647	3,588
	46,006	33,779

The number of employees as at the end of the financial year is 540 (2007: 350)

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

23 OTHER OVERHEADS AND EXPENDITURES

	2008 RM'000	2007 RM'000
Establishment cost		
– Depreciation	1,869	1,002
– Rental of premises	3,238	1,843
– Rental equipment	214	182
– Deposit insurance	480	673
– Other business related insurance	64	714
– Water and electricity	393	106
– Repair and maintenance	766	254
– Information technology expenses	2,366	1,026
– Security and escort expenses	1,811	1,526
– Others	130	112
	11,331	7,438
Marketing expenses		
– Advertisement and publicity	3,613	3,917
– Travelling expenses	1,497	1,335
– Motor vehicle expenses	897	539
– Others	3,043	2,770
	9,050	8,561
Administration and general expenses		
– Cost sharing fees	51,013	53,852
– Auditors' remuneration		
– PwC (i)	169	151
– Other professional fees	1,200	633
– Printing, stationery and postages	3,247	2,174
– Telecommunication expenses	1,008	1,002
– Others	1,693	1,770
	58,330	59,582
	78,711	75,581

Included in the administration and general expenses of the Bank are director's remuneration totalling RM706,000 (2007:RM709,000) as disclosed in Note 24.

	2008 RM'000	2007 RM'000
(i) PricewaterhouseCoopers ('PwC')		
Statutory audit	88	108
Fee for other services		
– Limited reviews	35	34
– Other services	46	9
	169	151

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

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

	2008 RM'000	2007 RM'000
Non-Executive Directors		
– Fees	403	303
– Others	303	406
	706	709
Current Managing Director ('MD') and Chief Executive Officer ('CEO')		
– Salary and other remuneration	1,275	363
– Contribution to EPF	204	58
– Benefit-in-kind	36	–
Previous CEO ⁽¹⁾		
– Salary and other remuneration	–	1,000
– Benefit-in-kind	–	43
Shariah Committee members' fees	259	210
	2,480	2,383

⁽¹⁾ 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:

Executive Director/MD

Puan Jamelah Jamaluddin

Non-Executive Directors

Datuk Haji Faisal Siraj (Chairman)

Dato' Mohd Salleh Haji Harun

Dato' Othman Jusoh

Dato Abdullah Mat Noh

Ismael Fariz Ali

Johari Abdul Muid

Michael Joseph Barrett

(Ceased as Director on 20 September 2008)

Charles Lew Foon Keong

(Appointed as Director on 14 October 2008)

Eirvin Bee Knox

(Appointed as Director on 24 October 2008)

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

Executive RM	2008 Number of Directors	2007 Number of Directors
0 – 500,000	–	1
500,000 – 1,520,000	1	–
Non-Executive RM	2008 Number of Directors	2007 Number of Directors
0 – 50,000	3	2
50,000 – 100,000	6	5

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

25 TAXATION

	2008 RM'000	2007 RM'000
Malaysian income tax:		
– Current tax	31,874	45,255
Deferred taxation (Note 9)	(3,339)	(1,387)
	28,535	43,868
Current tax		
Current year	31,874	43,664
Under provision in respect of prior years	–	1,591
	31,874	45,255
Deferred tax		
Origination and reversal of temporary differences	(3,339)	737
Change in tax rate	–	837
Benefit from previously unrecognised temporary difference	–	(2,961)
	28,535	43,868

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

	2008 %	2007 %
Malaysian tax rate of 26% (2007:27%)	26.0	27.0
Tax effect of:		
Expenses not deductible for tax purposes	0.1	0.2
Effect of change in tax rate from 26% to 25%	–	0.5
Under provision in respect of prior years	–	1.0
Temporary difference not recognised in prior years	–	(1.6)
Income not subject to tax	(1.2)	–
Average effective tax rate	24.9	27.1

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

26 EARNINGS PER SHARE

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

	2008 RM'000	2007 RM'000
Basic:		
Net profit for the financial year (RM'000)	85,886	118,278
Weighted average number of ordinary shares in issue ('000)	523,424	523,424
Basic earnings per share (sen)	16.41	22.60

27 ORDINARY DIVIDENDS

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

	2008		2007	
	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
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.

notes to the financial statements

for the financial year ended 31 December 2008 (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
RHB Capital Berhad	Penultimate holding company
RHB Bank 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 penultimate 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">– All Directors of the Bank, RHB Bank Berhad and RHB Capital Berhad– RHB Capital Berhad Central Management Committee members– Key management personnel of EPF who are in charge of the RHB Capital Group
Related parties of key management 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

(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 2008 (continued)

28 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

	Holding company RM'000	Key Management Personnel RM'000	Other related companies RM'000
2008			
Income			
Income on deposits and placement	2,014	-	302
	2,014	-	302
Expenditure			
Profit expense on deposits and placements	8,679	-	-
Dividends on deposits (Hibah)	-	12	-
Reimbursement of operating expenses to holding company	51,009	-	-
	59,688	12	-
Amount Due From			
Deposits and placements of banks and other financial institutions	63,214	-	-
Other assets	12,133	-	-
	75,347	-	-
Amount Due To			
Savings deposits	-	513	-
Current account and investment deposits	-	1,047	1,584
Deposits and placements of banks and other financial institutions	349,031	-	-
Other liabilities	172,393	-	124
	521,424	1,560	1,708
2007			
Income			
Commission	-	-	294
	-	-	294
Expenditure			
Dividends on deposits (Hibah)	-	12	-
Rental of premises	-	-	151
Reimbursement of operating expenses to holding company	54,366	-	-
Other	30,568	-	-
	84,934	12	151
Amount due to			
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
	344,312	537	5,136

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

28 SIGNIFICANT RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

c) Credit exposures arising from transactions with connected parties

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

	Bank 31.12.2008 RM'000
Outstanding credit exposures with connected parties	75,898
Percentage of outstanding credit exposures to connected parties as proportion of total credit exposures	0.97%
Percentage of outstanding credit exposures with connected parties which is non-performing or in default	-

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

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.

	Principal Amount RM'000	2008 Credit Equivalent Amount ** RM'000	Risk Weighted Amount RM'000
Transaction-related contingent items	149,200	74,600	64,399
Short-term self-liquidating trade-related contingencies	112,515	22,503	22,503
Obligations under underwriting agreements	70,000	35,000	35,000
Irrevocable commitments to extend credit:			
– maturity more than one year	324,187	162,094	156,572
– maturity less than one year	1,207,911	241,582	241,582
Total	1,863,813	535,779	520,056

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

29 COMMITMENTS AND CONTINGENCIES (CONTINUED)

	Credit Principal Amount RM'000	2007* Risk Equivalent Amount ** RM'000	Weighted Amount RM'000
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	-	-
Total	2,077,585	312,430	292,781

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

** For previous financial year, the credit equivalent amount ('CE') and risk weighted amount ('RWA') for the Bank were computed in accordance with BNM's Guidelines on Risk Weighted Capital Adequacy Framework for Credit and Market (Basel 1). For the current financial year, the CE and RWA for the Bank are computed in accordance with BNM's Capital Adequacy Framework for Islamic Banks (CAFIB): Standardised Approach for Credit and Market Risk, and Basic Indicator Approach for Operational Risk (Basel II) respectively.

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 2008 (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 2008 (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

2008	←----- Non-trading book -----→					Non-profit sensitive RM'000	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				
Assets									
Cash and short term funds	1,350,371	-	-	-	-	(7,470)	-	1,342,901	3.28
Securities held-for-trading	-	-	-	-	-	-	404,464	404,464	4.20
Securities available-for-sale	-	-	-	399,190	330,817	575	-	730,582	5.39
Securities held-to-maturity	-	5,018	368,487	419,141	354,711	-	-	1,147,357	4.31
Financing and advances									
- performing	503,410	481,142	651,996	426,252	3,212,152	-	-	5,274,952	5.89
- non-performing	-	-	-	-	-	76,792*	-	76,792	
Other assets	-	-	-	-	-	114,907	-	114,907	
Deferred tax assets	-	-	-	-	-	19,960	-	19,960	
Tax recoverable	-	-	-	-	-	9,273	-	9,273	
Statutory deposits with BNM	-	-	-	-	-	199,440	-	199,440	
Property, plant and equipment	-	-	-	-	-	19,434	-	19,434	
Intangible asset	-	-	-	-	-	29,518	-	29,518	
Total assets	1,853,781	486,160	1,020,483	1,244,583	3,897,680	462,429	404,464	9,369,580	

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

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for the financial year ended 31 December 2008 (continued)

30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Profit Rate Risk (continued)

2008 (continued)	←----- 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	3,530,826	1,144,522	1,749,847	13,818	-	908,293	-	7,347,306	2.51
Deposits and placements of banks and other financial institutions	221,916	-	314,569	-	345,250	-	-	881,735	3.35
Bills and acceptances payable	-	-	-	-	-	34,786	-	34,786	3.75
Other liabilities	-	-	-	-	-	262,357	-	262,357	
Total liabilities	3,752,742	1,144,522	2,064,416	13,818	345,250	1,205,436	-	8,526,184	
Total shareholder's equity	-	-	-	-	-	843,396	-	843,396	
	3,752,742	1,144,522	2,064,416	13,818	345,250	2,048,832	-	9,369,580	
Total profit-sensitivity gap	(1,898,961)	(658,362)	(1,043,933)	1,230,765	3,552,430				

2007 (continued)	←----- Non-trading book -----→						Trading book RM'000	Total RM'000	Effective profit rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-profit sensitive RM'000			
Assets									
Cash and short term funds	1,933,010	-	-	-	-	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 taxation assets	-	-	-	-	-	22,956	-	22,956	-
Tax recoverable	-	-	-	-	-	2,096	-	2,096	-
Statutory deposits with BNM	-	-	-	-	-	187,929	-	187,929	-
Property, plant and equipment	-	-	-	-	-	12,371	-	12,371	-
Intangible asset	-	-	-	-	-	17,263	-	17,263	-
Total assets	2,703,861	465,886	1,102,322	1,443,911	1,918,622	406,942	362,892	8,404,436	

* 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 2008 (continued)

30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Profit Rate Risk (continued)

2007 (continued)	←----- 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	3,313,239	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	-
Total liabilities	3,691,280	1,042,045	1,177,908	65,784	-	1,687,985	-	7,665,002	-
Total shareholder's equity	-	-	-	-	-	739,434	-	739,434	-
	3,691,280	1,042,045	1,177,908	65,784	-	2,427,419	-	8,404,436	-
Total profit-sensitivity gap	(987,419)	(576,159)	(75,586)	1,378,127	1,918,622				

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:

2008	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	-	-	-	-	280,870	-	280,870	123,801
Mining and quarrying	-	-	-	-	4,000	-	4,000	202
Manufacturing	-	-	-	-	691,832	-	691,832	579,180
Electricity, gas and water	-	83,225	-	49,971	172,147	-	305,343	15,864
Construction	-	-	-	-	288,524	-	288,524	383,505
Real estate	-	-	-	-	182,385	-	182,385	29,517
Purchase of landed property	-	-	52,685	16,236	1,986,767	-	2,055,688	103,643
General commerce	-	-	-	-	582,151	-	582,151	344,550
Transport, storage and communication	-	70,919	15,087	9,923	632,783	-	728,712	82,838
Finance, insurance and business service	79,929	123,379	62,099	338,596	22,094	-	626,097	31,263
Government and government agencies	1,261,411	126,941	600,136	732,631	-	-	2,721,119	-
Purchase of securities	-	-	-	-	80,058	-	80,058	-
Consumption credit	-	-	-	-	-	-	-	7,859
Others	-	-	-	-	526,117	-	526,117	161,591
	1,341,340	404,464	730,007	1,147,357	5,449,728	-	9,072,896	1,863,813

Excludes general allowance amounting to RM97,983,748

* Excludes statutory deposit with BNM of RM199,440,180, deferred tax assets of RM19,959,535, tax recoverable of RM9,273,770, property, plant and equipment of RM19,433,380 and intangible assets of RM29,517,932.

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit Management Risk (continued)

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	–	25,111	20,389	16,460	427,106	–	489,066	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

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 RM12,730,391 and intangible assets of RM17,263,334.

(b) Liquidity Risk

- ALCO plays a fundamental role in the asset/liability management of the Bank, and establishes strategies that assist in controlling and reducing any potential exposures to liquidity risk.
- Limits on the minimum portion of maturing funds available to meet obligations and the minimum level of inter-bank and other borrowing facilities are set to ensure adequate cover for withdrawals at unexpected levels of demand.
- Defined liquidity management ratios are maintained and monitored on an active basis.
- The Bank's liquidity framework is subject to periodic stress tests and the results are constantly reviewed to ensure constant compliance with BNM's Liquidity Framework.
- The Bank has established a comprehensive Group Liquidity Policy Statement. In addition, detailed plans to manage any potential adverse liquidity incidences have also been put in place; and can be implemented on a timely basis so that appropriate actions can be taken to remedy any unexpected market developments.

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Credit Risk

- The Bank abides strictly by a Board approved credit policy which supports the development of a strong credit culture with the objectives of maintaining a well diversified, evaluated and current portfolio, that is fully satisfied for credit risk, and which gives no concern for unexpected losses, and which ensures a reliable and satisfactory risk weighted return. Market best practices are incorporated into this policy.
- The Bank ensures that stringent measures and processes are in place before credit proposals are approved. All credit proposals are first evaluated by the originating business units before being independently evaluated by an independent credit evaluation and management function. The Central Credit Committee and the Central Loans Committee sanction credits beyond well established prudential threshold. The strict adherence to the discretionary powers sanctioned by the Board is monitored by the Central Compliance function.
- A risk rating system is used to categorize the risk of individual credits and determine whether the Bank is adequately compensated. Clients' accounts are reviewed at regular intervals and weakening credits are transferred to Loan Recovery for more effective management.
- Counter-party, industry and product exposure limits/directions are set and risk reward relationships are mapped with the aim of maintaining a diverse credit profile and track changing risk concentrations in response to market changes and external events.
- The Bank is moving towards the advanced Basel II approaches by implementing key program components which includes (i) enhancing the economic returns of the Bank using established and proven credit risk framework and methodologies, (ii) implementing and using empirical credit scoring models for consumer financing and credit grading models for business loans, and (iii) designing and implementing modelling of expected and unexpected losses. In addition, an economic capital management framework incorporating advanced risk based pricing and funds transfer pricing has been developed, which also facilitates the Bank in meeting the Pillar II requirements of the Basel II Accord Internal Ratings Based Approach.

(D) 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 minimize unexpected losses.

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for the financial year ended 31 December 2008 (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:

2008

	Carrying value RM'000	Estimated fair value RM'000
Financial assets		
Securities held-to-maturity	1,147,357	1,173,387
Financing and advances	5,351,744	5,232,894*

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*

* Financing and advances are stated at cost and not fair value but are subject to impairment in accordance with the revised 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 2008 (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 2008 (continued)

32 CAPITAL ADEQUACY

With effect from 1 January 2008, the capital adequacy ratios of the Bank are computed in accordance with Bank Negara Malaysia Capital Adequacy Framework for Islamic Banks ('CAFIB'): Standardised Approach for Credit and Market Risk and Basic Indicator Approach for Operational Risk.

	2008	2007*
	RM'000	RM'000
Tier I Capital		
Paid-up ordinary share capital	523,424	523,424
Retained profits	135,437	92,494
Statutory reserve	166,005	123,062
	824,866	738,980
Less :		
Deferred tax assets	(19,960)	(22,956)
Total Tier I capital	804,906	716,024
Tier II Capital		
General allowance for bad and doubtful financing	97,984	82,948
Total Tier II capital	97,984	82,948
Total capital base	902,890	798,972
Core capital ratio (inclusive of market risk)	12.07%	16.03%
Risk-weighted capital ratio (inclusive of market risk)	13.54%	17.89%

The Bank has applied paragraph 7.2 of the Concept Paper – Risk Weighted Capital Adequacy Framework (Basel II) and CAFIB – Disclosure Requirement (Pillar 3) dated 5 December 2008, where the Bank is exempted from disclosing comparative figures of the corresponding period in previous financial year.

* For previous financial year, core capital ratio and risk-weighted capital ratio for the Bank were computed in accordance with BNM's Guidelines on Risk Weighted Capital Adequacy Framework for Credit and Market (Basel 1).

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

32 CAPITAL ADEQUACY (CONTINUED)

	2008	
	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%	2,210,916	-
10%	-	-
20%	1,239,863	247,972
50%	14,445	7,223
75%	2,086,771	1,565,078
100%	3,718,512	3,718,512
150%	299,760	449,640
	9,570,267	5,988,425
(ii) Market Risk Capital Adequacy Framework	-	164,961
(iii) Basic Indicator Operational Risk Capital Charge	-	514,676
	9,570,267	6,668,062

	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
	8,406,155	4,376,759
(ii) Market Risk Capital Adequacy Framework #	-	89,414
	8,406,155	4,466,173

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.

* For previous financial year, core capital ratio and risk-weighted capital ratio for the Bank were computed in accordance with BNM's Guidelines on Risk Weighted Capital Adequacy Framework for Credit and Market (Basel 1).

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

32 CAPITAL ADEQUACY (CONTINUED)

DISCLOSURE ON CAPITAL ADEQUACY UNDER THE STANDARDISED APPROACH

Item	Exposure Class	Gross Exposure		Net Exposure	Risk Weighted Assets	Risk Weighted Assets Absorbed by PSIA	Total Risk Weighted Assets after effects of PSIA	Capital Requirements
1.0	Credit Risk							
	<i>On-Balance Sheet Exposures</i>							
	Sovereigns/Central Banks	2,210,916		2,210,916	-	-	-	-
	Public Sector Entities	-		-				-
	Banks, Development Financial Institutions & MDBs	95,517		95,517	19,103	-	19,103	1,528
	Insurance Cos, Securities Firms & Fund Managers	-		-	-	-	-	-
	Corporates	4,312,556		4,312,556	3,455,962	-	3,455,962	276,477
	Regulatory Retail	2,064,686		2,064,686	1,548,515	-	1,548,515	123,881
	Residential Mortgages	-		-	-	-	-	-
	Higher Risk Assets	-		-	-	-	-	-
	Other Assets	-		-	-	-	-	-
	Specialised	-		-	-	-	-	-
	Financing/Investment	-		-	-	-	-	-
	Equity Exposure	-		-	-	-	-	-
	Securitisation Exposures	-		-	-	-	-	-
	Other Assets	117,525		117,525	115,890	-	115,890	9,271
	Defaulted Exposures	233,288		233,288	328,899	-	328,899	26,312
	Total for On-Balance Sheet Exposures	9,034,488		9,034,488	5,468,369	-	5,468,369	437,469
	<i>Off-Balance Sheet Exposures</i>							
	OTC Derivatives	-		-	-	-	-	-
	Credit Derivatives	-		-	-	-	-	-
	Off balance sheet exposures other than OTC derivatives or credit derivatives	535,779		535,779	520,056	-	520,056	41,604
	Defaulted Exposures	-		-	-	-	-	-
	Total for Off-Balance Sheet Exposures	535,779		535,779	520,056	-	520,056	41,604
	Total On and Off-Balance Sheet Exposures	9,570,267		9,570,267	5,988,425	-	5,988,425	479,073
2.0	Large Exposures Risk Requirement	-		-	-	-	-	-
3.0	Market Risk	Long Position	Short Position					
	Interest Rate Risk	404,464	-	404,464	152,587	-	152,587	12,207
	Foreign Currency Risk	12,379	-	12,379	12,374	-	12,374	990
	Equity Risk	-	-	-	-	-	-	-
	Commodity Risk	-	-	-	-	-	-	-
	Inventory Risk	-	-	-	-	-	-	-
	Total Market Risk	416,843	-	416,843	164,961	-	164,961	13,197
4.0	Operational Risk				514,676	-	514,676	41,174
5.0	Total RWA and Capital Requirements				6,668,062	-	6,668,062	533,444

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

32 CAPITAL ADEQUACY (CONTINUED)

DISCLOSURE ON CREDIT RISK: DISCLOSURES ON RISK WEIGHTS

Risk Weighted	Exposures after Netting and Credit Risk Mitigation												Total Exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	PSEs	Banks, MDBs and FDIIs	Insurance Cos, Securities Firms & Fund Managers	Corporates	Regulatory Retail	Residential Mortgages	Higher Risk Assets	Other Assets	Specialised Financing/ Investment	Securitisation	Equity		
0%	2,210,916	-	-	-	-	-	-	-	-	-	-	-	2,210,916	-
10%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	95,517	-	1,142,303	-	-	-	2,043	-	-	-	1,239,863	247,972
35%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50%	-	-	-	-	12,289	2,156	-	-	-	-	-	-	14,445	7,223
75%	-	-	-	-	-	2,086,771	-	-	-	-	-	-	2,086,771	1,565,078
90%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	3,595,832	7,198	-	-	115,482	-	-	-	3,718,512	3,718,512
110%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
125%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	111,805	182,516	-	5,439	-	-	-	-	299,760	449,640
Total Exposures	2,210,916	-	95,517	-	4,862,229	2,278,641	-	5,439	117,525	-	-	-	9,570,267	
Risk Weighted Assets by Exposure	-	-	19,103	-	3,998,145	1,847,127	-	8,159	115,891	-	-	-		5,988,425
Average Risk Weight	0.0%	-	20.0%	-	82.2%	81.1%	-	150.0%	98.6%	-	-	-		62.6%
Deduction from capital base	-	-	-	-	-	-	-	-	-	-	-	-	-	-

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

32 CAPITAL ADEQUACY (CONTINUED)

DISCLOSURE ON OFF BALANCE SHEET AND COUNTERPARTY CREDIT RISK

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
Direct Credit Substitutes				
Transaction related contingent items	149,200		74,600	64,399
Short Term Self Liquidating trade related contingencies	112,515		22,503	22,503
Assets sold with recourse	-		-	-
Forward Assets purchases	-		-	-
Obligations under an on-going underwriting agreement	70,000		35,000	35,000
Lending of banks' securities or the posting of securities as collateral by banks, including instances where these arise				
Out of repo-style transactions. (i.e. repurchase/reverse repurchase and securities lending/borrowing transactions)	-		-	-
Foreign exchange related contracts				
One year or less	-	-	-	-
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
Interest/Profit rate related contracts				
One year or less	-	-	-	-
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
Equity related contracts				
One year or less	-	-	-	-
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
Gold and Other Precious Metal Contracts				
One year or less	-	-	-	-
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
Other Commodity Contracts				
One year or less	-	-	-	-
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
Credit Derivative Contracts				
One year or less	-	-	-	-
Over one year to five years	-	-	-	-
Over five years	-	-	-	-
OTC Derivative transactions and credit derivative contracts Subject to valid bilateral netting agreements				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	324,187		162,094	156,572
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year	1,207,911		241,582	241,582
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	-		-	-
Unutilised credit card lines	-		-	-
Off-balance sheet items for securitisation exposures	-		-	-
Off-balance sheet exposures due to early amortisation provisions	-		-	-
Total	1,863,813	-	535,779	520,056

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

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.

Transaction banking

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

Corporate Finance

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

Automobile

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

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

33 SEGMENT INFORMATION (CONTINUED)

2008	Corporate Banking RM'000	Commercial Banking RM'000	Consumer Banking RM'000	Treasury & Money & Market RM'000	Transaction Banking RM'000	ICBU RM'000	Others* RM'000	Elimination RM'000	Total RM'000
External revenue	116,029	21,962	108,518	132,242	6,077	8,133	26,772	-	419,733
Inter-segment revenue #	(48,700)	(3,640)	(10,310)	7,895	67,410	573	(13,228)	-	-
Total revenue	67,329	18,322	98,208	140,137	73,487	8,706	13,544	-	419,733
Depositors' payout	(6,680)	(5,488)	(17,306)	(112,943)	(29,744)	(8,947)	(1,650)	-	(182,758)
Net income	60,649	12,834	80,902	27,194	43,743	(241)	11,894	-	236,975
Operating overheads	(12,035)	(13,523)	(37,508)	(13,585)	(20,162)	(936)	(26,968)	-	(124,717)
Segmental results	48,614	(689)	43,394	13,609	23,581	(1,177)	(15,074)	-	112,258
Segmental results									112,258
Profit equalisation reserve									2,163
Profit before taxation									114,421
Taxation									(28,535)
Profit for the financial year									85,886
Segment assets	2,050,773	600,818	1,816,973	4,684,172	1,659,452	395,161	859,043	(2,535,269)	9,531,123
Deferred taxation assets	-	-	-	-	-	-	-	-	19,960
Tax recoverable	-	-	-	-	-	-	-	-	9,274
Unallocated assets	-	-	-	-	-	-	-	-	-
Total assets	2,050,773	600,818	1,816,973	4,684,172	1,659,452	395,161	859,043	(2,535,269)	9,560,357
Segment liabilities	1,863,641	531,089	1,571,670	4,136,011	1,659,452	363,357	859,043	(2,535,269)	8,448,994
Profit Equalisation Reserves	-	-	-	-	-	-	-	-	7,899
	1,863,641	531,089	1,571,670	4,136,011	1,659,452	363,357	859,043	(2,535,269)	8,456,893
Other segment items:									
Capital expenditure	2,119	3,178	10,169	2,967	2,754	-	-	-	21,187
Depreciation	187	280	897	262	243	-	-	-	1,869
Financing loss provision	4,364	9,127	6,213	-	-	-	14,766	-	34,470
Net accretion of discount	-	-	-	20,141	-	-	-	-	20,141

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 Investment Banking, International Currency Business Unit and Automobile Division

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

33 SEGMENT INFORMATION (CONTINUED)

2007	Corporate Banking RM'000	Commercial Banking RM'000	Consumer Banking RM'000	Treasury & Money Market RM'000	Transaction Banking RM'000	Others* RM'000	Elimination RM'000	Total RM'000
External revenue	78,797	33,893	102,925	142,344	3,995	60,401	-	422,355
Inter-segment revenue #	(59,101)	(11,147)	(17,238)	20,790	67,010	(314)	-	-
Total revenue	19,696	22,746	85,687	163,134	71,005	60,087	-	422,355
Depositors' payout	(5,180)	(3,148)	(16,392)	(102,850)	(31,388)	(2,834)	-	(161,792)
Net income	14,516	19,598	69,295	60,284	39,617	57,253	-	260,563
Operating overheads	(8,579)	(11,915)	(52,229)	(12,069)	(18,676)	(5,892)	-	(109,360)
Segmental results	5,937	7,683	17,066	48,215	20,941	51,361	-	151,203
Segmental results								151,203
Profit equalisation reserve								10,943
Profit before taxation								162,146
Taxation								(43,868)
Net profit for the financial period								118,278
Segment assets	2,003,721	534,863	1,876,729	3,944,911	1,859,876	500,711	(2,370,548)	8,350,263
Deferred taxation assets	-	-	-	-	-	-	-	22,956
Tax recoverable	-	-	-	-	-	-	-	2,096
Unallocated assets	-	-	-	-	-	-	-	29,121
Total assets	2,003,721	534,863	1,876,729	3,944,911	1,859,876	500,711	(2,370,548)	8,404,436
Segment liabilities	1,842,217	489,977	1,813,772	3,580,478	1,825,801	475,406	(2,370,548)	7,657,103
Profit Equalisation Reserves	-	-	-	-	-	-	-	7,899
	1,842,217	489,977	1,813,772	3,580,478	1,825,801	475,406	(2,370,548)	7,665,002
Other segment items								
Capital expenditure	2,339	3,509	11,228	3,275	3,041	-	-	23,392
Depreciation	100	150	482	140	130	-	-	1,002
Financing loss provision	41,013	7,316	4,416	-	-	4,366	-	57,111
Net accretion of discount	-	-	-	23,316	-	-	-	23,316

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 Investment Banking, International Currency Business Unit and Automobile

notes to the financial statements

for the financial year ended 31 December 2008 (continued)

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.

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.

statement by directors

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

We, Datuk Haji Faisal 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 50 to 104 are drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2008 and of the results and cash flows of the Bank for the financial year ended on that date in accordance with the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965.

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

DATUK HAJI FAISAL SIRAJ

Chairman

JAMELAH JAMALUDDIN

Managing Director

Kuala Lumpur
11 March 2009

statutory declaration

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

I, Haryadi Katmun @ Katmon, the officer primarily responsible for the financial management of RHB Islamic Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 50 to 104 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 11 March 2009.

Before me:

COMMISSIONER FOR OATHS

Kuala Lumpur

independent auditors' report

to the member of RHB Islamic Bank Berhad

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of RHB Islamic Bank Berhad, which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 50 to 104.

Directors' Responsibility for the Financial Statements

The directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Bank as of 31 December 2008 and of its financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Bank have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

This report is made solely to the members of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS

(No. AF: 1146)
Chartered Accountants

MOHAMMAD FAIZ BIN MOHAMMAD AZMI

(No. 2025/03/10 (J))
Chartered Accountant

Kuala Lumpur
11 March 2009

RHB Islamic Bank branches

- 1) **Main Branch**
No. 19A-1-1 & 19A-1-2
Level 1, UOA Centre
No. 19, Jalan Pinang
50450 Kuala Lumpur
Tel : (03) 2161 1599
Fax : (03) 2161 0599
- 2) **Regional Office East Malaysia**
192-E & 192-F, Jalan Satok
93400 Kuching, Sarawak
Tel : (082) 238 400
Fax : (082) 413 619
- 3) **Pusat Bandar Kelana Jaya**
A-G-03, Jalan SS6/5A
Dataran Glomac
Pusat Bandar Kelana Jaya
47301 Kelana Jaya
Selangor
Tel : (03) 7803 4614
Fax : (03) 7880 6716
- 4) **Bandar Baru Bangi**
No. 39, Jalan Medan Pusat Bandar 4
Pusat Bandar
43650 Bandar Baru Bangi
Selangor
Tel : (03) 8926 5433
Fax : (03) 8926 3343
- 5) **Taman Flora Utama, Batu Pahat**
Ground Floor, No 1 & 2
Jalan Flora Utama 1
Taman Flora Utama
83000 Batu Pahat, Johor
Tel : (07) 433 6777
Fax : (07) 433 4848
- 6) **Kubang Kerian, Kota Bharu**
Lot 1679
Jalan Raja Perempuan Zainab 2
Bandar Baru Kubang Kerian
16150 Kota Bharu
Kelantan
Tel : (09) 764 0222
Fax : (09) 764 0700
- 7) **Paya Keladi, Kuala Terengganu**
Unit 20
Pusat Niaga Paya Keladi
20200 Kuala Terengganu
Terengganu
Tel : (09) 630 5757/5556
Fax : (09) 630 5533
- 8) **Jalan Satok, Kuching**
192-E & 192-F, Jalan Satok
93400 Kuching, Sarawak
Tel : (082) 258 800
Fax : (082) 243 900
- 9) **Jalan Masjid India Marketing Centre**
137, Ground Floor
Jalan Bunus via Jalan Masjid India
50100 Kuala Lumpur
Tel : (03) 2693 6300
Fax : (03) 2693 7300
- 10) **Jalan Gaya, Kota Kinabalu Marketing Centre**
No 104, Ground & 1st Floor
Jalan Gaya
88000 Kota Kinabalu
Sabah
Tel : (088) 266 600
Fax : (088) 265 500
- 11) **Automobile Business Centre Taman Indah**
2nd Floor, No. 7 & 9
Jalan SS2/1 Off Jalan Balakong
Taman Indah, Batu 11
43200 Cheras, Selangor
Tel : (03) 9075 5959
Fax : (03) 9075 3872