

Serial No:.....

PRIVATE AND CONFIDENTIAL



## INFORMATION MEMORANDUM

**In relation to the Proposed Issuance of up to RM3.0 billion nominal value of Subordinated Notes and/or Senior Notes under a Medium Term Note Programme**

Principal Adviser / Lead Arranger



Joint Bookrunners



Co-Manager



Information Memorandum dated 23 October 2007

## **RESPONSIBILITY STATEMENT**

This Information Memorandum has been approved by the directors of RHB Bank Berhad (“RHB Bank” or the “Issuer”) and they collectively and individually accept full responsibility for the accuracy of the information given and confirm that, after having made all reasonable enquiries in the circumstances, and to the best of their knowledge, information and belief, there are no false or misleading statements or other material facts the omission of which would make any statement in this Information Memorandum false or misleading and that there are no material omissions from this Information Memorandum.

## **IMPORTANT NOTICE AND GENERAL STATEMENTS OF DISCLAIMER**

The Issuer has authorised RHB Investment Bank Berhad (“RHB Investment Bank” or the “Principal Adviser/Lead Arranger”) and ABN AMRO Bank Berhad (collectively, the “Joint Bookrunners”) and Citibank Berhad (“Co-Manager”) to distribute this Information Memorandum, which is now being provided by the Principal Adviser/Lead Arranger, the Joint Bookrunners and the Co-Manager on a confidential basis to potential investors for the sole purpose of assisting such investors to decide whether to subscribe for or purchase up to RM3.0 billion in nominal value of subordinated notes and/or senior notes (collectively, the “Notes”) to be issued by the Issuer under a medium term note programme (“MTN Programme”).

At the point of issuance of the Notes, the Notes shall not be issued, offered, sold, transferred or otherwise disposed of, directly or indirectly, nor may any document or other material in connection therewith including this Information Memorandum be distributed, in Malaysia other than to persons, whether as principal or agent, falling within any one of the categories of persons specified in Schedule 6 or section 229(1)(b) or Schedule 7 or section 230(1)(b), and Schedule 9 or section 257(3) of the Capital Markets and Services Act, 2007 (“CMSA”).

Subsequent to the issuance of the Notes, the Notes shall not be offered or sold directly or indirectly, nor may any document or other material in connection therewith including this Information Memorandum be distributed, in Malaysia other than to persons, whether as principal or agent, falling within any one of the categories of persons specified in Schedule 6 or section 229(1)(b) and Schedule 9 or section 257(3) of the CMSA.

This Information Memorandum may not be, in whole or in part, reproduced or used for any other purpose, or shown, given, copied to or filed with any other person including, without limitation, any government or regulatory authority except with the prior consent of the Issuer or as required under Malaysian laws, regulations or guidelines.

No representation or warranty, express or implied, is given or assumed by the Principal Adviser/Lead Arranger, the Joint Bookrunners and the Co-Manager as to the authenticity, origin, validity, accuracy or completeness of information and data contained in this Information Memorandum or that the information or data remains unchanged in any respect after the relevant date shown in this Information Memorandum.

The Principal Adviser/Lead Arranger, the Joint Bookrunners and the Co-Manager have not accepted and will not accept any responsibility for the information and data contained in this Information Memorandum or otherwise in relation to the Notes and shall not be liable for any consequences of reliance on any of the information or data in this Information Memorandum, except as provided by Malaysian laws. No person is authorised to give any information or data or to make any representation or warranty other than as contained in this Information Memorandum and, if given or made, any such information, data, representation or warranty must not be relied upon as having been authorised by the Issuer, the Principal Adviser/Lead Arranger, the Joint Bookrunners, the Co-Manager or any other person.

This Information Memorandum should not be construed as a recommendation by the Issuer, the Principal Adviser/Lead Arranger, the Joint Bookrunners, the Co-Manager, any of its advisers or any other party to subscribe for or purchase the Notes. Further, the information contained herein should not be read as a representation or warranty, expressed or implied, as to the merits of the Notes or the purchase thereof. This Information Memorandum is not a substitute for, and should not be regarded as, an independent evaluation and analysis. Each recipient should perform and is deemed to have made his/its own independent investigation and analysis of the Issuer, the Notes and all other relevant matters, including but not limited to the information and data set out in this Information Memorandum, and each recipient should consult its own professional advisers.

This Information Memorandum has not been and will not be made to comply with the laws of any jurisdiction outside Malaysia ("Foreign Jurisdiction"), and has not been and will not be lodged, registered or approved pursuant to or under any legislation of (or with or by any regulatory authorities or other relevant bodies of) any Foreign Jurisdiction and it does not constitute an offer of, or an invitation to subscribe for or purchase the Notes or any other securities of any kind by any party in any Foreign Jurisdiction.

This Information Memorandum is not and is not intended to be a prospectus. The information in this Information Memorandum is current as at the date hereof, unless specified otherwise.

The distribution or possession of this Information Memorandum in Malaysia or in any Foreign Jurisdiction may be restricted or prohibited by law. Each recipient is required by the Issuer, the Principal Adviser/Lead Arranger, the Joint Bookrunners and the Co-Manager to seek appropriate professional advice regarding, and to observe, any such restriction or prohibition. Neither the Issuer, the Principal Adviser/Lead Arranger, the Joint Bookrunners nor the Co-Manager accept any responsibility or liability to any person in relation to the distribution or possession of this Information Memorandum in Malaysia or in any Foreign Jurisdiction. This Information Memorandum is not and is not intended to be a prospectus and has not been registered or lodged under the laws of Malaysia or of any Foreign Jurisdiction as a prospectus.

By accepting delivery of this Information Memorandum, each recipient agrees to the terms upon which this Information Memorandum is provided to such recipient as set out in this Information Memorandum, and further agrees and confirms that: (a) it will keep confidential all of such information and data, (b) it is lawful for the recipient to receive this Information Memorandum and to subscribe for, purchase or in any other way to receive the Notes under all jurisdictions to which the recipient is subject, (c) the recipient will comply with all the applicable laws in connection with such subscription, purchase or acceptance of the Notes, (d) the Issuer and all other parties involved in the preparation of this Information Memorandum and their respective directors, officers, employees, agents and professional advisers are not and will not be in breach of the laws of any jurisdiction to which the recipient is subject as a result of such subscription, purchase or acceptance of the Notes and they shall not have any responsibility or liability in the event that such subscription or acceptance of the Notes is or shall become unlawful, unenforceable, voidable or void, (e) it is aware that the Notes can only be transferred or otherwise disposed of in accordance with the relevant selling restrictions and all applicable laws, (f) it has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing for or purchasing the Notes and is able and prepared to bear the economic and financial risks of investing in or holding the Notes, (g) it is subscribing for, purchasing or accepting the Notes for its own account, and (h) it, at the point of issuance of the Notes, falls within one or more of the categories of persons to whom an offer or invitation to subscribe for or purchase the Notes would constitute an excluded issue, excluded offer or excluded invitation pursuant to Schedule 6 or section 229(1)(b) or Schedule 7 or section 230(1)(b) and Schedule 9 or section 257(3) of the CMSA and after the point of issuance of the Notes, falls within one or more of the categories of persons to whom an offer or invitation to subscribe for or purchase the Notes would constitute an excluded offer or excluded invitation pursuant to Schedule 6 or section 229(1)(b) and Schedule 9 or section 257(3) of the CMSA.

Neither the delivery of this Information Memorandum nor the offering, sale or delivery of any Notes shall in any circumstance imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Principal Adviser/Lead Arranger, the Joint Bookrunners and the Co-Manager expressly do not undertake to advise any investor in the Notes of any information coming to their attention. The recipient of this Information Memorandum or the potential investors should review, inter alia, the most recently published documents incorporated by reference into this Information Memorandum when deciding whether or not to purchase any Notes.

This Information Memorandum includes certain historical information, estimates and projections or reports thereon derived from sources believed to be reliable and other publicly available information. Such information, estimates, and projections or reports have been included solely for illustrative purposes. No representation or warranty is made as to the accuracy of any information, estimate and projection or report thereon derived from such and other third party sources.

This Information Memorandum includes “forward looking statements”. These statements include, among other things, disclosure of the Issuer’s business strategy and expectation concerning its position in the Malaysian economy and future operations. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may affect actual outcomes, many of which are outside the control of the Issuer. All these statements are based on estimates and assumptions made by the Issuer that, although believed to be reasonable, are subject to risks and uncertainties that may cause actual events and the future results of the Issuer to be materially different from that expected or indicated by such statements and estimates, and no assurance is given that any of such statements or estimates will be realised. Therefore, the contingencies and inherent uncertainties underlying such information should be carefully considered by investors and the inclusion of a forward looking statement in this Information Memorandum is not a representation or warranty by the Issuer or any other person that the plans and objectives of the Issuer will be achieved. Further, such parties are not under any obligation to update or revise such forward-looking statements to reflect any change in expectations or circumstances. Any differences in the expectations of the Issuer and its actual performance may result in the Issuer’s operating performance and plans being materially different from those anticipated.

All discrepancies (if any) in the tables included in this Information Memorandum between the listed amounts and totals thereof are due to, and certain numbers appearing in this Information Memorandum are shown after rounding.

#### **STATEMENTS OF DISCLAIMER – SECURITIES COMMISSION**

This Information Memorandum will be deposited in accordance with sections 229(4) and 230(4) of the CMSA with the Securities Commission, who takes no responsibilities for its contents.

The Securities Commission had on 13 August 2007 approved the issuance of the Notes under the MTN Programme pursuant to section 32(5) of the Securities Commission Act, 1993 (please note that with effect from 28 September 2007, section 32(5) of the Securities Commission Act, 1993 has been replaced by section 212(5) of the CMSA). Please note that the Securities Commission’s approval shall not be taken to indicate that the Securities Commission recommends the subscription or purchase of the Notes.

The Securities Commission shall not be liable for any non-disclosure on the part of the Issuer and assumes no responsibility for the correctness of any statements made or opinions or reports expressed and contained in this Information Memorandum.

**EACH ISSUE OF PRIVATE DEBT SECURITIES WILL CARRY DIFFERENT RISKS. INVESTORS MUST RELY ON THEIR OWN EVALUATION TO ASSESS THE MERITS AND RISKS OF AN INVESTMENT IN ANY ISSUE OF PRIVATE DEBT SECURITIES, INCLUDING THE NOTES. IT IS RECOMMENDED THAT PROSPECTIVE INVESTORS CONSULT THEIR OWN LEGAL, FINANCIAL AND OTHER ADVISERS BEFORE PURCHASING OR ACQUIRING THE NOTES.**

### **CONFIDENTIALITY**

This Information Memorandum and its contents are strictly confidential and the information herein contained is given to the recipient strictly on the basis that the recipient shall ensure the same remains confidential. Accordingly, this Information Memorandum and its contents, and any information that is made available in connection with any further enquiries, must be held in complete confidence.

This Information Memorandum is provided to prospective investors solely for their own evaluation of the Notes.

The recipient must return this Information Memorandum and all reproductions thereof whether in whole or in part and any other information in connection therewith to the Principal Adviser/Lead Arranger, the Joint Bookrunners and/or the Co-Manager promptly upon the Principal Adviser/Lead Arranger's, the Joint Bookrunners' and/or the Co-Manager's request, unless that recipient provides proof of a written undertaking satisfactory to the Principal Adviser/Lead Arranger, the Joint Bookrunners and/or the Co-Manager with respect to destroying these documents as soon as reasonably practicable after the said request from the Principal Adviser/Lead Arranger, the Joint Bookrunners and/or the Co-Manager.

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## **GLOSSARY OF DEFINITIONS AND ABBREVIATIONS**

*The following definitions (in addition to the definitions contained in the body herein) shall apply throughout this Information Memorandum except where the context otherwise requires:*

<b>Act</b>	:	The Companies Act, 1965 or any statutory modification, amendment or re-enactment thereof for the time being in force
<b>BAFIA</b>	:	The Banking and Financial Institutions Act, 1989 or any statutory modification, amendment or re-enactment thereof for the time being in force
<b>Bank Utama</b>	:	Utama Gilang Sdn Bhd (formerly known as Bank Utama (Malaysia) Berhad) (27714-A)
<b>BNM</b>	:	Bank Negara Malaysia
<b>Board</b>	:	Board of Directors of RHB Bank
<b>Bursa Securities</b>	:	Bursa Malaysia Securities Berhad (635998-W)
<b>CMSA</b>	:	The Capital Markets and Services Act, 2007 or any statutory modification, amendment or re-enactment thereof for the time being in force
<b>Depository and Paying Agency Agreement</b>	:	The Depository and Paying Agency Agreement entered or to be entered into between the Issuer, the Trustee, BNM (as central depository and paying agent) and RHB Investment Bank (as lead arranger/facility agent) in connection with the Notes
<b>Event of Default</b>	:	The events as set out in Section 2(v) of this Information Memorandum
<b>Existing Sub-Bonds</b>	:	The redeemable unsecured subordinated bonds 2002/2012 of RM800.0 million in nominal value issued by RHB Bank
<b>Facility Agent</b>	:	RHB Investment Bank
<b>INCPS</b>	:	The Irredeemable Non-Cumulative Convertible Preference Shares issued by RHB Bank pursuant to its Memorandum and Articles of Association
<b>Issue</b>	:	The issue of, offer for subscription or purchase of, or invitation to subscribe for or purchase the Notes
<b>Issue Documents</b>	:	Each of the following documents:-  (i) the Trust Deeds; (ii) the Programme Agreement; and (iii) the Depository and Paying Agency Agreement;  and references to Issue Documents shall include references to any one or more of them

<b>MTN Programme</b>	:	The medium term note programme for the issuance of up to RM3.0 billion nominal value of Subordinated Notes and/or Senior Notes
<b>Noteholders</b>	:	The Senior Noteholders and/or the Subordinated Noteholders
<b>Notes</b>	:	Up to RM3.0 billion nominal value of Subordinated Notes and/or Senior Notes to be issued by RHB Bank under the MTN Programme
<b>NPLs</b>	:	Non-performing loans
<b>Principal Adviser / Lead Arranger</b>	:	RHB Investment Bank
<b>Principal Subsidiaries</b>	:	RHB Islamic and RHB Labuan
<b>Programme Agreement</b>	:	The programme agreement entered or to be entered into between the Issuer and RHB Investment Bank (as lead arranger and facility agent) in connection with the MTN Programme
<b>RAM Ratings</b>	:	RAM Rating Services Berhad (763588-T)
<b>RENTAS</b>	:	The scripless book-entries securities trading and funds transfer system known as Real Time Electronic Transfer of Funds and Securities operated by BNM as may be modified or revised or substituted from time to time by BNM
<b>RHB Bank or Issuer</b>	:	RHB Bank Berhad (6171-M)
<b>RHB Bank Group</b>	:	RHB Bank, its subsidiaries and associated company
<b>RHB Banking Group</b>	:	RHB Capital and its subsidiaries
<b>RHB Capital</b>	:	RHB Capital Berhad (312952-H)
<b>RHB Insurance</b>	:	RHB Insurance Berhad (38000-U)
<b>RHB Investment Bank</b>	:	RHB Investment Bank Berhad (19663-P)
<b>RHB Islamic</b>	:	RHB Islamic Bank Berhad (680329-V)
<b>RHB Labuan</b>	:	RHB Bank (L) Ltd (LL 00042)
<b>RM and sen</b>	:	Ringgit and sen respectively
<b>RWCR</b>	:	Risk Weighted Capital Ratio
<b>SC</b>	:	Securities Commission
<b>Senior Noteholders</b>	:	The holders of the Senior Notes



<b>Senior Notes</b>	:	Up to RM3.0 billion in nominal value of senior notes (outstanding at any one time and which shall not, together with the Subordinated Notes, exceed the master limit of RM3.0 billion in nominal value, at any point in time) to be issued by the Issuer, the terms and conditions of which are set out in the Senior Notes Trust Deed and the Programme Agreement
<b>Senior Notes Trust Deed</b>	:	The trust deed entered or to be entered into between the Issuer and the Trustee constituting the Senior Notes, which shall be administered by the Trustee on behalf of the Senior Noteholders
<b>SME</b>	:	Small medium enterprises
<b>Subordinated Noteholders</b>	:	The holders of the Subordinated Notes
<b>Subordinated Notes</b>	:	Up to RM3.0 billion in nominal value of subordinated notes (outstanding at any one time and which shall not, together with the Senior Notes, exceed the master limit of RM3.0 billion in nominal value, at any point in time) to be issued by the Issuer, the terms and conditions of which are set out in the Subordinated Notes Trust Deed and the Programme Agreement
<b>Subordinated Notes Trust Deed</b>	:	The trust deed entered or to be entered into between the Issuer and the Trustee constituting the Subordinated Notes, which shall be administered by the Trustee on behalf of the Subordinated Noteholders
<b>Trust Deeds</b>	:	The Senior Notes Trust Deed and the Subordinated Notes Trust Deed
<b>Trustee</b>	:	Malaysian Trustees Berhad (21666-V)
<b>USD</b>	:	The lawful currency of the United States of America
<b>USD Sub-Notes</b>	:	The USD150.0 million 6.625% subordinated notes issued by RHB Bank, which are due in 2013 and callable with step-up in 2008

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## **1 EXECUTIVE SUMMARY**

*The following summary is qualified in its entirety by the more detailed information, the financial statements and notes thereto appearing elsewhere in this Information Memorandum. Investors should read the full text of the Information Memorandum before deciding to invest in the Notes.*

### **1.1 Brief Background of the Issuer**

RHB Bank was incorporated as Development and Commercial Bank Berhad Limited on 4 October 1965 under the Companies Ordinances, 1940 to 1946 and commenced its business in November 1965. The RHB Bank Group is presently the fourth largest banking group in Malaysia in terms of total assets and offers a comprehensive range of financial products and services ranging from retail, commercial and corporate banking to Islamic products and services and electronic banking. Please refer to Section 4 of this Information Memorandum for more details on the description of the Issuer.

### **1.2 Description of the Issue**

The MTN Programme would involve the issuance by RHB Bank of up to RM3.0 billion nominal value of Subordinated Notes and/or Senior Notes. Under the MTN Programme, RHB Bank is given the flexibility to issue Subordinated Notes that qualify as Tier 2 capital and/or Senior Notes at any time during the tenor of the MTN Programme, provided that the total outstanding nominal value of Subordinated Notes together with Senior Notes, shall not exceed the limit of RM3.0 billion in nominal value at any point in time.

The MTN Programme shall have a tenor of 20 years from the date of first issue of the Notes. During the tenor of the MTN Programme, RHB Bank has the option to issue (i) Subordinated Notes, with maturities ranging within the 10<sup>th</sup> year to the 20<sup>th</sup> year from the issue date as RHB Bank may select prior to issuance, provided that such date falls within the tenor of the MTN Programme, and callable after a minimum period of 5 years from the date of issue and/or (ii) Senior Notes, with maturities ranging within the 1<sup>st</sup> year to the 20<sup>th</sup> year from the date of issue as RHB Bank may select, prior to issuance provided that such date falls within the tenor of the MTN Programme. None of the Notes shall carry a maturity date extending beyond the expiry of the tenor of the MTN Programme.

The Notes will be issued at par or at a discount to face value via private placement, bought deal or book building.

### **1.3 Utilisation of Proceeds**

The proceeds raised from the MTN Programme shall be utilised for the following:

<b>Purpose</b>		<b>Up to RM million</b>
(a)	Repayment of the Existing Sub-Bonds; and	800
(b)	General working capital purposes of RHB Bank and its subsidiaries (including, but not limited to, the provision of advances of such proceeds or part thereof by RHB Bank to any of its subsidiaries whereby such advances may, amongst others, qualify as Tier 2 capital of the relevant subsidiary).	2,200
<b>Total</b>		<b>3,000</b>

## **1.4 Rating**

RAM Ratings has assigned a long-term rating of A<sub>1</sub> for the MTN Programme.

A rating is not a recommendation by RAM Ratings to subscribe for, purchase, sell or hold the Notes. Any downgrade or withdrawal of a rating may have an adverse effect on the liquidity and market price of the Notes. However, any downgrade or withdrawal of a rating will neither constitute an Event of Default under the Trust Deeds nor oblige the Issuer to redeem the Notes.

## **1.5 Approvals Required**

The MTN Programme has been approved by the SC vide its letter dated 13 August 2007 and BNM has vide its letter dated 6 July 2007 (“BNM’s Approval Letter”) approved (i) the classification of the Subordinated Notes as Tier 2 capital of the Issuer for purposes of RWCR computation provided that the amount included does not exceed 50% of the core capital; and (ii) the issuance of the Notes under the MTN Programme, subject to the following conditions:

- (a) compliance with BNM's circular dated 11 November 1998 entitled “*Pelarasan Kepada Rangka Kerja Keperluan Nisbah Modal Berwajaran Risiko: Pinjaman Tempoh Subordinat dan Peruntukan Am*” in respect of the adjustment to the RWCR framework;
- (b) prior approval from BNM is to be obtained for any early redemption of the Notes; and
- (c) BNM is to be updated on the subsequent issuance of the remaining RM1.0 billion of the Notes under the MTN Programme (RHB Bank is contemplating an initial issuance of up to RM2.0 billion of the Notes).

In addition, BNM has also pursuant to the BNM’s Approval Letter approved the redemption of the Existing Sub-Bonds and the USD Sub-Notes on its respective optional redemption dates, after the issuance of the RM2.0 billion nominal value of Subordinated Notes under the MTN Programme.

In qualifying as Tier 2 capital, the Subordinated Notes are subordinated in right and priority of payment to all deposit liabilities and other liabilities of the Issuer save and except for all other present and future unsecured and subordinated obligations of the Issuer which by their terms rank pari passu in right of and priority of payment with or subordinated to the Subordinated Notes. The Subordinated Notes will in the event of the winding-up or liquidation of the Issuer, be subordinated in right of payments to the claims of depositors and all other creditors of the Issuer other than claimants in respect of the Issuer’s unsecured and subordinated obligations which by their terms rank pari passu in right of and priority of payment with or subordinated to the Subordinated Notes.

The SC has also via its letter dated 15 May 2007 granted its approval to RHB Bank on the waiver from having to comply with any restrictive covenants and certain events of default as set out in the SC’s Guidelines on the Minimum Contents Requirements for Trust Deeds in respect of the Subordinated Notes to be issued under the MTN Programme.

## **1.6 Selling Restrictions**

### Selling Restrictions at Issuance

The Notes may not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia other than to persons falling within Schedule 6 or section 229(1)(b), Schedule 7 or section 230(1)(b) and Schedule 9 or section 257(3) of the CMSA.

### Selling Restrictions after Issuance

The Notes may not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia other than to persons falling within Schedule 6 or section 229(1)(b) and Schedule 9 or section 257(3) of the CMSA.

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## **2 A SUMMARY OF THE PRINCIPAL TERMS AND CONDITIONS OF THE ISSUE**

- (a) Issuer : RHB Bank
- (b) Principal Adviser/ Lead : RHB Investment Bank  
Arranger
- (c) Trustee : Malaysian Trustees Berhad (21666-V)
- (d) Facility Agent : RHB Investment Bank
- (e) Central Depository/Paying : BNM  
Agent
- (f) Facility description : A medium term note programme for the issuance of Subordinated Notes and/or Senior Notes. The Subordinated Notes will qualify as Tier 2 capital of RHB Bank for purposes of Malaysia's capital adequacy regulations.
- (g) Issue size (RM) : Up to RM3.0 billion in nominal value.
- The aggregate outstanding Subordinated Notes and Senior Notes proposed to be issued by the Issuer under the MTN Programme shall not at any one time exceed RM3.0 billion in nominal value.
- (h) Issue price (RM) : At par or at a discount.
- (i) Tenor of the facility/issue : Up to 20 years from the date of first issuance.

### Maturity of Subordinated Notes

Ranging from ten (10) to twenty (20) years and callable after a minimum period of 5 years (hereinafter referred to as the "Call Date") from date of issue, at the option of the Issuer.

### Maturity of Senior Notes

Ranging from one (1) to twenty (20) years, at the option of the Issuer.

None of the Notes shall carry a maturity date extending beyond the expiry of the tenor of the MTN Programme.

- (j) Interest/coupon (%) : Subordinated Notes

To be determined prior to the issuance of the Subordinated Notes. Unless the Subordinated Notes are fully redeemed on the Call Date, the Subordinated Noteholders will be entitled to a step-up in the coupon rate from (and inclusive of) the Call Date and annually thereafter until the final redemption of the Subordinated Notes.

The step-ups in coupon rates will be confirmed closer to the time of issuance.

Senior Notes

To be determined prior to the issuance of the Senior Notes.

- (k) Interest/coupon frequency payment : Semi-annually in arrears.
- (l) Interest/coupon basis payment : Actual number of days elapsed on a 365-day basis.
- (m) Yield to maturity : To be determined upon issuance.
- (n) Details on utilisation of proceeds : The proceeds raised from the MTN Programme shall be utilised for the following:

	Up to RM million
(a) Repayment of the Existing Sub-Bonds; and	800
(b) General working capital purposes of RHB Bank and its subsidiaries (including, but not limited to, the provision of advances of such proceeds or part thereof by RHB Bank to any of its subsidiaries whereby such advances may, amongst others, qualify as Tier 2 capital of the relevant subsidiary).	2,200
Total	3,000

- (o) Rating : Subordinated Notes and Senior Notes

Final long-term rating of A<sub>1</sub> assigned by RAM Ratings.

- (p) Form and denomination : The Notes shall be issued in bearer form in denomination of not less than RM1,000 each or such other denomination as determined/allowed by BNM. The Notes will be represented at all times by Global Certificates to be deposited with BNM and will be traded under the RENTAS operated and maintained by BNM.

The Notes shall be issued in accordance to the Rules on Fully Automated System for Issuing/Tendering ("FAST") issued by BNM ("FAST Rules").

- (q) Mode of issue : Private placement (via bought deal or book building) without prospectus.

- (r) Selling restrictions : Selling Restrictions at Issuance

The Notes may not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia other than to persons falling within Schedule 6 or section 229(1)(b), Schedule 7 or section 230(1)(b) and Schedule 9 or section 257(3) of the CMSA.

Selling Restrictions after Issuance

The Notes may not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia other than to persons falling within Schedule 6 or section 229(1)(b) and Schedule 9 or section 257(3) of the CMSA.

- (s) Listing status : Both the Subordinated Notes and the Senior Notes will not be listed on the Bursa Securities and on any stock exchange.

- (t) Conditions precedent : Conditions precedent customary for a programme of this nature which shall include but is not limited to the following:-

- (i) Certified true copies of the Issuer's Memorandum and Articles of Association, board resolution and other constitutional documents of the Issuer i.e. Forms 9, 24, 44 and 49 have been furnished to the Facility Agent;

- (ii) Each of the Financing Documents shall have been duly executed and stamped where relevant;
  - (iii) Written approval from BNM for the Subordinated Notes to be classified as Tier 2 capital and for early redemption of the Issuer's Existing Sub-Bonds;
  - (iv) Written approval from the SC for the MTN Programme;
  - (v) Approval from shareholders of the Issuer for the MTN Programme;
  - (vi) A legal opinion from the Solicitors addressed to the Principal Adviser/Lead Arranger advising with respect to, among others, inter alia, the validity, legality and enforceability of the Notes and the Financing Documents, and a written confirmation from the Solicitors to the Principal Adviser/Lead Arranger that all conditions precedent have been fulfilled;
  - (vii) Evidence that the Subordinated Notes and the Senior Notes under the MTN Programme have been assigned a minimum long-term rating of A<sub>1</sub> by RAM Ratings; and
  - (viii) Such other conditions precedent as may be advised by Solicitors for the Principal Adviser/Lead Arranger.
- (u) Representation and warranties : Representation and warranties typical and customary for a programme of this nature, which shall include but is not limited to the following:
- (i) The Issuer is a company duly incorporated and validly existing under the laws of Malaysia;
  - (ii) The Issuer has the power to enter into, exercise its rights under and perform its obligations under the Financing Documents;



- (iii) The Subordinated Notes qualify as Tier 2 capital under the capital adequacy regulations of Malaysia;
- (iv) The Issuer's entry into, exercise of its rights under and performance of the Financing Documents do not and will not violate any existing law or agreements to which it is a party;
- (v) The Issuer has all licenses, franchises, permits, authorisations, approvals, orders and other concessions of and from all governmental and regulatory officials and bodies that are necessary to own or lease its properties and conduct its business, other than where the failure to obtain such licenses, franchises, permits, authorisations, approvals, orders and other concessions would not have a material adverse effect on the ability of the Issuer to comply with its obligations under the Financing Documents;
- (vi) The Financing Documents create valid and binding obligations which are enforceable on and against the Issuer;
- (vii) All necessary actions, authorisations and consents required under the Financing Documents have been taken, fulfilled and obtained and remain in full force and effect;
- (viii) Save as disclosed by the Issuer, no event has occurred which, if the Notes had already been issued, would constitute an Event of Default under the Financing Documents;
- (ix) The audited accounts of the Issuer are prepared in accordance with generally accepted accounting principles and standards and they fairly represent its financial position;
- (x) No litigation or arbitration is current or, to the Issuer's knowledge, is threatened, which if adversely determined would have a material adverse effect on the ability of the Issuer to comply with its obligations under the Financing Documents;

- (xi) The financial statements and other information supplied are true and accurate in all material aspects and not misleading except that, when the warranted information is a forecast, the warranty will be to the effect that the forecast has been made on the basis of assumptions which were reasonable at the time when they were made and after due enquiry;
  - (xii) No contravention of section 62 of the Banking and Financial Institutions Act, 1989;
  - (xiii) No step has been taken by the Issuer, its creditors or any of its shareholders or any other person on its behalf nor have any legal proceedings or applications been started or threatened under section 176 of the Companies Act 1965, save for the redemption of the INCPS;
  - (xiv) There has been no change in the business or condition (financial or otherwise) of the Issuer or its subsidiaries since the date of its last audited financial statements which might have a material adverse effect on the ability of the Issuer to comply with its obligations under the Financing Documents; and
  - (xv) Such other representation and warranties as may be advised by the Solicitors for the Principal Adviser/Lead Arranger.
- (v) Events of default : Subordinated Notes

Events of Default shall include:

- (i) the Issuer defaults in payment of any principal or coupon under the Subordinated Notes on the due date and the Issuer does not remedy such default within a period of 14 days after the Issuer became aware or having been notified by the Trustee of the default;

- (ii) an order is made for winding-up the Issuer and such order is not stayed or set aside within thirty (30) days of such order being made or, where so stayed, such stay lapses, or an effective resolution is passed for winding-up the Issuer except where such order is made or such resolution is passed for the purpose of a reconstruction or amalgamation the terms of which have been approved by the Subordinated Noteholders by way of special resolution.

Upon the occurrence of item (i) above, subject to the terms of the Trust Deed, the Trustee may or shall (if directed to do so by a special resolution of the Subordinated Noteholders) institute proceedings to enforce the payment obligations under the Subordinated Notes and may institute proceedings in Malaysia for the winding up of the Issuer, provided that neither the Trustee nor any of the Subordinated Noteholders shall have the right to accelerate payment of the Subordinated Notes in the case of default in the payment of amount owing under the Subordinated Notes or any default in the performance of any condition, provision or covenant under the Notes or the Trust Deed.

Upon the occurrence of item (ii) above, subject to the terms of the Trust Deed, the Trustee may or shall (if directed to do so by a special resolution of the Subordinated Noteholders) declare (by giving written notice to the Issuer) that the Subordinated Notes together with all other sums payable under the Subordinated Notes shall immediately become due and payable.

#### Senior Notes

Events of Default will comprise those as required under the SC's Guidelines On The Minimum Contents Requirements For Trust Deeds and such events of default as may deemed standard for a programme of this nature, which include but is not limited to the following:

- (i) The Issuer defaults in the payment of any money owing in respect of the Senior Notes when the same shall

become due and payable in accordance with the Trust Deed and the Issuer fails to remedy such default within the period of fourteen (14) days after the Issuer became aware or having been notified by the Trustee of the default;

- (ii) A winding up order has been made against the Issuer or a resolution to wind up the Issuer has been passed;
- (iii) A scheme of arrangement under section 176 of the Companies Act 1965 has been instituted against the Issuer, save for the redemption of the INCPS;
- (iv) A receiver has been appointed over the whole or a substantial part of the assets of the Issuer;
- (v) There has been a breach by the Issuer of any obligation under any of the issuer's existing obligations which may materially and adversely affect the Issuer's ability to perform its obligations under the Financing Documents, and if in the opinion of the Trustee is capable of being remedied, the Issuer does not remedy the breach within a period of fourteen (14) business days after the Issuer became aware of having been notified by the Trustee of the failure;
- (vi) Any other indebtedness of the Issuer becomes due or payable prior to its stated maturity or where the security created for any other indebtedness becomes enforceable;
- (vii) Where there is a revocation, withholding or modification of any license, authorisation, approval or consent which in the opinion of the Trustee may materially and adversely impair or prejudices the ability of the Issuer to comply with its obligations under the Financing Documents;
- (viii) The Issuer fails to observe or perform its obligation under any of the Financing Documents and in the case of a failure which in the opinion of the Trustee is capable of being remedied, the Issuer does not remedy the failure

within a period of fourteen (14) business days after the Issuer became aware or having been notified by the Trustee of the failure;

- (ix) Any representations and warranties made or given by the Issuer under the Financing Documents proves to have been incorrect or misleading in any material respect on or as of the date made or given, and in the case of a failure which in the opinion of the Trustee is capable of being remedied, the Issuer does not remedy the failure within a period of 14 business days after the Issuer became aware or having been notified by the Trustee of the failure;
- (x) At any time any of the provisions of the Financing Documents is or becomes illegal, void, voidable or unenforceable; and
- (xi) Such other events of default as advised by Solicitors for the Principal Adviser/Lead Arranger.

Upon the occurrence of any of the above events of default, the Trustee may, at its absolute discretion, or shall (if so directed to do so by a special resolution of the Senior Noteholders) declare (by giving written notice to the Issuer) that an event of default has occurred and the Senior Notes together with all other sums payable under the Senior Notes are immediately due and payable.

- (w) Positive Covenants : The usual and customary for a programme of such nature, which are applicable to both Subordinated Notes and Senior Notes and shall include but not limited to the following positive covenants:

1. The Issuer shall, at all times perform all its obligations and promptly comply with all provisions of the Trust Deed and the Financing Documents and the terms and conditions of the Notes (including but not limited to redeeming the Notes on the relevant maturity dates or any other dates on which the Notes are due and payable) and immediately notify the Trustee in the event that the Issuer is unable to fulfil or comply with

any of the provisions of the Trust Deed or any of the other Financing Documents;

2. The Issuer shall deliver to the Trustee a copy of its annual audited accounts within 180 days after the end of each of its financial year and any other accounts, balance sheet, report, notice, statement, circular or other documents issued by the Issuer to its shareholders and to the Noteholders;
3. The Issuer shall not later than 180 days after the end of each of its financial year, deliver to the Trustee a certificate signed by an authorised signatory of the Issuer, certifying that the Issuer has complied with and performed its obligations under the Trust Deed and the terms and conditions of the Notes and the other Financing Documents and that there did not exist and there had not at any time existed, from the issue date of the Notes, any event of default and if such is not the case, the certificate should specify the same;
4. The Issuer shall promptly provide to the Trustee any information relating to its affairs to the extent permitted by law, as the Trustee may from time to time require in order to discharge its duties and obligations as Trustee under the Trust Deed and the other Financing Documents;
5. The Issuer shall immediately notify the Trustee in the event that the Issuer becomes aware of the following:
  - (a) the occurrence of any event of default or that such other right or remedy under the terms, provisions and covenants of the Notes and the Trust Deed and the other Financing Documents which have become immediately enforceable and the Issuer shall take reasonable steps and/or such other steps as may be reasonably requested by the Trustee to remedy and/or mitigate the event of default;

- (b) any circumstance that has occurred or any other matter that may materially prejudice the ability of the Issuer to perform its obligations under the Notes or in respect of the Notes or any security included in or created by the Notes or the Trust Deed;
  - (c) any substantial change in the nature of the business of the Issuer;
  - (d) any change in the utilisation of the proceeds from the Notes from that set out in the submission to the SC, the Information Memorandum or any of the Financing Documents which sets out a specific purpose for which proceeds are to be utilised;
  - (e) any change in the Issuer's withholding tax position or taxing jurisdiction; and
  - (f) any other matter that may materially prejudice the interests of the Noteholders.
6. The Issuer shall keep proper books and accounts at all times on a basis consistently applied in accordance with the laws of Malaysia and generally accepted accounting principles and standards in Malaysia,
7. The Issuer shall comply at all times with any and all requirements and conditions, notes, circulars and/or guidelines as may be issued and/or imposed by the SC and BNM, from time to time and the applicable provisions of the CMSA;
8. The Issuer shall at all times maintains its respective corporate legal existence and exercise reasonable diligence in carrying out its respective business and affairs in a proper and efficient manner and in accordance with sound financial and commercial standards and practices

and will ensure, amongst others, that all necessary approvals and relevant licences required for it to carry on its business are obtained;

9. Subject to any changes to BNM's guidelines, the Issuer shall ensure that its risk weighted capital adequacy ratio calculated in accordance with the relevant BNM guidelines shall not fall to a level below 8.0%;
10. The Issuer shall at all times maintain a paying agent with a specified office in Malaysia;
11. The Issuer shall procure that the paying agent shall notify the Trustee in the event that the paying agent does not receive payment from the Issuer on the due dates and in the manner as required under the Trust Deed and the terms and conditions of the Notes;
12. Such other covenants deemed necessary or as may be advised by the Solicitors for the Principal Adviser/Lead Arranger.

(x) Negative Covenants : The usual and customary for a programme of such nature, which are applicable only to the Senior Notes and shall include but not limited to the following negative covenants:

1. Save for those arising in the ordinary course of business by operation of law and not by way of contract, the Issuer shall not create or permit to subsist any Security Interests on all or any of its assets (present or future) other than Security Interests arising out of any arrangements entered into by the Issuer for the provision of performance and maintenance of the Bonds, or those created prior to the execution of the Financing Documents and disclosed in writing to the Trustee and those Security Interests mutually agreed upon between the Trustee and the Issuer;

For the purposes of this covenant, the term "Security Interest" means any encumbrance, mortgage, charge (whether fixed or floating), pledge, lien, hypothecation, assignment by way of a



security, trust arrangement for the purpose of providing security, right of set-off or any security interest whatsoever, howsoever created or arising including without limitation, title transfer and/or retention arrangements having a similar effect or any other agreement for the purpose of providing security or to create any of the foregoing, excluding however liens arising in the ordinary course of business by operation of law and not by way of contract.

2. The Issuer shall not, unless it has obtained BNM's approval, reduce or alter except increase its authorised or issued and paid-up capital whether by varying the amount, structure or value thereof or the rights attached thereto or convert any of its share capital into stock, or by consolidation, dividing or sub-dividing all or any of its shares. For the avoidance of doubt, this covenant shall not restrict the Issuer from dividing or sub-dividing all or any of its shares provided that its authorised and paid-up share capital is not reduced, pursuant to such dividing or sub-dividing) of its shares;
3. The Issuer shall not:
  - (a) consolidate or amalgamate with or merge with any other person or into another entity or transfer all or substantially all its assets to another entity; or
  - (b) enter into any de-merger, reconstruction or winding-up unless the successor person or entity expressly assumes the Issuer's obligations under the Financing Documents and after giving effect to such transaction, no event of default has occurred or is continuing or would occur,

unless BNM has granted its approval in respect of the relevant event set out in items (a) and (b) above;

4. The Issuer shall not cause itself to take steps to be voluntarily wound up or to dissolve itself and/or its respective affairs;
5. The Issuer shall not do or permit to occur or omit to do any act or omission, or execute or omit to execute any document which may render any of the Financing Documents to be illegal, void, voidable or unenforceable;
6. The Issuer shall not use the proceeds derived from the issue of the Bonds hereunder except for specific purposes set out in the submission to the SC and the Information Memorandum;
7. The Issuer not surrender, transfer, assign, relinquish or otherwise dispose any of its rights and interest under the Financing Documents (except as permitted or required under the Financing Documents);
8. The Issuer shall not enter into a transaction, whether directly or indirectly, with any interested persons (including a director, substantial shareholder or persons connected with them) unless:-
  - (a) Such transaction shall be on terms that are no less favourable to the Issuer than those which could have been obtained in a comparable transaction from persons who are not interested persons; and
  - (b) With respect to transactions involving an aggregate payment or value equal to or exceeding a sum which is equivalent to 5% of the Issuer's consolidated net tangible assets at the relevant point in time, the Issuer obtains certification from an independent adviser that the transaction is carried out on fair and reasonable terms;

Provided that the Issuer certifies to the Trustee that the transaction complies with paragraph (a), that the Issuer has received the certification referred to in paragraph (b) (where applicable) and the transaction has been approved by the majority of the board of directors or shareholders in a general meeting as the case may require;

9. Such other covenants deemed necessary or as may be advised by the Solicitors for the Principal Adviser/Lead Arranger.

(y) Status of Notes : Subordinated Notes

The Subordinated Notes will constitute direct unsecured obligations of the Issuer, subordinated in right and priority of payment, to the extent and in the manner provided for in the Subordinated Notes, to all deposit liabilities and other liabilities of the Issuer except all other present and future unsecured and subordinated obligations of the Issuer which by their terms rank pari passu in right of and priority of payment with or subordinated to the Subordinated Notes. For the avoidance of doubt, any payment that has fallen due under the Subordinated Notes shall remain due and payable even if such payment cannot be satisfied because of insufficient cashflows of the Issuer to meet all outstanding obligations, including those senior to the Subordinated Notes, which are due at the same time. The Subordinated Notes will in the event of the winding-up or liquidation of the Issuer, be subordinated in right of payments to the claims of depositors and all other creditors of the Issuer other than claimants in respect of the Issuer's unsecured and subordinated obligations which by their terms rank pari passu in right of and priority of payment with or subordinated to the Subordinated Notes.

#### Senior Notes

The Senior Notes will constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and will rank pari passu, without discrimination, preference or priority amongst themselves and at least pari passu with all other unsecured obligations

(excluding deposits) (other than subordinated obligations, if any) of the Issuer, present and future, from time to time outstanding.

- |      |                     |   |  |
|------|---------------------|---|--|
| (z)  | Redemption          | : | Unless previously redeemed or purchased and cancelled, the Notes will be redeemed by the Issuer at par together with accrued interest due on the maturity date or the redemption date.   |
| (aa) | Optional redemption | : | <p><u>Subordinated Notes</u></p> <p>The Issuer may, at its option, subject to the prior approval of BNM, redeem the Subordinated Notes in part or in whole on the relevant Call Date and at any anniversary dates thereafter.</p>  |
| (bb) | Financing Documents | : | <p>The Notes shall be evidenced inter-alia, by the following documents:-</p> <ol style="list-style-type: none"> <li>1. Programme Agreement;</li> <li>2. Depository and Paying Agency Agreements;</li> <li>3. Trust Deeds; and</li> <li>4. any other legal documentation as advised by the legal counsel for the Lead Arranger.</li> </ol>  |
| (cc) | Taxation            | : | All payments shall be made free and clear of all present and future taxes, duties, withholdings or other deductions whatsoever imposed by the Government or any political sub-division or tax authority thereof. In the event that any such taxes are in future imposed or if such withholding or deduction is required by law, the Issuer must make such additional payments as are necessary to cause the Noteholders to receive the net amount that they would otherwise have received. |
| (dd) | Further issues      | : | The Issuer may from time to time raise additional subordinated debt which contain greater rights for the holders thereof including acceleration rights provided that such subordinated debt ranks pari passu in right of priority of payment with or subordinated to the Subordinated Notes in the case of any distribution of assets in any winding up of the Issuer.   |
| (ee) | Governing Law       | : | The laws of Malaysia.  |

### 3 INVESTMENT CONSIDERATIONS

**THIS SECTION PROVIDES A SUMMARY OF CERTAIN RISK FACTORS WHICH PROSPECTIVE INVESTORS SHOULD BE AWARE OF BUT IT IS NOT INTENDED TO BE COMPLETE OR EXHAUSTIVE. PRIOR TO MAKING ANY DECISION TO INVEST IN THE NOTES, PROSPECTIVE INVESTORS ARE ADVISED TO SEEK PROFESSIONAL ADVICE AND UNDERTAKE THEIR OWN INVESTIGATIONS ON THE ISSUER, AND ANY OTHER PARTIES OR MATTERS CONNECTED WITH THE NOTES AS THEY MAY CONSIDER NECESSARY INCLUDING, BUT NOT LIMITED TO, CONSULTING WEBSITES MAINTAINED BY REPUTABLE ORGANISATIONS SUCH AS BNM FOR FURTHER INFORMATION ON, INTER ALIA, THE INDUSTRY THAT THE ISSUER IS IN.**

*The information contained in this Information Memorandum includes forward looking statements which imply risks and uncertainties. RHB Bank's actual results could differ materially from those anticipated in these forward looking statements and/or otherwise projected as a result of certain factors, including but not limited to those set forth in this section.*

#### 3.1 Considerations relating to the Issuer and its business

Before investing in the Notes, prospective investors should pay particular attention to the fact that the Issuer and its activities are governed by the legal, regulatory and business environment in Malaysia.

In the event of any of the following investment considerations materialising, the Issuer's business, business condition and/or results of operations could be materially and adversely affected.

##### 3.1.1 Sources of funding

RHB Bank's funding requirements are primarily met through short-term funding sources, namely deposits from customers and from other financial institutions. Although RHB Bank considers, based on past experience, that a substantial portion of these customers' deposits will be rolled over upon maturity, therefore providing a stable source of funding for RHB Bank, no assurance can be given that this will continue in the future. If a substantial number of depositors, or a few depositors with significant deposit balances, fail to roll over deposited funds upon maturity, RHB Bank's liquidity position could be adversely affected and RHB Bank may be required to seek alternative sources of short-term, or long-term funding, which may be more expensive than deposits, to finance its operations. There can be no assurance that such alternative sources of funding will be available when required.

##### 3.1.2 Risk of deterioration of asset quality

One of the key drivers that determine the performance of financial institutions is asset quality. RHB Bank adopts prudent lending practices and proactive credit risk management to manage its asset quality as set out in Section 5.5.1.5 of this Information Memorandum.

Although RHB Bank believes that it has adopted a sound asset quality management system, there can be no assurance that the system will remain effective or adequate or that the amount of RHB Bank's NPLs will not increase in the future, including any increase as a result of future declines in the Malaysian and regional economies that might adversely affect the financial condition of RHB Bank's customers. If the asset

quality of RHB Bank's loan portfolio deteriorates, RHB Bank could be required to make additional provision and write-offs, which could affect its business and financial conditions.

### **3.1.3 *Banking industry specific risks***

As a banking institution covering activities including retail, commercial and corporate banking and treasury products and services, the Issuer is subject to specific risks which are inherent in the banking industry. These risks include but are not limited to interest rate risks, credit risks, liquidity risks, foreign currency risks and information technology risks. Each of the risks has an implication on the Issuer's financial condition and every transaction that the Issuer undertakes is subject to, inter alia, the said risks. To counter such risks, RHB Bank has put in place certain mitigating tools as set out in Section 6 of this Information Memorandum.

### **3.1.4 *Ownership profile***

As at the date of this Information Memorandum, RHB Bank is wholly-owned by RHB Capital. Whilst RHB Bank understands that it is the current intention of RHB Capital to maintain its current shareholding position in RHB Bank, there is no assurance that RHB Capital will continue to maintain 100% ownership in RHB Bank as a result of any changes in regulatory position in Malaysia and is therefore able to continue to exercise influence over RHB Bank and its policies and operations in the future.

Following a take-over offer exercise by the Employee Provident Fund Board ("EPF") for RHB Capital, EPF has emerged as the single largest shareholder in RHB Capital and is the sole indirect substantial shareholder of RHB Bank by virtue of its 82.23% interest in RHB Capital as at 30 September 2007.

RHB Bank understands that EPF intends for RHB Bank to continue with its existing business and at the time of issuance of this Information Memorandum, RHB Bank is not aware of EPF's intention to make any major changes in the structure of the RHB Banking Group, including the RHB Bank Group.

RHB Bank further understands that EPF also intends to eventually reduce its stake in RHB Capital by selling down its stake to strategic investors who can enhance the value of the RHB Banking Group, including the RHB Bank Group.

There can be no assurance that any change in the structure of the RHB Bank Group and/or the admission of any new shareholder will not lead to any change in the business strategies of RHB Bank which could in turn affect the overall business of the RHB Bank Group.

## **3.2 *Considerations relating to the Notes***

### **3.2.1 *Issuer's ability to meet its obligations under the Notes***

The Notes constitute direct and unsecured obligations of RHB Bank and are payable out of the business operations of RHB Bank and thus will not be the obligations or responsibilities of any person other than RHB Bank. The ability of RHB Bank to meet its obligations to pay the nominal value of the Notes and their interest will largely be dependent on the revenue generated by its operations and the receipts of dividends from its Principal Subsidiaries, its other subsidiaries and its associate company. The ability of its Principal Subsidiaries, its other subsidiaries and its

associate company to pay dividends is dependent on them maintaining profitable operations and is subject to applicable laws, regulatory guidelines and restrictions on the payment of dividends by any of the regulatory authorities or by restrictions contained in relevant financial or other agreements.

### ***3.2.2 Rating of the Notes is no guarantee of RHB Bank's paying ability***

It is a condition of the issuance of the Notes that the Notes be assigned, on issue, a minimum rating of A<sub>1</sub> by RAM Ratings and RAM Ratings has accorded a rating of A<sub>1</sub> on the Notes. Based on RAM Ratings' current long-term rating criteria for issues of corporate debt securities, an "A" rating indicates that the MTN Programme is judged to be of adequate safety for timely payment of interest and principal but are more susceptible to changes in circumstances and economic conditions than debts in higher-rated categories, while the subscript "1" indicates that the MTN Programme ranks at the higher end of its generic rating category (Source: RAM Ratings' website). However, the rating is not a recommendation by RAM Ratings to subscribe for, purchase, sell or hold such security and there can be no assurance that such a rating will not be revised or suspended on a periodic review basis by RAM Ratings during the tenor of the Notes. There is no specific obligation on the part of the Issuer to maintain or procure the maintenance of any rating of the Notes. Any subsequent reduction or withdrawal of the rating initially assigned to the Notes for any reason whatsoever will not constitute a dissolution event.

### ***3.2.3 Liquidity of the Notes***

The Notes comprise a new issue of securities for which there is currently no established secondary market. There can therefore be no assurance that a secondary market will develop or, that if a secondary market does develop, as to the liquidity of that market for the Notes or the price at which the Noteholders may be able to sell their Notes or that it will continue for the entire tenor of the Notes. In addition, the Notes could trade in the secondary market at prices that may be higher or lower than the face value of the Notes depending on many factors, including prevailing market interest rates, the Issuer's results of operations, and the market for similar securities.

The Noteholders should also note that the Notes will not be listed on Bursa Securities or any other stock exchange, but will be traded under RENTAS and there are selling restrictions governing the Notes as described under "**Selling Restrictions**" under Section 1.6 of this Information Memorandum.

Accordingly, the purchase or subscription of the Notes is suitable only for investors who can bear the risks associated with a lack of liquidity in the Notes apart from the financial and other risks associated with an investment in the Notes.

### ***3.2.4 Rights of enforcement and subordination of the Subordinated Notes***

In line with its eligibility as Tier 2 capital of RHB Bank, the Subordinated Notes and the Subordinated Noteholders' rights thereunder consequently are subordinated to those of all other creditors of RHB Bank and in a winding-up or liquidation scenario, will rank senior only to the share capital of RHB Bank and other instruments that rank equally with the share capital of RHB Bank. At any time after the Subordinated Notes shall have become due and immediately repayable pursuant to an Event of Default, the Subordinated Noteholders will have no right to enforce all payment obligations under the Subordinated Notes other than by winding-up proceedings against the Issuer.

### **3.2.5 *No default interest***

There will be no default interest payable on the Notes in the event that any interest is not received by the Senior Noteholders and/or the Subordinated Noteholders on the due date. However, interest payable on the Notes will continue to accrue on the outstanding principal amount until the same is settled by the Issuer.

### **3.2.6 *No limitation on borrowings***

In line with BNM's guidelines which state there should be no restrictive covenants for the Subordinated Notes, there will be no limitation on the Issuer under the Subordinated Notes or the Senior Notes to incur further borrowings/indebtedness.

## **3.3 Considerations relating to the Industry**

### **3.3.1 *Market volatility***

The business of the Issuer is susceptible to the conditions of the financial markets as well as economic conditions both in Malaysia and globally. Unfavourable financial or economic conditions (which may include, inter alia, adverse movement in interest rates, foreign exchange rates and equity prices) would adversely affect the operations of the Issuer.

In the event of significant fluctuations in the treasury and capital markets, the Issuer's business would be adversely affected and the Issuer's revenue could decline under such circumstances. Accordingly, the Issuer has implemented a comprehensive risk management framework to, inter alia, identify potential risk areas early to mitigate any adverse effects from market volatility.

### **3.3.2 *Regulatory constraints***

The Issuer's core business (i.e. banking) is subject to regulatory purview and measures imposed by the relevant regulatory agencies (e.g. banking activity is regulated by BNM under the BAFIA). Such regulatory measures include restrictions on operations (e.g. BNM imposes a maximum permissible credit exposure to a single customer group and maximum sectorial credit in respect of financing activity) and measures requiring maintenance of reserves and minimum capital adequacy requirement (e.g. a bank is presently required to maintain a minimum capital adequacy ratio of 8%).

The regulatory measures presently imposed, and as may be introduced from time to time, by the regulatory agencies could affect the Issuer's business activities. For example, a change by BNM in credit policies could require the Issuer to scale down its operations in a particular business area. Further, any change in the rules relating to minimum capital adequacy requirement (e.g. increase in minimum capital adequacy ratio or a change in the computation and or composition of regulatory capital) could adversely affect the operations of the Issuer if the Issuer's internally generated capital (i.e. retained earnings) is insufficient to meet the increased capital funds requirement. Under such circumstances, the Issuer would need to raise fresh capital.



### **3.3.3 Competition**

The Malaysian banking industry operates in a very competitive environment fostered by BNM's policies (e.g. the entry of, inter alia, foreign licensed banks which are now allowed to offer/perform products and services that are similar to those of the Issuer). Although these policies are designed, in part, to encourage development of financial institutions in Malaysia and to strengthen domestic financial institutions in preparation for increased foreign competition, any increased competition could have an adverse effect on the Issuer's operations in the form of reduced margins, smaller market share and reduced income generally.

Although the Issuer would plan for expansion and growth in future business volume, the Issuer's future growth would inevitably be subject to competition from other service providers and also customer preference. As such, there can be no assurance that the Issuer will be able to maintain or increase its present market share in the future.

Notwithstanding the aforesaid, the Issuer has acquired a strong franchise value as a part of the RHB Banking Group and has developed expertise in banking since 1965, which business is still growing. Together with the broad experience of its management, it is believed that the Issuer's expertise in banking will enable it to maintain its competitive edge.

### **3.3.4 Deposits in Malaysia not insured up to full amount**

In August 2005, the Government of Malaysia has established a deposit insurance system pursuant to the establishment of an independent statutory body namely Malaysia Deposit Insurance Corporation (Perbadanan Insurans Deposit Malaysia), under the Malaysia Deposit Insurance Corporation Act, 2005 ("MDIC Act 2005"). Under the deposit insurance system, explicit deposit protection is provided to eligible deposits up to the prescribed limit of RM60,000 per depositor, per member institution and such amount is inclusive of principal and interest. A separate coverage for the same amount is provided for Islamic deposits, accounts held under joint ownership and trust accounts, sole proprietorships and partnerships. It is envisaged that the level of coverage will provide protection for up to 95% of depositors.

Notwithstanding the aforesaid, deposits exceeding the prescribed limits as set out in the paragraph above are not insured under the deposit insurance system. In addition, the deposit insurance system could potentially decrease RHB Bank's stability by encouraging risk-taking on the part of RHB Bank.

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## **4 DESCRIPTION OF THE ISSUER**

### **4.1 History and Background**

RHB Bank was incorporated as Development and Commercial Bank Berhad Limited on 4 October 1965 and commenced business in November 1965. It changed its name to Development & Commercial Bank (Limited) Berhad on 15 April 1966 and to Development and Commercial Bank Berhad on 20 September 1982. It was listed on the Kuala Lumpur Stock Exchange (currently known as Bursa Securities) on 2 August 1983.

In 1990, the RHB Banking Group acquired a 20% interest in Development and Commercial Bank Berhad. On 17 December 1994, it changed its name to DCB Bank Berhad and was delisted on 29 December 1994. It assumed its present name on 1 July 1997.

On 1 July 1997, the commercial banking business of Kwong Yik Bank Berhad was merged with RHB Bank and on 1 July 1998, the operations of RHB Finance Berhad were merged with RHB Bank. Pursuant to the acquisition of Sime Bank Berhad, the banking business was vested in RHB Bank on 30 June 1999. On 6 August 2001, the finance business of RHB Finance Ltd was merged with the Singapore branch of RHB Bank.

On 1 May 2003, Bank Utama was merged with RHB Bank. On 2 February 2005, RHB Islamic, a wholly owned subsidiary of RHB Bank, was incorporated. Pursuant to the vesting order issued by the High Court of Malaya on 8 March 2005, the Islamic banking business of RHB Bank was transferred to RHB Islamic on 16 March 2005. On 1 January 2006, RHB Delta Finance Berhad (now known as RHB Delta Sdn Bhd) was merged with RHB Bank.

The registered office of RHB Bank is located at Level 10, Tower One, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur while its head office's principal place of business is located at Towers Two & Three, RHB Centre, Jalan Tun Razak, 50400 Kuala Lumpur.

RHB Bank is the fourth largest commercial bank in Malaysia in terms of total assets (based on the published December 2006 financial results of domestic banks in Malaysia). RHB Bank's head office is located at the RHB Centre in Kuala Lumpur, and as at 30 September 2007, it has a network of 183 outlets throughout Malaysia. RHB Bank also has regional presence in Singapore, Brunei and Thailand. RHB Bank maintains correspondent relationships and connections with a large network of over 1,000 correspondent banks in over 100 countries covering 6 continents worldwide. Both RHB Bank and Kuwait Finance House (Malaysia) Berhad ("KFH") have since obtained approval from BNM to negotiate on the disposal of a combination of branches, assets and liabilities by RHB Bank to KFH.

RHB Bank, as part of the RHB Banking Group offers a comprehensive range of financial products and services ranging from retail, commercial and corporate banking to Islamic products and services and electronic banking. As at 30 September 2007, RHB Bank has 2 main subsidiaries, RHB Labuan and RHB Islamic. Please refer to Section 4.6 below for the details of RHB Labuan and RHB Islamic.

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## 4.2 RHB Banking Group's Strategic Transformation

BNM had on 1 October 2007 approved the proposed strategic transformation of the business functions within the RHB Banking Group ("Strategic Transformation").

### Vision

The Strategic Transformation has reorganised the RHB Banking Group's businesses with its new vision "Your Partner for Growth".

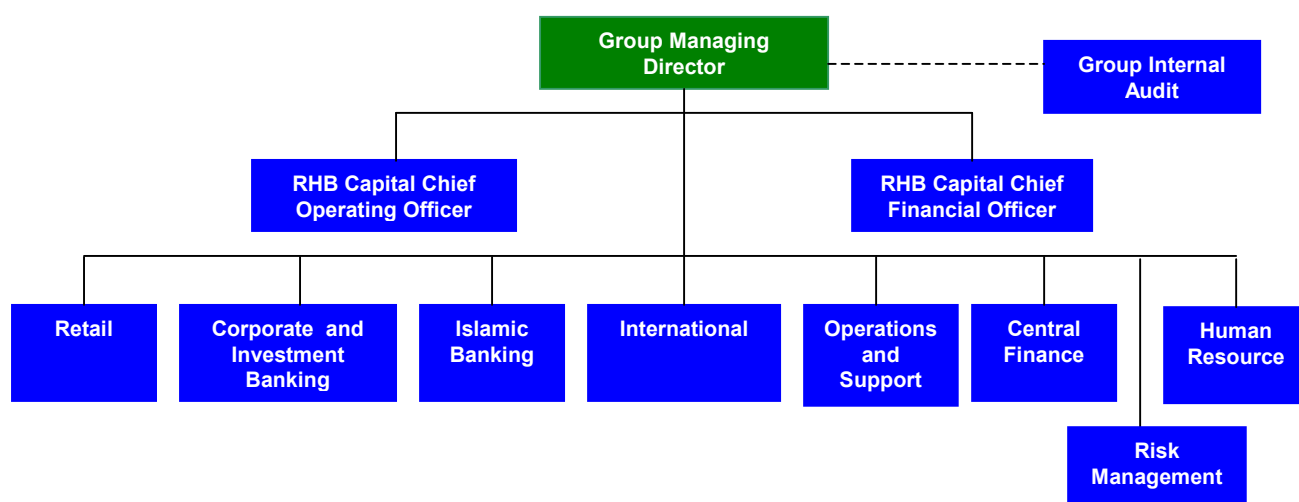
### Objectives

The ultimate aim of the Strategic Transformation is to enable the various units of the RHB Banking Group to operate on a 'group-wide' platform. The move is characterised by establishing group-wide management and operations committees to achieve scale and efficiency, more extensive collaboration among the entities within the RHB Banking Group to better serve customers and maximising cross-selling opportunities, supported by ongoing development of human capital and infrastructure.

The RHB Banking Group also aspires to double its profitability and market capitalisation by 2010, expand its footprint in ASEAN with the aspirations of becoming one of the three (3) largest banking groups in South-East Asia by 2020 and broadening its international presence.

### New Group Structure

The Strategic Transformation results in a significant change to the organisational and reporting structure of the companies within the RHB Banking Group with the introduction of a new group structure as follows:



Under the new structure, the RHB Banking Group's core businesses will be streamlined into four (4) strategic business units i.e. Retail, Corporate and Investment Banking, Islamic Banking and International which would operate alongside four (4) strategic functional units namely Operations and Support, Central Finance, Risk Management and Human Resource.

The Strategic Transformation is designed to harness the strength of the RHB Banking Group to deliver seamlessly all products and services of the RHB Banking Group effectively to its customers whilst leveraging on the scale of the RHB Banking Group by adopting a customer-

centric approach and finding new efficiencies. With the Strategic Transformation, the RHB Banking Group will be able to focus on deepening relationships with its retail and corporate customers, improving earnings through a better understanding of its customers' needs and the provision of holistic suite of products and services to meet these needs.

The Strategic Transformation will not change the legal status of any corporate entity within the RHB Banking Group or the ownership of any assets of the RHB Banking Group.

#### **4.3 Share capital**

The authorised and issued and paid-up share capital of RHB Bank as at 31 August 2007 are as follows:

Type	No. of shares	Par value (RM)	Total (RM)
<b><u>Authorised</u></b>			
Ordinary shares	8,000,000,000	0.50	4,000,000,000
INCPS	2,000,000,000	1.00	2,000,000,000
<b><u>Issued and paid-up capital</u></b>			
Ordinary shares	3,899,971,952	0.50	1,949,985,976
INCPS	1,368,099,145	1.00	1,368,099,145

#### **4.4 Ordinary shareholder**

Based on the Register of Substantial Shareholders of RHB Bank as at 31 August 2007, RHB Capital holds 100% of the ordinary shares of RHB Bank.

#### **4.5 INCPS holders**

The substantial INCPS holders of RHB Bank as at 31 August 2007 are as follows:

INCPS Holders	Direct		Indirect	
	No. of shares held	%	No. of shares held	%
Danamodal Nasional Berhad	1,000,000,000	73.09	-	-
RHB Capital	263,629,584	19.27	-	-
Sime Darby Financial Services Holdings Sdn Bhd	100,000,000	7.31	-	-

On 28 September 2007, RHB Capital announced its intention to purchase the remaining 1,104,469,561 INCPS of RM1.00 each in RHB Bank it did not already hold.

#### 4.6 Subsidiaries and Associated company of RHB Bank

The following are the subsidiaries of RHB Bank as at 31 August 2007:-

	<b>Paid-up capital</b>	<b>Effective interest (%)</b>	<b>Principal activities</b>
RHB Labuan	USD54,000,000	100	Offshore banking
RHB Islamic	RM523,424,002	100	Islamic Banking
RHB Capital Nominees (Tempatan) Sdn. Bhd.	RM10,000	100	Nominee services for Malaysian beneficial shareholders
RHB Capital Nominees (Asing) Sdn. Bhd.	RM10,000	100	Nominee services for foreign beneficial shareholders
UMBC Sdn. Bhd.	RM499,999,818	100	Dormant company
RHB Investment Ltd.	S\$19,000,000	100	Property investment and rental
Banfora Pte. Ltd.	S\$25,000,000	100	Property investment and rental
RHB Bank Nominees Pte. Ltd.	S\$100,000	100	Nominee services
USB Nominees Sdn. Bhd.	RM10,000	100	Dormant company
USB Nominees (Tempatan) Sdn. Bhd.	RM10,000	100	Dormant company
USB Nominees (Asing) Sdn. Bhd.	RM10,000	100	Dormant company
RHB Delta Sdn. Bhd.	RM175,000,000	100	Dormant company
RHB Delta Nominees (Tempatan) Sdn. Bhd.	RM10,000	100	Dormant company
RHB Leasing Sdn. Bhd.	RM10,000,000	100	Leasing and hire purchase
INFB Jaya Sdn. Bhd.	RM50,000,000	100	Dormant company
RHB Trade Services Limited	HK\$2.00	100	Processing of letters of credit reissuance favouring Hong Kong beneficiaries
RHB Capital Properties Sdn. Bhd.	RM21,800,000	100	Property investment
Utama Gilang Sdn. Bhd.	RM800,000,000	100	Dormant company
Utama Assets Sdn. Bhd.	RM2,300,000	100	Property investment
U.B. Nominees (Tempatan) Sdn. Bhd.	RM10,000	100	Dormant company
RHB International Trust (L) Ltd	USD40,000	100	Offshore trust company
RHB Corporate Services Sdn Bhd	RM150,000	100	Corporate secretarial services

All of the subsidiaries are incorporated in Malaysia except for RHB Investment Ltd., Banfora Pte. Ltd. and RHB Bank Nominees Pte. Ltd. which are incorporated in Singapore and RHB Trade Services Limited which is incorporated in Hong Kong.

The following is the associated company of RHB Bank as at 31 August 2007:-

	<b>Paid-up capital</b>	<b>Effective interest (%)</b>	<b>Principal activities</b>
CMS Trust Management Berhad*	RM6,765,300	49	Management of unit trust funds

\* *Shareholding held by a subsidiary company Utama Gilang Sdn Bhd*

### ***Principal Subsidiaries***

#### ***RHB Labuan***

RHB Labuan, a wholly-owned subsidiary of RHB Bank was incorporated in the Federal Territory of Labuan on 12 March 1992 and provides offshore banking services to corporate and commercial customers, both in Malaysia and offshore. The Malaysian Government has adopted a policy of encouraging development of Labuan as an international offshore finance centre. As a result, offshore banks which operate in Labuan are subject to beneficial tax rates and legal documents for facilities granted by offshore banks in Labuan are exempted from stamp duty.

RHB Labuan is the third largest domestic offshore bank in Labuan in terms of assets. RHB Labuan obtains its funding from a mixture of corporate deposits, bilateral loans, money market borrowings and shareholders' funds. Its main activities are lending to Malaysian and overseas borrowers.

As at 31 December 2006, RHB Labuan represented approximately 2.6% of the total assets of the RHB Bank Group.

#### ***RHB Islamic***

RHB Bank started its Islamic banking services on 21 August 1993 in line with the requirement of BNM that all financial institutions in Malaysia have Islamic banking windows via Skim Perbankan Islam (Islamic Banking Scheme). In July 2004, the Minister of Finance agreed to grant RHB Bank a licence to operate a full-fledged Islamic Bank. RHB Bank was one of the first two commercial banking groups in Malaysia to be issued such a licence. RHB Bank's wholly-owned subsidiary, RHB Islamic, commenced operations on 16 March 2005.

RHB Islamic offers products and services in accordance with Shariah principles both to the consumer and business sectors. Islamic banking products and services are offered through RHB Islamic's 1 branch, 7 Marketing Centres and RHB Bank's 183 outlets in Malaysia.

RHB Islamic is committed to offering customers a comprehensive range of products and services that comply with International Shariah standards. The Shariah standards are based on principles such as Murabahah, Mudharabah, Wadiah, Musyarakah, Istisna', Ijarah and others. The products and services are offered to both Muslims and non-Muslim individuals, commercial, corporate and government sectors. These include deposits, term deposits, investment accounts, multi currency deposits, financing, trade and guarantee products and services, capital markets products and electronic payment/gateway solutions. RHB Islamic also offers customised financing solutions and capital markets advisory services. RHB Islamic aims to be an internationally recognised Islamic financier that offers globally accepted Shariah compliant products and services to both the domestic and global markets.

As at 31 December 2006, RHB Islamic represented approximately 8.5% of the total assets of the RHB Bank Group.

## 4.7 Information on Directors and Senior Management

### 4.7.1 Board of Directors

The members of the Board of Directors of RHB Bank as at 8 October 2007 are as follows:

<b>Name</b>	<b>Nationality / Designation</b>
YBhg Datuk Azlan Zainol	Malaysian / Non-Independent Non-Executive Chairman
YBhg Dato Abdullah Mat Nor	Malaysian / Independent Non-Executive Deputy Chairman
Tuan Haji Khairuddin Ahmad	Malaysian / Non-Independent Non-Executive Director
YBhg Dato' Vaseehar Hassan Abdul Razack	Malaysian / Non-Independent Non-Executive Director
YBhg Dato' Mohd Salleh Hj Harun	Malaysian / Independent Non-Executive Director
YBhg Dato' Othman Jusoh	Malaysian / Independent Non-Executive Director
Encik Johari Abdul Muid	Malaysian / Non-Independent Non-Executive Director
Encik Ismael Fariz Ali	Malaysian / Independent Non-Executive Director
YBhg Dato' Mohamed Khadar Merican	Malaysian / Independent Non-Executive Director
Mr Ong Seng Pheow	Malaysian / Independent Non-Executive Director
Mr Michael Joseph Barrett	American / Managing Director

### 4.7.2 Directors' Profiles (as at 8 October 2007)

#### **YBhg Datuk Azlan Zainol**

*Non-Independent Non-Executive Chairman  
Malaysian*

YBhg Datuk Azlan Zainol ("YBhg Datuk Azlan"), aged 57, is currently the Chief Executive Officer of the EPF. He has more than 26 years of experience in the banking and finance sector, having been appointed as the Managing Director of AmBank Berhad and prior to that, as the Managing Director of AmFinance Berhad.

YBhg Datuk Azlan is a Fellow of the Institute of Chartered Accountants of England and Wales, Member of the Malaysian Institute of Accountants and Member of the Malaysian Institute of Certified Public Accountants. He also serves as a member of the Malaysia International Islamic Financial Centre, Executive Committee and a member of the Putrajaya Committee on GLC High Performance.

YBhg Datuk Azlan's other directorships in public companies include Malaysian Resources Corporation Berhad (Chairman), Rashid Hussain Berhad, RHB Capital, RHB Investment Bank, Jardine Cycle & Carriage Limited, MCL Land Limited, ASIA Limited, Commonwealth Africa Investments Limited and South Johor Investment Corporation Berhad.

YBhg Datuk Azlan was appointed as a Director and formalised as Chairman of RHB Bank on 27 July 2005 and 29 July 2005, respectively, representing RHB Capital, the holding company of RHB Bank.

**YBhg Dato Abdullah Mat Noh**

*Independent Non-Executive Deputy Chairman  
Malaysian*

YBhg Dato Abdullah Mat Noh ("YBhg Dato Abdullah"), aged 66, was formerly the President/Chief Executive Officer of Bank Utama. Prior to joining Bank Utama in April 1999, he was attached to Standard Chartered Bank Malaysia Berhad for 36 years where his last position was the Senior Manager of its East Malaysia operations. YBhg Dato Abdullah is a Member of the Chartered Institute of Bankers and Chartered Institute of Secretaries.

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

YBhg Dato Abdullah was appointed as the Deputy Chairman of RHB Bank on 7 May 2003, representing RHB Capital, the holding company of RHB Bank. YBhg Dato Abdullah was re-designated from Non-Independent Non-Executive Director to Independent Non-Executive Director on 6 September 2007. YBhg Dato Abdullah also serves as the Chairman of the Central Loans Committee and a Member of the Nominating Committee.

**Tuan Haji Khairuddin Ahmad**

*Non-Independent Non-Executive Director  
Malaysian*

Tuan Haji Khairuddin Ahmad ("Tuan Haji Khairuddin"), aged 64, began his career in the banking industry and was previously with Citibank N.A., Southern Bank Berhad, Bank of Commerce Berhad and Arab Malaysian Finance Berhad. He attended the Advance Management Course at Columbia Business School in New York, USA.

Tuan Haji Khairuddin's other directorships in public companies include RHB Unit Trust Management Berhad and RHB Insurance.

Tuan Haji Khairuddin was appointed as a Director of RHB Bank on 6 September 2001, representing Danamodal Nasional Berhad. He also serves as a member of the Risk Management Committee, the Audit Committee and the Nominating Committee.



**YBhg Dato' Vaseehar Hassan Abdul Razack**

*Non-Independent Non-Executive Director*

*Malaysian*

YBhg Dato' Vaseehar Hassan Abdul Razack ("YBhg Dato' Vaseehar Hassan"), aged 56, has a Bachelor Degree in Accounting, Masters in Business Administration as well as Specialised Masters in Consulting and Coaching. He is currently pursuing a Doctoral Research at the Vrije Universiteit, Amsterdam. He has more than 26 years of experience in the financial sector.

In addition to being the Chief Executive and Director of the Malaysian subsidiary of Dallah AlBaraka Group of Saudi Arabia, YBhg Dato' Vaseehar Hassan is also a Director of RHB Capital, RHB Investment Bank, RHB Insurance, RHB Islamic (Chairman), UBG Berhad (formerly known as Utama Banking Group Berhad), CMS Trust Management Berhad and Ingress Corporation Berhad. He is also a member of the International Advisory Panel of the World Islamic Economic Forum.

YBhg Dato' Vaseehar Hassan was appointed as a Director of RHB Bank on 7 May 2003, representing RHB Capital, the holding company of RHB Bank.

**YBhg Dato' Mohd Salleh Hj Harun**

*Independent Non-Executive Director*

*Malaysian*

YBhg Dato' Mohd Salleh Hj Harun ("YBhg Dato' Mohd Salleh"), aged 63, has 32 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 BNM, whereat he served as Deputy Governor from 2000 to 2004. He is a Fellow of the Institute of Bankers and also a Member of the Malaysian Institute of Certified Public Accountants.

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

YBhg Dato' Mohd Salleh was appointed a Director of RHB Bank on 20 August 2004. He also serves as the chairman of the Risk Management Committee as well as a member of the Audit Committee and the Nominating Committee.

**YBhg Dato' Othman Jusoh**

*Independent Non-Executive Director*

*Malaysian*

YBhg Dato' Othman Jusoh ("YBhg Dato' Othman"), aged 59, has held various senior positions in the Ministry of Finance until his retirement in June 2004. He has also served as the Group Chief Executive of Malaysian Kuwaiti Investment Co. Sdn Bhd from 1995 to 1998 and as the Executive Director of Asian Development Bank from August 2000 to July 2003. He was also the Chief Executive Officer of Perbadanan Tabung Pendidikan Tinggi Nasional from August 2004 to August 2006. He is

currently the Chairman of TH Technologies Sdn Bhd since 1 June 2005. He holds a Bachelor of Economics (Honours) in Analytical Economics from the University of Malaya and a Masters in Business Administration from the University of Oregon, USA.

YBhg Dato' Othman's other directorships in public companies include RHB Islamic, Bank Pembangunan Malaysia Berhad and BI Credit & Leasing Berhad.

YBhg Dato' Othman was appointed as a Director of RHB Bank on 23 August 2004, representing Khazanah Nasional Berhad ("Khazanah"). YBhg Dato' Othman was re-designated from Non-Independent Non-Executive Director to Independent Non-Executive Director on 21 July 2006. He also serves as the chairman of the Remuneration and Human Resource Committee and the Nominating Committee as well as a member of the Central Loans Committee.

**Encik Johari Abdul Muid**

*Non-Independent Non-Executive Director  
Malaysian*

Encik Johari Abdul Muid ("Encik Johari"), aged 50, has more than 22 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 CIMB Investment Bank 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 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 (Investment) of EPF. He is an Associate Member of the Chartered Institute of Management Accountants, United Kingdom.

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

Encik Johari was appointed as a Director of RHB Bank on 1 April 2005, representing RHB Capital, the holding company of RHB Bank. He also serves as a member of the Central Loans Committee.

**Encik Ismael Fariz Ali**

*Independent Non-Executive Director  
Malaysian*

Encik Ismael Fariz Ali ("Encik Fariz"), aged 44, is currently the Managing Director of FirstFloor Capital Sdn Bhd, a technology venture capital firm registered with the SC. Since 2000, 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 6 years experience in venture capital and 16 years experience in merchant banking ranging from corporate finance, privatisation, mergers and acquisitions, investment advisory and valuations, project finance, restructuring, corporatisations and overseas investments. His last held position in AMMB was General Manager, Project Advisory.

Encik Fariz's other directorships in public companies include Celcom (M) Berhad, Technology Resources Industries Berhad and Pharmaniaga Berhad.

Encik Fariz was appointed as a Director of RHB Bank on 10 August 2005, representing Khazanah. Encik Fariz was re-designated from Non-Independent Non-Executive Director to Independent Non-Executive Director on 6 September 2007. He also serves as a member of the Central Loans Committee and the Remuneration and Human Resource Committee.

**YBhg Dato' Mohamed Khadar Merican**

*Independent Non-Executive Director  
Malaysian*

YBhg Dato' Mohamed Khadar Merican ("YBhg Dato' Khadar"), aged 51, has had over 20 years of experience in financial and general management. He served as an auditor and a consultant in an international accounting firm, before joining a financial services group in 1986. YBhg Dato' Khadar has held various senior managerial positions in Pemas International Holdings Berhad, a company listed on the Main Board of Bursa Securities between 1988 and April 2003, including those of President and Chief Operating Officer. He currently manages his own financial consultancy practice.

YBhg Dato' Khadar is a Member of the Institute of Chartered Accountants in England and Wales and is also a Member of the Malaysian Institute of Accountants. He was a past President of Malaysian Association of Hotel Owners.

His other directorships in public companies include Rashid Hussain Berhad, RHB Investment Bank, RHB Insurance, RHB Unit Trust Management Berhad, Astro All Asia Networks Plc and AirAsia Berhad.

YBhg Dato' Khadar was appointed as a Director of RHB Bank on 9 January 2006. He also serves as a member of the Central Loans Committee.

**Mr Ong Seng Pheow**

*Independent Non-Executive Director  
Malaysian*

Mr Ong Seng Pheow ("Mr Ong"), aged 58, has over 34 years of audit and accounting experience. He is a Member of the Malaysian Institute of Certified Public Accountant (MICPA) and Malaysian Institute of Accountants. He was a partner of Ernst & Young from 1984 to 2003. His last held position in Ernst & Young was the National Director of Assurance and Advisory Business Services. He has served on committees and working groups of MICPA.

Mr Ong's other directorships in public companies include Daiman Development Berhad, LCTH Corporation Berhad, George Kent Malaysia Berhad and HELP International Corporation Berhad.

Mr Ong was appointed as a Director of RHB Bank on 20 November 2006. He also serves as the chairman of the Audit Committee as well as a member of the Risk Management Committee, the Remuneration and Human Resource Committee and the Nominating Committee.

**Mr Michael Joseph Barrett**

*Managing Director*  
*American*

Mr Michael Joseph Barrett (“Mr Barrett”), aged 57, was appointed as the Chief Executive Officer of RHB Bank on 3 January 2005. He was appointed as the Group Managing Director of RHB Capital and Managing Director of RHB Bank on 8 October 2007. He has vast banking experience spanning 30 years with Chase Manhattan Bank, USA N.A where his last position was the Chief Executive Officer and President of Chase Manhattan Bank, USA N.A. He holds a Bachelor of Science in Economics and Business Administration from Alfred University, Alfred, New York and a Masters in Business Administration in Finance from Fordham University, Bronx, New York.

Mr Barrett’s other directorships in public companies include RHB Islamic and RHB Labuan, the wholly owned subsidiaries of RHB Bank.

#### **4.7.3 Senior Management**

The members of the Senior Management of RHB Bank as at 8 October 2007 are as follows:-

<b>Name</b>	<b>Designation</b>
Mr Michael Joseph Barrett	Managing Director
Mr Rajaretnam Soloman Daniel	Acting Chief Operating Officer
Mr Michael Lim Kheng Boon	Head, Treasury
YBhg Datuk Haji Abd Halim Haji Abd Hamid	Head, RHB Delta
Encik Emran Ismail	Head, Corporate Banking
Mr Philip Lu Nam Ann	Head, Commercial Banking/SMIs
Mr Michael Lor Chee Leng	Head, Consumer Banking
YBhg Dato’ Ahmad Dato’ Hj Ibrahim	Head, Strategic Planning
YM Tengku Mohamad Rizam Tengku Abdul Aziz	Head, Technology Banking
Mr Rupert Koh Hock Joo	Head, Finance
Encik Drahman Jaladin	Head, Human Resource
Ms Wong Yih Yin	Head, Group Internal Audit
Mr Rajaretnam Soloman Daniel	Head, Credit Management
Encik Abdul Razak Mohd Ismail	Head, Information Technology
Mr Ee Yew Chai	Head, Operations & Services
Mr Simon Anak Hollis	Head, Loan Recovery
Mr Justin Soong Jia Seng	Head, Risk Management
Mr V. Maslamani	Head, Compliance
Encik Azman Shah Md Yaman	Head, Secretariat

However, pursuant to the Strategic Transformation and with effect from 1 November 2007, the management of the businesses and operations of RHB Bank as part of the RHB Banking Group will be overseen by the Central Management Committee, comprising the following members:

<b>Name</b>	<b>Designation</b>
Mr Michael Joseph Barrett	Group Managing Director *
Pn Norazzah Sulaiman	Chief Operating Officer, RHB Capital
Mr Kellee Kam Chee Khiong	Chief Financial Officer, RHB Capital
Mr Michael Joseph Barrett #	Head, Retail
Mr Chay Wai Leong	Head, Corporate and Investment Banking
Pn Jamelah Jamaluddin	Head, Islamic Banking
Mr Michael Joseph Barrett #	Head, International
Mr Michael Lim Kheng Boon	Chief Operating Officer
Mr Rupert Koh Hock Joo	Head, Central Finance
En Drahman Jaladin #	Head, Human Resource

\* effective as at 8 October 2007

# overseeing the functions of the unit

In addition, risk management of the RHB Banking Group is headed by a Chief Risk Officer, who is Mr Justin Soong Jia Seng.

#### **4.8 Board Committees**

The Board has established the following 5 committees for purposes of corporate governance and best practices:

(i) *Audit Committee*

The Board has established an Audit Committee since 13 December 1984. The Committee presently comprises two Independent Non-Executive Directors of whom one is the chairman of the Audit Committee and one Non-Independent Non-Executive Director, as follows:

1. Mr Ong Seng Pheow (Chairman);
2. YBhg Dato' Mohd Salleh Hj Harun
3. Tuan Haji Khairuddin Ahmad.

The Audit Committee meets regularly to review RHB Bank's and the RHB Bank Group's financial reporting, the nature, scope and results of audit reviews and the effectiveness of its system of internal controls and compliance.

(ii) *Nominating Committee*

The Board has established a Nominating Committee since 5 September 2002. The Committee currently comprises four Independent Non-Executive Directors of whom one is the chairman of the Nominating Committee and one Non-Independent Non-Executive Director, as follows:

1. YBhg Dato' Othman Jusoh (Chairman);
2. YBhg Dato' Mohd Salleh Hj Harun;
3. YBhg Dato Abdullah Mat Noh;
4. Tuan Haji Khairuddin Ahmad;
5. Mr Ong Seng Pheow.

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

BNM had via its letter dated 2 October 2007 approved the establishment of a Group Nominating Committee and the consolidation of the existing Nominating Committees of RHB Capital, RHB Bank, RHB Investment Bank, RHB Islamic and RHB Insurance.

The Group Nominating Committee is expected to be implemented in December 2007.

(iii) *Remuneration and Human Resource Committee*

The Board has established a Remuneration and Human Resource Committee since 4 May 2000. The Committee currently comprises three Independent Non-Executive Directors, of whom one is the chairman of the Remuneration and Human Resource Committee, as follows:

1. YBhg Dato' Othman Jusoh (Chairman);
2. Encik Ismael Fariz Ali;
3. Mr Ong Seng Pheow.

The Committee is responsible to evaluate the performance and remuneration of the directors, CEO and key senior management officers and to make recommendations on the policies and framework in relation to rewards and benefits.

BNM had via its letter dated 2 October 2007 approved the establishment of a Group Remuneration and Human Resource Committee and the consolidation of the existing Remuneration and Human Resource Committees of RHB Capital, RHB Bank, RHB Investment Bank, RHB Islamic and RHB Insurance.

The Group Remuneration and Human Resource Committee is expected to be implemented in December 2007.

(iv) *Central Loans Committee*

The Board has established a Loans Committee (“LC”) since 4 July 2001. The RHB Banking Group has centralised the credit evaluation and approval framework of RHB Bank, RHB Investment Bank and RHB Labuan and renamed the LC as the “Central Loans Committee”. The Committee currently comprises the Deputy Chairman of RHB Bank, three Independent Non-Executive Directors and one Non-Independent Non-Executive Director, as follows:

1. YBhg Dato Abdullah Mat Noh (Chairman);
2. Encik Johari Abdul Muid;
3. Encik Ismael Fariz Ali;
4. YBhg Dato’ Mohamed Khadar Merican;
5. YBhg Dato’ Othman Jusoh.

The Committee meets fortnightly and has full authority to affirm, impose additional covenants or veto credits approved by the Central Credit Committee to ensure adherence to RHB Bank’s credit policies and procedures.

(v) *Group Risk Management Committee*

The Board has established a Risk Management Committee since 30 January 2001. The Committee presently comprises two Independent Non-Executive Directors of whom one is the chairman of the Risk Management Committee and one Non-Independent Non-Executive Director, as follows:

1. YBhg Dato’ Mohd Salleh Hj Harun (Chairman);
2. Tuan Haji Khairuddin Ahmad;
3. Mr Ong Seng Pheow.

BNM had via its letter dated 31 July 2007 approved the establishment of a Group Risk Management Committee (“GRMC”) and the consolidation of the existing Risk Management Committees of RHB Capital, RHB Bank, RHB Investment Bank, RHB Islamic and RHB Insurance. However, in line with BNM’s directives, RHB Islamic will continue to have a dedicated risk management committee to deal with the risks and intricacies associated with Islamic finance.

The GRMC is expected to be implemented in November 2007.

Members of the GRMC are Non-Executive Directors of the respective entities as follows:

1. Dato’ Mohd Salleh Hj Harun (Chairman);
2. Dato’ Vaseehar Hassan Abdul Razack;
3. Tuan Haji Khairuddin Ahmad;
4. YBhg Datin Khamarzan Ahmed Meah;
5. Mr Patrick Chin Yoke Chung.

The Terms of Reference for the GRMC are as follows:-

**Overriding Objectives**

- a) To provide oversight and governance of risks in the RHB Banking Group.
- b) 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 RHB Banking Group is in place and functioning.
- c) To promote the management of the RHB Banking Group's risk in accordance with a risk-return performance management framework.
- d) To deliberate and make recommendations to the Board of Directors of each relevant entity within the RHB Banking Group in respect of risk management matters of the respective entities.

The GRMC should comprise only non-executive directors with at least five (5) members (each entity shall have at least one (1) of its board members being represented) with a Chairman. The meetings are monthly or as and when necessary. Quorum for meetings shall be at least three (3) members.

## **4.9 Main Business Divisions**

The main business divisions of RHB Bank are currently as follows:

### **4.9.1 Corporate Banking Division**

The Corporate Banking Division currently manages a diverse portfolio of clients reflecting its strength in market and industry knowledge. Its clients are predominantly listed companies on Bursa Securities and include multinational companies and large local corporations covering all industry types including manufacturing, agriculture, petrochemicals, infrastructure, utility, real estate and services.

The Corporate Banking Division comprises (i) the relationship departments & regional business development offices in the Peninsular Malaysia and in East Malaysia; and (ii) the support departments & section, which includes the liability management department, the early care corporate section, the corporate planning & the financial management department and the trade services department.

The product offerings of the Corporate Banking Division are structured to suit the diverse needs of its corporate customers, to include working capital lines facilities, term loans, contract, bridging and project finance, structured finance, syndications and private debt securities and trade financing. Such products cover both floating rate as well as fixed rate financing options.

The Corporate Banking Division also offers an extensive range of treasury products and services to meet its customers' needs with options of foreign exchange services, derivatives (foreign exchange, interest rate, currency swaps, etc), global remittances and investments in securities (money market, private debt securities, etc).

Although the Trade Services Department is housed under the Corporate Banking Division, it provides support to RHB Bank's trade business for the 3 customer



segments, namely the corporate, commercial and consumer (one of the trade services offered to individuals is the provision of bank guarantee facilities). The trade sales and advisory services are delivered via 8 Trade Business Desk, manned by dedicated trade specialist strategically located around the country while the trade applications are being processed via 7 regional trade back offices. RHB Bank offers an extensive range of trade services and financing solutions from the traditional trade financing and services to structured trade solutions to meet the needs of more sophisticated customers typically from the corporate and MNC segments. Customers may opt for financing their local and foreign trade (import and export) either in local or foreign currency as well as options to pay interest upfront or end of the financing period with flexibility of partial settlement or prepayment and in the form of with or without recourse basis.

The trade internet based solution is also available to customers which provides on line capability for customers not only to obtain status inquiry on their trade limits outstanding, transactions status, reports on transactions done or maturing within a specific period but also to apply for trade financing and services. Some of the products available on line are application for letters of credit, bank guarantees, direct collection and various forms of trade financing.

The Corporate Banking Division has been the primary driving force behind the RHB Bank's Group cross-selling efforts, working closely with its subsidiaries and sister companies, namely RHB Islamic, RHB Labuan, RHB Investment Bank, RHB Insurance, RHB Unit Trust Management Berhad and RHB Asset Management Sdn Bhd.

#### **4.9.2 Commercial Banking/SMIs Division**

The Commercial Banking/Small and Medium Industries (SMIs) Division continues to be an active player and preferred banker in the SME and middle market segments. It is continuously developing new and competitive products and services. Some of these are program lending jointly undertaken with the Credit Guarantee Corporation (whereby loans are guaranteed by the Credit Guarantee Corporation), commercial mortgage package (enhanced), zero moving cost and special rate campaign. The division will soon introduce new services, namely, RHB BizCollect, ATM cards for businesses and Biz Network.

The Commercial Banking/SMIs Division will continue to be aggressive in its marketing on the preferred economic sectors and deepen its relationship with existing customers to increase utilisation levels and understand their needs so as not to lose business opportunities to competitors. The Commercial Banking/SMIs Division has dedicated Account Relationship Managers ("ARMs") assigned to each customer while there is another team of Sales Managers to acquire new customers, thereby complementing the ARMs. There are also Treasury Ambassadors and Trade Business Desks Managers to service the customers.

The Commercial Banking/SMIs Division will continue to leverage on the cross selling initiatives amongst business units and the RHB Banking Group which would increase product holding ratio, as well as its anti-attrition strategy.

The Commercial Banking/SMIs Division will continue to have more advertising and promotional activities with trade exhibitions, roadshows and dinners cum seminars for SME and trade associations' members to market its products and services as well as enhance its image as a preferred lender for SMEs.

Some of the activities include MIDA National Investment seminar roadshows, MITI SME seminar roadshows, Small Medium Industries Development Corporation (“SMIDEC”) Enterprise 50 program, SMIDEC special advisory program, SMIDEC regional showcase, SMIDEC business workshop, the Ministry of Entrepreneur Development and Co-operative Development Gerak Usahawan and Credit Guarantee Corporation entrepreneur dialogue and roadshows.

The Commercial Banking/SMIs Division is also automating its loan origination for non-program lending loans as well as undertaking service improvement initiatives to further improve its service quality.

#### **4.9.3 Consumer Banking Division**

During the year 2006, the Consumer Banking business had a good year of expansion, particularly in ASB Financing (i.e. financing for the purchase of units in Amanah Saham Bumiputra), credit cards and Wealth Management (i.e. the management of wealth encompassing planning, investing, managing, growing and preserving finances). This division has set aggressive targets for these initiatives and have achieved higher than expected results despite demanding market conditions. To support these business initiatives, this division focused its attention on increasing its product and value proposition, improving customer service, automating credit processes and re-engineering its work practices.

Significant growth is seen in RHB Bank’s ASB Financing with 32% growth, as well as from commercial property loans and home loans, which grew at 10.1% and 4.7% respectively. Credit cards also saw remarkable growth, the total cards in circulation grown to 680,000 cards and receivables increased to RM1.3 billion. Such achievements were the result of innovative product development, strong commitment from RHB Bank’s sales people and a tenacious credit support at the back office.

RHB Bank’s market share by card numbers increased from 7.2% to 7.6% and it now has a 6.5% market share of cards receivables in Malaysia from 6.0% in 2005. The Consumer Banking Division’s credit card sales initiatives include the introduction of a range of new products and services as well as a comprehensive review of the privileges available to its cardholders.

Through its Wealth Management initiatives, RHB Bank continues to offer its customers alternative investment opportunities in unit trust with potentially higher returns. The Wealth Management products expanded to include unit trust and bancassurance. RHB Bank now distributes more than 100 funds provided by 11 different fund houses. RHB Bank has also formed strategic alliances with 5 insurance companies to distribute over 20 insurance products.

From the services perspective, a number of system automation and controls were implemented for better efficiencies and productivity. RHB Bank was awarded the ISO 9001/2000 certification for quality products and services in the cards business. Its Customer Care Centre became the first call centre in Malaysia to be awarded the ISO 9001/2000 Quality Management System certification by Standard and Industrial Research Institute of Malaysia (SIRIM).

#### **4.9.4 RHB Delta Division**

RHB Delta Division became a division of RHB Bank with effect from 1 January 2006, following the merger of RHB Delta Finance Berhad with RHB Bank. The division has two core business units i.e. Consumer Hire Purchase and Asset Based Financing.

The Consumer Hire Purchase unit focuses on providing hire purchase financing to customers to purchase both new and used motor vehicles, and providing floor stocking facilities to car dealers as working capital. Added service in the form of road tax and insurance renewal services are also provided for the convenience of its Hire Purchase customers. Consumer Hire Purchase businesses are marketed mainly through appointed and authorised new and used car dealers.

The Asset Based Financing unit provides equipment and machinery financing mainly to SMEs under industrial hire purchase. The main focus is concentrated in the following industry sectors:

- Manufacturing and processing such as metal machining and forming, rubber and plastic products, furniture making, food and beverages, textile and apparel, printing and packaging etc.
- Transportation and material handling such as buses, tankers, trailers, hauliers, forklifts etc.
- Agricultural and farming activities such as palm oil cultivation, livestock production, aquaculture, logging etc.

Currently, the hire purchase facilities are offered at 22 locations (13 outlets in East Malaysia and 9 outlets in Peninsular Malaysia) situated mainly in the major towns. Expansion plans are in place to open up the availability of the hire purchase facility to all RHB Bank branches in the near future.

#### **4.9.5 Treasury Division**

The Treasury Division of RHB Bank performs a variety of treasury activities and services. Its primary functions within RHB Bank are divided into 3 main activities:

- (i) the provision of treasury and international payment products and services for customers of RHB Bank;
- (ii) undertaking the trading activities for RHB Bank; and
- (iii) the management of the liquidity, funding and investments of RHB Bank.

This division offers a wide range of retail, hedging, investment, structured and international payment products to meet the business, hedging and investment needs of RHB Bank's individual and corporate customers. Investments Linked to Derivatives (ILD), Western Union International Money Transfer Service, Foreign Workers' & Students' Remittance Services, Multi Currency Accounts (MCA), Treasury Money Market Deposits, Options and Swaps are amongst the latest products offered by RHB Bank. Apart from offering a variety of treasury products, the division's service and advisory team also assists its customers in obtaining market information and in their evaluation of financial requirements in order to better match products to their requirements. Through its research unit, RHB Bank

provides its customer with economic outlook reports, foreign exchange and interest rate forecasts and information on latest market developments.

The division also plays a key role in the establishment of international networks to support the international banking business for the entire bank in payment, treasury and trade services. Various partnership arrangements have been entered to enhance RHB Bank's international banking services to customers.

The division's key customer segments span across the spectrum of the business as well as the retail customers of RHB Bank. Such business focus would require that the division maintains its adaptability to changes while at the same time remaining focused on customers' hedging and investment objectives in order to continue providing relevant products to its customers. Apart from the mainstream Corporate, Commercial and Consumer customer segments, the division also focuses on its Japanese and Public & Government-Linked customer segments as well as customers with requirements for exotic currencies.

The division also undertakes a variety of trading activities for RHB Bank in the domestic and global financial markets, trading in foreign exchange, gold, capital markets and derivatives. RHB Bank is one of the top 5 Principal Dealers in Malaysia and has continuously upheld its Principal Dealer status for more than a decade.

The division's earnings have contributed significantly to RHB Bank's overall income in recent years, in terms of both interest and non-interest income originating largely from foreign exchange and investment and dealing in securities. Foreign exchange and fixed income earnings have grown significantly in view of the continued low domestic interest rates, favourable market conditions and RHB Bank's strong customer base, which had given rise to increased revenue opportunities. In 2006, the Treasury Division won ASIAMONEY's Best Domestic Provider of Foreign Exchange Services as voted by financial institutions as well as Best Domestic Provider of Foreign Exchange Services as voted by each market.

#### **4.10 Strategic Business and Functional Units**

Pursuant to the Strategic Transformation as set out in Section 4.2 above, RHB Bank's existing products and services will be operated via the following business and functional units:

##### ***4.10.1 Strategic Business Units (SBUs)***

###### Retail SBU

Retail SBU offers banking and wealth management products and services to consumer and SME customers including insurance, hire purchase, loans and credit cards. The development and distribution of these products are carried out via six (6) regions namely Central, Northern, Southern, Sabah, Sarawak and East Coast and five (5) retail product specialists /support centres namely insurance, product development and management, commercial, support and services and finance business. Retail SBU aims to serve all consumer and SME segments but differentiate offerings according to the needs of the customers segments.

###### Corporate and Investment Banking SBU

Corporate and Investment Banking SBU covers wholesale banking which integrates middle market, corporate and investment banking units into a single unit. This SBU

which aims to provide the whole spectrum of corporate banking and investment banking products caters to the sophisticated needs of mid and large enterprises across various industries. As a full financial services provider with integrated banking and capital market capabilities, this SBU offers differentiated value propositions based on segment needs, anchoring on client relationships.

#### Islamic Banking SBU

Islamic Banking SBU offers Islamic banking products and services to both retail and enterprise clients. The main strategic thrusts of the Islamic Banking SBU are development of innovative and competitive products, strategic leveraging on the RHB Banking Group's infrastructure for fast growth and operational efficiency and collaboration with other SBUs in the RHB Banking Group to deliver integrated solutions to customers.

#### International SBU

International SBU, which currently covers the existing Singapore, Thailand and Brunei operations, offers banking products and services outside Malaysia. The International SBU is tasked to improve contributions from outside Malaysia to augment the RHB Banking Group's earnings base. Going forward, strategic plans shall be developed to spearhead the RHB Banking Group expansion agenda.

### **4.10.2 Strategic Functional Units**

#### Operations and Support

All functions of credit, operations, treasury, technology, compliance and administration of the RHB Banking Group are centralised under this unit.

#### Central Finance

All the accounting and finance functions of the RHB Banking Group are centralised under this unit.

#### Risk Management

The risk management function is overall responsible for the coordination and management of risk in the RHB Banking Group. It sets the overall policies on management and control of risk. It provides risk analysis and develops risk models for purposes of risk underwriting. It establishes risk limits and management action triggers. It also sets the strategic direction for risk infrastructure development. The risk management function includes economic capital management, credit risk management, market risk management, liquidity risk management and operational risk management.

#### Human Resource

Functions in relation to strategy and manpower management, human capital development, human resource services and human resource business partners for the RHB Banking Group are centralised within this unit.

Each of the aforementioned strategic business and functional units will be directly overseen by the Group Managing Director of the RHB Banking Group.

## 5 FINANCIAL INFORMATION

### 5.1 Historical Financial Highlights

The following tables present summary audited financial information of the RHB Bank Group and RHB Bank for the financial period ended 31 December 2004 (18 months), 2005 and 2006:

#### ***RHB Bank Group***

	<b>31 Dec 2004 (18 months) (RM '000)</b>	<b>31 Dec 2005 (RM '000)</b>	<b>31 Dec 2006 (RM '000)</b>
<u>Income Statement</u>			
Net income	2,886,973	2,306,683	2,757,847
Operating profit before allowance	1,446,952	1,203,102	1,548,966
Profit before INCPS dividends, zakat and taxation	731,159	624,055	845,555
Net profit for the financial year	430,548	377,737	503,848
<u>Balance Sheet</u>			
Total assets	77,087,402	84,775,510	95,124,397
Gross loans and advances	46,292,463	50,312,440	55,366,377
Total deposits	55,621,778	59,302,491	65,661,809
Ordinary share capital	1,949,986	1,949,986	1,949,986
Shareholders' equity	4,109,363	4,337,097	4,696,662

#### ***RHB Bank***

	<b>31 Dec 2004 (18 months) (RM '000)</b>	<b>31 Dec 2005 (RM '000)</b>	<b>31 Dec 2006 (RM '000)</b>
<u>Income Statement</u>			
Net income	2,605,927	1,905,321	2,504,950
Operating profit before allowance	1,267,478	975,277	1,393,997
Profit before INCPS dividends, zakat and taxation	594,500	478,330	714,574
Net profit for the financial year	307,542	269,802	392,045
<u>Balance Sheet</u>			
Total assets	71,320,123	74,154,469	85,948,893
Gross loans and advances	40,479,567	39,281,155	49,284,024
Total deposits	51,552,452	50,615,012	57,123,934
Ordinary share capital	1,949,986	1,949,986	1,949,986
Shareholders' equity	3,965,335	4,089,011	4,357,570

*Note:*

*“Net income” means total net interest income, other operating income and income from Islamic banking business.*

*“Total deposits” means total deposit from customers and deposits and placements of banks and other financial institutions.*

## **Financial Ratios**

The following financial ratios of the RHB Bank Group are unaudited:

	<b>31 Dec 2004</b>	<b>31 Dec 2005</b>	<b>31 Dec 2006</b>
Return on assets	0.7%	0.8%	0.9%
Return on equity	10.0%	12.5%	16.5%
Net interest margin	2.2%	2.3%	2.5%
Net NPL ratio	5.7%	4.9%	4.5%
Loan loss coverage (excluding collateral)	65.5%	64.5%	64.3%
Loans and advances/total deposits	88.0%	97.8%	94.5%
Cost to income	49.9%	47.8%	43.8%
Core capital ratio	9.1%	8.4%	8.0%
Risk-weighted capital ratio	13.8%	12.8%	11.8%

*Note:*

*Financial ratios definitions:*

*“Return on assets” means profit before INCPS dividends, zakat and taxation as a percentage of the average of beginning and year-end total assets.*

*“Return on equity” means profit (after net INCPS and) before taxation and zakat as a percentage of the average of beginning and year-end shareholders’ equity. “Net INCPS” means INCPS dividends net of taxation.*

*“Net interest margin” means net interest income, including income from Islamic Banking business, as a percentage of the average of beginning and year-end interest-earning assets (comprise cash and short-term funds, securities purchased under resale agreements, deposits and placements in banks and other financial institutions, securities held for trading, securities available-for-sale, securities held-to-maturity, loans, advances and financing and amount due from immediate holding company).*

*“Net NPL ratio” means non-performing loans less specific allowance as a percentage of gross loans, advances and financing less specific allowance.*

*“Loan loss coverage (excluding collateral)” means total specific allowance and general allowance for bad and doubtful debts as a percentage of non-performing loans.*

*“Loans and advances/deposits from customers” means net loans, advances and financing as a percentage of deposits from customers.*

*“Cost to income” means operating expenses as a percentage of the net income.*

*“Core capital ratio” means the ratio of Tier 1 capital (after proposed dividend) to risk-weighted assets.*

*“Risk-weighted capital ratio” means the ratio of total capital base (after proposed dividend) to risk-weighted assets.*

## 5.2 Capitalisation and Indebtedness

The following table sets forth the liabilities, INCPS and shareholders' equity of the RHB Bank Group as at 31 December 2006 and is derived from the audited consolidated financial statements of the RHB Bank Group as at 31 December 2006 (i) on an actual basis, and (ii) adjusted to reflect the issuance of the Notes offered hereby.

	<b>Audited</b>	<b>As Adjusted</b>
	<b>As at</b>	<b>As at</b>
	<b>31 December 2006</b>	<b>31 December 2006</b>
	(RM '000)	(RM '000)
<b>LIABILITIES, INCPS &amp; SHAREHOLDERS' EQUITY</b>		
Deposits from customers	55,785,316	55,785,316
Deposits and placements of banks and other financial institutions	9,876,493	9,876,493
Obligations on securities sold under repurchase agreements	13,364,811	13,364,811
Bills and acceptances payable	3,778,758	3,778,758
Recourse obligation on loans sold to Cagamas Berhad	2,879,284	2,879,284
Other liabilities	1,684,974	1,684,974
Provision for taxation and zakat	79,425	79,425
Deferred taxation liabilities	17	17
Long term borrowings	282,400	282,400
	<u>87,731,478</u>	<u>87,731,478</u>
Subordinated obligations <sup>(1)</sup>	1,328,158	- <sup>(2)</sup>
The Notes <sup>(3)</sup>	-	2,000,000
	<u>1,328,158</u>	<u>2,000,000</u>
	<u>89,059,636</u>	<u>89,731,478</u>
INCPS	1,368,099	1,368,099
Ordinary share capital	1,949,986	1,949,986
Reserves	2,746,676	2,746,676
<b>Shareholders' equity</b>	<u>4,696,662</u>	<u>4,696,662</u>
<b>Total liabilities, INCPS and shareholders' equity</b>	<b>95,124,397</b>	<b>96,796,239</b>

Notes:

- (1) Consists of the Existing Sub-Bonds and the USD Sub-Notes
- (2) After full redemption of the Existing Sub-Bonds from the proceeds of the issuance of the Subordinated Notes under the MTN Programme and the USD Sub-Notes on respective call dates i.e. 24 December 2007 for the Existing Sub-Bonds and 25 January 2008 for the USD Sub-Notes.
- (3) On the assumption that RM2.0 billion in nominal value of Subordinated Notes under the MTN Programme are issued at par.



### 5.3 Funding

The RHB Bank Group's primary funding source is customer deposits (demand, savings, fixed/investment deposits and negotiable instrument of deposits) obtained through its branch network. As at 31 December 2006, approximately 70.6% of its funding requirements came from customer deposits, while 29.4% came from interbank funds and repurchase agreements. Based on past experience, a substantial portion of these customers' deposits will be rolled over upon maturity, thereby providing a stable source of funding for the RHB Bank Group. To manage further the RHB Bank Group's liquidity position, the RHB Bank Group has in place comprehensive funding and liquidity policy guidelines, which detail measures to manage and monitor the liquidity and funding position proactively. Such measures include the diversification of funding sources, the requirement to project proactively and subject future cashflow to sensitivity and stress analyses, monitoring of management action triggers for various funding and liquidity indicators, as well as managing and ensuring adequate contingent funding sources.

To avoid over-dependence on a few large depositors, the RHB Bank Group sets industry concentration ratio targets which are monitored closely.

Additionally, the RHB Bank Group also ensures compliance with BNM's new liquidity framework, and maintains a positive cash inflow within the one week and one month time buckets above BNM's minimum positive cashflow requirements.

#### Profile of Customer Deposits by Type

	As at 31 December 2005		As at 31 December 2006	
	RM'000	%	RM'000	%
Demand deposits	13,671,301	28.1	15,691,206	28.1
Savings deposits	4,722,989	9.7	4,861,397	8.7
Fixed/investment deposits	28,276,770	58.1	32,480,252	58.2
Negotiable instrument of deposits	2,033,774	4.2	2,752,461	4.9
	<b>48,704,834</b>	<b>100.0</b>	<b>55,785,316</b>	<b>100.0</b>

#### Maturity Structure for Fixed/Investment Deposits and Negotiable Instruments of Deposits

	As at 31 December 2005		As at 31 December 2006	
	RM'000	%	RM'000	%
Due within six months	23,803,198	78.5	27,773,770	78.8
Six months to one year	5,998,681	19.8	7,044,135	20.0
One year to three years	418,741	1.4	191,526	0.5
Three years to five years	86,059	0.3	223,282	0.6
Over five years	3,865	-	-	-
	<b>30,310,544</b>	<b>100.0</b>	<b>35,232,713</b>	<b>100.0</b>

### 5.4 Capital Adequacy

As at 31 December 2006, RHB Bank Group's core capital ratio was 8.2% (before proposed dividends) and 8.0% (after proposed dividends) and risk-weighted capital ratio was 12.1% (before proposed dividends) and 11.8% (after proposed dividends). The following table sets out RHB Bank Group's capital base and capital ratios as at 31 December 2005 and 31 December 2006.

	<b>As at 31 Dec 2005</b>	<b>As at 31 Dec 2006</b>
	RM'000	RM'000
<b><u>Tier 1 Capital</u></b>		
Paid-up ordinary share capital	1,949,986	1,949,986
Paid-up INCPS	1,368,099	1,368,099
Share premium	8,563	8,563
Retained profits	780,262	970,739
Other reserves	1,593,144	1,768,840
	5,700,054	6,066,227
Less: Goodwill	(1,004,017)	(1,004,017)
Deferred tax assets	(240,030)	(251,703)
<b>Total Tier 1 capital</b>	<b>4,456,007</b>	<b>4,810,507</b>
<b><u>Tier 2 Capital</u></b>		
Subordinated obligations	1,365,252	1,328,158
General allowance for bad and doubtful debts and financing	909,527	965,782
<b>Total Tier 2 capital</b>	<b>2,274,779</b>	<b>2,293,940</b>
Less: Investment in subsidiaries	-	-
Holdings of other financial institutions capital instruments	(43,710)	(39,998)
<b>Total capital base</b>	<b>6,687,076</b>	<b>7,064,449</b>
<b><u>Capital ratios</u></b>		
<i>Before proposed dividends</i>		
Core capital ratio	8.6%	8.2%
Risk-weighted capital ratio	12.9%	12.1%
<i>After proposed dividends:</i>		
Core capital ratio	<b>8.4%</b>	<b>8.0%</b>
Risk-weighted capital ratio	<b>12.8%</b>	<b>11.8%</b>

The breakdown of risk-weighted assets in the various categories of risk-weights is as follows:

	<b>As at 31 Dec 2005</b>	<b>As at 31 Dec 2006</b>
	RM'000	RM'000
0%	20,014,790	21,812,798
10%	1,265,392	785,414
20%	11,370,103	14,820,954
50%	11,279,456	11,779,164
100%	42,720,341	47,868,686
	86,650,082	97,067,016
<b>Total risk-weighted assets for credit risk</b>	<b>50,760,629</b>	<b>56,801,000</b>
<b>Total risk-weighted assets for market risk</b>	<b>1,021,505</b>	<b>1,457,462</b>
<b>Total risk-weighted assets</b>	<b>51,782,134</b>	<b>58,258,462</b>

## 5.5 Asset Quality

### 5.5.1 Loan Portfolio

The RHB Bank Group's loan portfolio has expanded by 10.0% from the financial year end December 2005 to the financial year end December 2006. As at 31 December 2006, its largest exposures (by purpose) were loans granted for working capital (40.9%), purchase of landed property (residential) (23.2%) and purchase of transport vehicles (11.8%).

As at 31 December 2006, the RHB Bank Group's loans, advances and financing were RM52.74 billion, which represented 55.4% of the RHB Bank Group's total assets.

#### 5.5.1.1 Loans, Advances and Financing by Type

The following table shows a breakdown of loans, advances and financing by type of the RHB Bank Group as at the dates indicated:

	As at 31 Dec 2005 RM'000	As at 31 Dec 2006 RM'000
Overdrafts	6,465,593	6,797,088
Term loans/financing		
- housing loans/financing	11,706,298	12,545,070
- syndicated term loans/ financing	2,266,496	2,567,111
- hire purchase receivables	7,669,206	9,654,495
- lease receivables	295,953	281,120
- other term loans/financing	11,104,503	11,225,971
Bills receivable	1,628,524	1,877,730
Trust receipts	498,867	537,794
Claims on customers under acceptance credits	4,104,478	4,801,402
Staff loans/financing	417,836	406,299
Credit card receivables	994,953	1,288,406
Revolving credit	4,433,111	4,938,787
Floor stocking	7,935	8,308
Less: Unearned interest and income	(1,281,313)	(1,563,244)
Gross loans, advances and financing	50,312,440	55,366,337
Less: Allowance for bad and doubtful debts and financing:		
- general	(909,527)	(965,782)
- specific	(1,768,802)	(1,658,949)
Net loans, advances and financing	47,634,111	52,741,606

#### 5.5.1.2 Loans, Advances and Financing by Purpose

The following table shows a breakdown of loans, advances and financing by purpose of the RHB Bank Group as at the dates indicated:

	<b>As at 31 Dec 2005</b>	<b>As at 31 Dec 2006</b>
	RM'000	RM'000
Purchase of securities	1,709,814	1,710,666
Purchase of transport vehicles	5,137,937	6,516,541
Purchase of landed property:		
- Residential	12,213,164	12,860,513
- Non-residential	1,139,347	1,574,474
Purchase of property, plant and equipment other than land and building	1,865,132	2,489,462
Personal use	1,817,056	1,950,507
Credit card	994,953	1,288,406
Purchase of consumer durables	141,802	114,206
Construction	2,521,562	2,172,003
Working capital	21,359,340	22,639,326
Other purposes	1,412,333	2,050,233
	<b>50,312,440</b>	<b>55,366,337</b>

#### 5.5.1.3 Single Customer Limit

BNM's guidelines on single customer limits prohibit a bank from lending to any single customer or related group of customers an amount in excess of 25% of a bank's capital funds (the sum of Tier 1 and Tier 2 capital). As at 31 December 2006, RHB Bank's largest exposure to a single related group was RM1,540.0 million or 21.7% of RHB Bank's capital funds, which was RM7.1 billion.

#### 5.5.1.4 Large Loans Borrowers

As at 31 December 2006, there were 3 Large Loan Borrowers ("LLBs") with Single Customer Limit ("SCL") more than 15% of the Bank's total capital funds but within the statutory SCL of 25%. The aggregate SCL exposure of these LLBs accounted for approximately 5.7% or RM4.4 billion of RHB Bank's total approved loans and advances. This is well within the cap of 50% set by BNM for exposure to LLBs.

#### 5.5.1.5 Credit Approval Procedures

RHB Bank has a multi-level credit approval process requiring applications for credit exceeding specified thresholds to be submitted for approval to increasingly higher levels of authority within RHB Bank up to the full Board. The approval process involves the originating business units, the Chief Credit Officer's ("CCO") office, the Central Credit Committee, the Central LC and the Board, depending on the threshold levels of the loans. In addition, any loans that causes the aggregate exposure to exceed certain threshold levels, or

exceeds mandatory elements of the credit policy, must be approved by the Board.

In considering whether to extend credit to a potential borrower, RHB Bank performs an internal credit analysis and evaluations based on a number of factors and sources of information. Potential corporate borrowers are typically required to submit business or project plans and financial statements. RHB Bank will conduct due diligence investigations, bankruptcy searches, analyse and evaluate the business financial statements and management risks. Where appropriate, site visits will also be conducted. For retail borrowers, RHB Bank will review information regarding the customer's salary, address, employment history, credit history and other factors. Retail loan applications are also subject to credit checks, which include BNM's central credit reference information system, credit reference agencies, bankers, suppliers etc. and anti-money laundering & counter financing of terrorism requirements.

In addition, RHB Bank's internal credit and research departments are responsible for compiling information on general economic activity and developments as well as determining risk profiles of particular industries and business sectors. As part of the investigation process, RHB Bank will also obtain third party appraisals of the value of any security offered. After this investigation, relevant information is compiled and transmitted to the officer or department responsible for making the credit decisions.

After credit is extended, each loan is reviewed at least annually to monitor the creditworthiness and financial conditions of the particular borrower. Particular loans may be reviewed more frequently under appropriate circumstances. Such circumstances may arise if, for instance, RHB Bank believes special risks exist in a particular industry, or the borrower has defaulted on obligations to suppliers or other financial institutions or the borrower is facing cash flow or other difficulties. In order to ensure credit quality, RHB Bank has an internal credit grading system that rates loans in different categories based on perceived credit quality factors, from substandard to strong. Strong loans require no additional procedures while sub-standard loans require more frequent credit monitoring. RHB Bank maintains separate credit analysis and loan processing, credit extension and credit review functions, each of which is performed by different personnel within RHB Bank.

## **5.5.2 Non-Performing Loans**

### **5.5.2.1 Classification of NPLs**

The RHB Bank Group classifies an account as non-performing when it is in arrears for three months or more. Where a loan becomes non-performing, interest accrued and recognised as income prior to the date the loans are classified as non-performing are reversed out of income statement and set off against the accrued interest receivable account in the balance sheet. Subsequently the interest earned on NPLs shall be recognised as income on a cash basis instead of being accrued and suspended at the same time as prescribed.

#### 5.5.2.2 Profile of NPLs

The following table shows a breakdown of NPLs, advances and financing by purpose of the RHB Bank Group as at the dates indicated:

	<b>As at 31 Dec 2005</b> RM'000	<b>As at 31 Dec 2006</b> RM'000
Purchase of securities	76,025	33,103
Purchase of transport vehicles	295,827	391,338
Purchase of landed property:		
- Residential	1,135,648	1,282,014
- Non-residential	141,597	133,866
Purchase of property, plant and equipment other than land and building	104,634	102,341
Personal use	182,282	171,153
Credit Card	36,500	45,484
Purchase of consumer durables	14,542	10,558
Construction	428,805	334,982
Working capital	1,700,739	1,547,366
Other purposes	35,171	28,021
	<b>4,151,770</b>	<b>4,080,226</b>

#### 5.5.2.3 Loan Loss Provision Policy

The RHB Bank Group maintains both a general allowance and specific allowances for NPLs. Currently, the RHB Bank Group's general allowance stood at 1.8% of gross loans, advances and financing less specific allowance. With respect to specific allowances, specific allowance is made against the uncollateralised portion of the outstanding balance of the loan and the realisable security value of any collateral. The allowance levels applied by the RHB Bank Group to NPLs are 20.0% (where the month-in- arrears are between 3 to less than 6), 50.0% (where the month-in-arrears are between 6 to less than 12) and 100.0% (where the month in arrears are more than 12), with exceptions for Bills and Credit Cards where the allowance levels are 50.0% at 3 month-in-arrears and 100% at 6 month-in-arrears which are more prudent than BNM's "GP3" guidelines. In addition, the RHB Bank Group also accelerates provisions for certain high risks cases and legacy NPLs by discounting the value for property collateral as guided by BNM.

#### 5.5.2.4 Write-off Policy

The RHB Bank Group writes off an account, or a portion thereof, which it deems to be uncollectible, worthless or with a remote prospect of recovery and/or where composite settlement has been reached. This applies for both secured loans and unsecured loans. The write-off is not guided by period of time/default except credit cards where the write-off is at 180 days past due in line with industry practice.

### **5.5.3 Securities Portfolio**

#### **5.5.3.1 Securities held-for-trading**

As at 31 December 2006, the securities held-for-trading constituted 2.0% of the RHB Bank Group's total assets. The RHB Bank Group's securities held-for-trading comprised mainly BNM bills (22.6%) and private debt securities (15.7%).

#### **5.5.3.2 Securities held-to-maturity**

As at 31 December 2006, security held-to-maturity constituted 13.7% of the RHB Bank Group's total assets. The RHB Bank Group's securities held-to-maturity comprised mainly negotiable instruments of deposit (42.5%) and Malaysian government securities (15.9%).

#### **5.5.3.3 Securities available-for-sale**

As at 31 December 2006, the securities available-for-sale constituted 6.0% of the RHB Bank Group's total assets. The RHB Bank Group's securities available-for-sale comprised mainly negotiable instruments of deposits (56.4%).

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## 6 RISK MANAGEMENT

### Business Risk

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

- (i) *Market risk* - the risk of potential loss resulting from adverse movements in the level of market prices, interest rate and foreign currency exchange. In the event of significant fluctuations in the treasury and capital markets, RHB Bank's business would be adversely affected and RHB Bank's revenue could decline under such circumstances.
- (ii) *Liquidity risk* - the risk of RHB 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 assets (collateral).
- (iv) *Operational risk* - the risk of loss resulting from inadequate or failed internal processes, people, systems or external events, the risk of breaches of applicable laws and regulatory requirements breaches of obligations of fidelity, unenforceability of counterparty obligations, and inappropriate documentation of contractual obligations.
- (v) *Strategic risk* - associated with the risk inherent in the formulation and execution of RHB Bank's business plans and strategies. If not managed effectively, it can impede the achievement of the strategic aims and objectives of RHB Bank.

Each of the business risks above has an implication on the Issuer's financial condition and every transaction that the Issuer undertakes is subject to, inter alia, the abovementioned risks. The Issuer's financial position may be adversely affected resulting from any of the risks operating on its own. For example, the Issuer's investment position in a certain asset may require a huge mark-down as a result of the slump in the market price of that asset, or the Issuer may find that it will not be able to enforce a counterparty obligation due to imperfect documentation.

Additionally, the Issuer's financial condition may also be affected by risks that have a 'chain reaction' effect whereby the operation of one risk leads to the operation of one or more other risks. For example, a market downturn may result in the Issuer's customers incurring losses thus weakening their financial condition and triggering an increase in credit risks. Such increased credit risks may require the Issuer to set aside additional loss provisions which could potentially affect the Issuer's credit rating adversely thereby increasing liquidity risk. In an extreme case, the additional loss provisions (if large) may lead to the Issuer breaching regulatory capital requirements.

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



**(i) 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 Asset Liability Committee (“ALCO”) (which is a Senior Management Committee comprising the CEO as Chairman, the Chief Operating Officer, the Chief Financial Officer, the CCO’s office, the Chief Risk Officer and 5 business unit heads) plays a fundamental role in the asset/liability management of RHB Bank, and establishes strategies which assist in controlling and reducing any potential exposures to market and liquidity risk.
- The Market and Liquidity Risk Department plays an independent role in the monitoring and assessing of risk exposures arising from these, and reports independently to the Risk Management Committee of the Board.
- Advanced risk measurement techniques and stress testing regimes are applied to RHB Bank’s portfolio on a regular basis.
- For currency risk:
  - There is an approved position limits for each currency and 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 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 interest rate risk:
  - The ALCO monitors the balance sheet position and assess it for profit and loss impacts arising from sensitivity to interest rate movements.
  - There are set limits on the level of mismatch of interest 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.

**(ii) Liquidity risk**

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

- Maintenance and monitoring of defined liquidity management ratios on an active basis.
- Ensuring constant compliance with BNM's Liquidity Framework. RHB Bank's liquidity framework is subject to periodic stress tests and the results are constantly reviewed.

**(iii) Credit risk**

- RHB 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.
- Ensuring 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 the CCO's office. The Central Credit Committee and the Central LC sanction credits beyond the individual discretionary limit of the CCO. The strict adherence to the discretionary powers sanctioned by the Board is monitored by the Compliance Division.
- A risk rating system is used to categorize the risk of individual credits and to determine whether RHB Bank is adequately compensated. Clients' accounts are reviewed at regular intervals and weakening credits are transferred to the Loan Recovery Division 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.
- Moving towards the advanced Basel II approaches by implementing key program components which includes (i) enhancing the economic returns of RHB Bank using established and proven credit risk framework and methodologies, (ii) implementing and using empirical credit scoring models for consumer financing and credit grading for models 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 is being developed, which also facilitates RHB Bank in meeting the Pillar II requirements of the Basel II Accord Internal Ratings Based Approach.

**(iv) Operational risk**

- The Operational Risk Management Department 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.

- An operational risk management system, with 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, is used in RHB Bank. This system improves RHB Bank's capabilities for the Advanced Measurement Approach of the Basel II Framework.
- RHB 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 Risk Management Division evaluates all new products/services introduced by RHB Bank before they are submitted for consideration by the Risk Management Committee and thereafter by the Board.
- RHB Bank continually refines and strengthens existing policies, procedures and internal controls measures; conduct internal reviews, compliance monitoring, and comprehensive audits to prevent or minimise unexpected losses.
- Operational risk awareness training is also part of RHB Bank's Learning Centre/HR initiatives for targeted staff.
- For legal and regulatory risk:
  - RHB Bank and certain subsidiaries are regulated by BNM and are also subject to relevant banking securities, and other laws of Malaysia. BNM has extensive powers to regulate banks and has the ability to influence banking and financial markets generally. BNM also has broad and investigative and enforcement power.
  - BNM has the ability to limit/set the interest rates the banks may charge on certain types of loans, determine the components of base lending rates, establish caps on lending to certain sectors of the Malaysian economy, impose a maximum permissible credit exposure to a single customer group, establish priority lending guidelines in furtherance of certain economic and social objectives and impose measures requiring maintenance of reserves and minimum capital adequacy requirement, which may be adverse to the operations, financial condition or asset quality of banks and financial institutions in Malaysia, including RHB Bank, and may otherwise significantly restrict the activities of RHB Bank and Malaysian commercial banks and financial institutions generally.
  - The regulatory measures presently imposed, and as may be introduced from time to time, by the regulatory agencies could affect RHB Bank's business activities. For example, a change by BNM in credit policies would require RHB Bank to scale down its operations in a particular business area. Further, any change in the rules relating to minimum capital adequacy requirement, e.g. increase in minimum capital adequacy ratio or a change in the computation and or composition of

regulatory capital, could adversely affect the operations of RHB Bank if RHB Bank's internally generated capital (i.e. retained earnings) is insufficient to meet the increased capital funds requirement. Under such circumstances, RHB Bank would need to raise fresh capital.

- Legal risk arises from the potential that unenforceable contracts, lawsuits, or adverse judgments can disrupt or otherwise negatively affect the operations or condition of a banking organisation.
- In view of the above, RHB Bank has in place
  - a Group Compliance Framework of approved compliance policies, measurement methodologies and limits as approved by the Board.
  - a Compliance Division to oversee bank-wide compliance activities and initiatives on a day-to-day basis.
  - a Legal Department to oversee bank-wide legal activities and initiatives on a day-to-day basis.
- For risks associated with employee misconduct:
  - As with any business enterprise, RHB Bank is susceptible to the risks associated with acts of misconduct by its employees including directors. Acts of misconduct by employees may take various forms and could include misappropriation of the Issuer's assets or the assets of its clients, concealment and or wilful misstatement of its liabilities, unauthorised transactions and or commitment of its resources, and breach of client confidentiality.
  - Acts of misconduct by employees would not only result in financial loss to RHB Bank but also tarnish its image, which would bring about a loss of its stature in the market. Furthermore, acts of misconduct may also cover breaches of laws, regulations and guidelines, which, in extreme cases, could result in suspension and or revocation of its banking licence under the BAFIA and/or any other regulatory approvals and/or permits that RHB Bank may hold from time to time to carry on its banking business.
  - Whilst the risks of misconduct by employees cannot be entirely eliminated, RHB Bank has in place internal control systems to check such misconduct and to take appropriate action.
- For risks associated with dependence on key personnel:
  - RHB Bank's performance is largely dependent on the skills and efforts of its employees, especially the senior management staff. RHB Bank's continued ability to compete effectively in its businesses would thus depend on its ability to attract new employees as well as retain its existing employees. RHB Bank devotes considerable resources to recruiting, training and compensating its employees.

- Nonetheless, any employee of RHB Bank may still choose to leave the Issuer at any time to pursue other opportunities.
- The Human Resource Division has in place an established policy and procedures in ensuring quality people with integrity are recruited, trained and retained.
- For risks associated with takaful /insurance cover
  - RHB Bank has in place takaful/insurance coverage in respect of the assets used in its operations. However, there is no assurance that such takaful/ insurance coverage would adequately cover the replacement costs of those assets or any consequential costs arising from any loss, depreciation, obsolescence or otherwise of such assets.

**(v) Strategic risk**

- For risks associated with competition, political and economic conditions:
  - The Malaysian banking industry operates in a very competitive environment fostered by BNM's policies, e.g. the entry of, inter alia, foreign licensed banks which are now allowed to offer/perform products and services that are similar to those of the RHB Bank. Although these policies are designed, in part, to encourage development of financial institutions in Malaysia and to strengthen domestic financial institutions in preparation for increased foreign competition, any increased competition could have an adverse effect on the Issuer's operations in the form of reduced margins, smaller market share and reduced income generally.
  - Although RHB Bank would plan for expansion and growth in future business volume, RHB Bank's future growth would inevitably be subject to competition from other service providers and also customer preference. As such, there can be no assurance that the Issuer will be able to maintain or increase its present market share in the future.
  - Political and economic conditions and developments in Malaysia as well as abroad could have a profound effect on the financial performance of RHB Bank. Adverse political and economic conditions or developments, such as an unstable political system, nationalisation and severe fluctuations in interest and currency exchange rates, create uncertainty and could discourage the free flow of investment capital and affect international trade, ultimately resulting in adverse developments in national economic activity. This in turn may have a material adverse impact on the financial performance of RHB Bank as a financial services provider. As a result of globalisation, economic or market problems in a single country or region are increasingly affecting other markets generally. A continuation of these situations could adversely affect global economic conditions and world markets and, in turn, could cause a chain reaction effect and thus adversely affect the Issuer's businesses.

- Notwithstanding the aforesaid, RHB Bank has acquired a strong franchise value as a part of the RHB Banking Group and has developed expertise in banking business since 1965, which business is still growing. Together with the broad experience of its management, it is believed that RHB Bank expertise in banking will enable it to maintain its competitive edge.

#### **Information technology (“IT”) risk**

RHB Bank is susceptible to IT risk as large portions of its operational systems are computerised. However, the Issuer has taken reasonable steps to reduce these risks, which include:-

- A continuous process of risk assessment and risk mitigation on the existing hardware, software and the processes.
- Balancing the operational and economic costs of protective measures of IT systems and data against the goal of the organisation.
- A dedicated disaster recovery planning hot site is established for the mainframe system, as well as for the other specific software systems of RHB Bank.
- Allocating substantial time and dedicated staff to constantly review, revamp and develop new policy and procedures to cater for the constant changes in the financial industry.

However investors should note that the risk management framework, as a whole may not always be fully effective as there may be risks that have not been anticipated or identified and certain risks may be significantly greater than indicated by historical data. Further, the data relied upon to formulate the risk management framework may not be accurate, complete, up-to-date or properly evaluated. The process to manage operational, legal and regulatory risks would require proper recording and verifying a large number of transactions and events. Such process may not be fully effective in all cases.

A description of the Group Risk Management Committee is set out in Section 4.8(v) of this Information Memorandum.

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## **7 INDUSTRY OVERVIEW**

### **7.1 The Banking System in Malaysia**

The banking system, comprising commercial banks, merchant banks and Islamic banks, is the primary mobiliser of funds and the main source of financing to support economic activities in Malaysia.

The commercial banks are the main players in the banking system. As at the end of December 2006, there were ten domestic and 13 locally incorporated foreign commercial banks operating through a network of 1,963 branches across the country. Five of the domestic banks have presence in 18 countries through branches, subsidiaries and joint ventures. In addition, 21 foreign banks maintain representative offices in Malaysia.

In 2004, the legislative framework was amended to enable rationalisation of retail banking business through the consolidation of the commercial banks and finance companies within the same banking group. This initiative was introduced to enable the domestic banking groups to streamline their businesses and reap benefits from economies of scale. To date, all domestic banking groups have rationalised their commercial banking and finance companies businesses.

At present, there are ten Islamic banks, which provide the full range of financial services based on Shariah principles. In addition, eight conventional banks also provide Islamic banking services through a dedicated Islamic window. Islamic financial products and services are made available via 548 branches throughout the country.

*Source: [www.mida.gov.my](http://www.mida.gov.my)*

Today, the financial sector has evolved from being an enabler of growth to become an important source of growth in its own right. The sector, in the banking and insurance industries, now provides employment to more than 123,000 Malaysians. Despite conditions that have remained challenging for a large part of the decade, the banking system remained consistently on solid financial ground with a risk-weighted capital ratio of over 13%, low NPL ratios, and continued profitability for eight consecutive years. Substantial progress has been made towards consumer retail finance and access to banking services. Such consumer lending has increased from RM134.0 billion to RM343.0 billion while loans disbursed to small and medium enterprises have increased from RM71.0 billion in 2000 to RM108.0 billion in 2007.

*Source: The Governor, Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz's Keynote Address at the 11<sup>th</sup> Malaysian Banking Summit on 19.7.2007 – "The Malaysian Banking Industry Reinvention and Transformation"*

The Financial Sector Master Plan ("FSMP"), together with the Capital Market Master Plan, was announced in 2001 to provide a comprehensive framework for the strategic development of the financial sector over a 10-year period. The implementation of the FSMP is well on track, with the end of 2005 marking the halfway point of the 10-year plan (2001-2010). As at 30 June 2006, 49 recommendations with milestones have been completed, while 29 recommendations are being implemented on a continuous basis. Capacity building initiatives will continue to be intensified during the remaining Phase 2 of the FSMP period to prepare the domestic financial sector for further global integration as it moves to the third phase of the FSMP.

*Source: Economic Report 2006/2007*

## 7.2 Monetary and Financial Developments

- ***Continued high resilience in the banking sector***

The banking system continued to exhibit high resilience in the second quarter of 2007, supported by strong capitalisation and improved profitability. The risk-weighted capital ratio (RWCR) remained strong at 13.1%, while the pre-tax profit of the banking sector registered a strong growth of 17.6% to RM4.5 billion (1Q: RM3.8 billion) due mainly to higher income derived from both interest related activities and fee-based activities. The level of non-performing loans (NPLs) continued to improve with the total net NPLs based on the 3-month classification declining further to RM24.1 billion as at end of the second quarter (1Q: RM25.6 billion). Given the continuous improvement in loan quality, the net NPL ratio declined further to 4.1% of net total loans (1Q: 4.4%).

*Source: BNM's Press Release dated 29 August 2007 in respect of the Economic and Financial Developments in Malaysia in the Second Quarter of 2007*

- ***Financing to the private sector***

In August, gross financing to the private sector through the banking system and capital market amounted to RM53.8 billion (July: RM69.1 billion). After the relatively higher level recorded in the previous month, gross financing remained strong amid firm growth in banking system loan disbursements during the month. On a net basis, financing of the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 8.0% (July: 7.9%).

The major loan indicators for the business and household sectors continued to register positive annual growth rates in August. In the business sector, positive growth rates in loan applications and approvals were observed across SMEs and large businesses, with loans applied and approved on account of the manufacturing; finance, insurance, real estates and business services; and agriculture sectors. Business loan disbursements were lower, mainly because of a one-off factor in July, namely the large drawdown of loans under a syndicated bridging loan facility. Meanwhile, household loan disbursements remained relatively steady, with loans disbursed mainly for the purchase of residential property and to a lesser extent, for the purchase of passenger cars.

Total loans outstanding expanded by 8.6% on an annual basis as at end-Aug (end-July: 8.2%). Loans outstanding to businesses and households expanded at annual growth rates of 12.8% and 7.2% respectively (end-July: 12.2% and 7.2% respectively).

*Source: BNM's Press Release dated 28 September 2007 in respect of the Monetary and Financial Developments August 2007*

- ***Higher net funds raised in the capital market***

Net funds raised in the capital market in August amounted to RM6.2 billion, an improvement from the net redemption position of RM265 million recorded in the previous month. The public sector raised the bulk of the funds through the reopening of the 3-year Malaysian Government Securities (MGS). In total, net funds raised by the public sector amounted to RM3.6 billion. Meanwhile, gross funds raised by the private sector amounted to RM4.0 billion. The bulk of the funds were raised through



the issuance of private debt securities (PDS). The finance and telecommunications sector accounted for 81 percent of total PDS issuances. In the equity market, funds raised through initial public offerings (IPOs) recorded an increase from RM131 million in July to RM252 million in August. After adjusting for redemption, net funds raised in the private sector amounted to RM2.6 billion in August.

*Source: BNM's Press Release dated 28 September 2007 in respect of the Monetary and Financial Developments August 2007*

- **Lower banking system deposits in August**

Total deposits with the banking system declined by RM5 billion in August registering a slower growth on an annual basis of 12.2% (July: 14.2%). Deposits withdrawals were recorded largely by financial institutions which includes domestic non-bank financial institutions. By type, the decline in deposits was observed mainly in negotiable instruments of deposits (NIDs), fixed deposits and to a lesser extent, repos. There were large transfers from NIDs and fixed deposits of businesses to the short term money market deposit, which contributed to the increase in "other deposits".

<b>Deposit by Holder</b> (RM million)				
	Change during period			
	<b>May 07</b>	<b>Jun 07</b>	<b>Jul 07</b>	<b>Aug 07</b>
Federal Government	-492	4,116	-1,732	-381
State Governments	-100	-265	643	779
Statutory Authorities <sup>1</sup>	2,942	-3,047	791	-291
Financial Institutions	3,193	-14,978	-11,737	-10,140
Business Enterprises	-769	2,531	5,798	2,404
Individuals	2,955	1,590	1,166	2,506
Others <sup>2</sup>	-733	-3,287	-550	118
<b>Total</b>	<b>6,996</b>	<b>-13,341</b>	<b>-5,621</b>	<b>-5,004</b>

<sup>1</sup> Include local Governments

<sup>2</sup> Consist of domestic other entities and foreign non-bank entities

<b>Deposit by Type</b> (RM million)				
	Change during period			
	<b>May 07</b>	<b>Jun 07</b>	<b>Jul 07</b>	<b>Aug 07</b>
Fixed deposits	6,079	-1,315	3,606	-5,243
NIDs	1,538	-16,757	-18,354	-7,179
Demand deposits	1,551	2,570	1,312	781
Savings deposits	-193	938	471	63
Repos	-4,437	-29,221	-31,375	-2,495
FX deposits	-1,883	2,096	-561	418
SPI deposits	2,620	96	1,240	2,011
Others <sup>1</sup>	1,721	28,252	38,039	6,640
<b>Total</b>	<b>6,996</b>	<b>-13,341</b>	<b>-5,621</b>	<b>-5,004</b>

<sup>1</sup> Other deposits comprise of mainly short-term deposits

*Source: BNM's Press Release dated 28 September 2007 in respect of the Monetary and Financial Developments August 2007*

- ***Strong capitalisation amidst further improvement in non-performing loans***

Capitalisation of the banking system remained strong. Both risk-weighted capital ratio (RWCR) and core capital ratio strengthened to 13.3% and 10.4% respectively as at end August 2007. This was due mainly to the inclusion of retained profits by a large bank that outpaced the more moderate 0.9% growth in the risk-weighted assets. Further improvements continued to be recorded in the level of non-performing loans (NPLs). The ratio eased further to 3.6% of net loans. This positive development was driven by a 19% reduction in new NPL's amidst continuous loan write-offs, particularly in the construction, manufacturing and retail sectors.

Banking System Health Indicators\*

	2000	2001	2002	2003	2004	2005	2006	Jun 07	Jul 07	Aug 07
<b>Capital (%)</b>										
Core capital ratio	10.7	11.1	11.1	11.1	11.4	10.7	10.7	10.2	10.1	10.4
RWCR	12.5	13.0	13.2	13.8	14.4	13.7	13.5	13.3	13.1	13.3
<b>Net NPLs</b>										
<b>(3-month classification)</b>										
% of net total loans	9.7	11.5	10.2	8.9	7.5	5.8	4.8	4.1	3.8	3.6
Amount (RM million)	37,678	46,254	43,110	40,013	36,668	31,332	27,360	24,067	23,412	22,389
<b>GP/Net total loans</b>	<b>2.2</b>	<b>2.1</b>	<b>2.1</b>	<b>2.0</b>	<b>1.9</b>	<b>1.8</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>	<b>1.7</b>
<b>(3-month, %)</b>										

\* Beginning June 1999, the figures include Islamic banks.

\* Beginning April 2005, RWCR and CCR include market risk factor

*Source: BNM's Press Release dated 28 September 2007 in respect of the Monetary and Financial Developments August 2007*

- ***Interest rates remained stable***

During the period 1 August – 27 September, the daily weighted average overnight interbank rate moved within a narrow range of 3.49% - 3.51%. Interbank rates of other maturities were also relatively stable.

The average fixed deposit (FD) rates of commercial banks (CBs) remained relatively unchanged in August and September. As at 15 September 2007, the average quoted FD rates for tenures between 1 and 12 months were within the range of 3.08% and 3.70%. In terms of CBs' lending rates, the average base lending rate (BLR) was unchanged at 6.72%, while the average lending rate (ALR) was marginally higher at 6.35% in August (6.34% in July).

*Source: BNM's Press Release dated 28 September 2007 in respect of the Monetary and Financial Developments August 2007*

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## **8 OTHER MATERIAL INFORMATION**

### **8.1 Material Contracts**

Save as disclosed below, as at 30 September 2007, there is no material contract entered into by RHB Bank, outside its ordinary course of business within the past 2 years:

On 19 December 2005, RHB Delta Sdn Bhd (formerly known as RHB Delta Finance Berhad) (“RHBDF”) had entered into a business transfer agreement with RHB Bank to transfer its finance company business, its assets and liabilities to RHB Bank (“Transfer Agreement”), for a consideration of RM594.008 million, being the net asset value of RHBDF (less the Islamic banking business and Islamic financial business) as at 31 December 2005 (“Consideration Sum”). The Consideration Sum is reflected in the audited accounts of RHBDF as an amount due and owing in cash from RHB Bank. All conditions precedent as set out in the Transfer Agreement have been fulfilled. Pursuant to a Vesting Order dated 29 December 2005 obtained from the High Court of Malaya, the assets and liabilities defined in the Transfer Agreement have been vested in RHB Bank as at 1 January 2006.

### **8.2 Material Litigation**

Save as disclosed below, as at 30 September 2007, RHB Bank and its Principal Subsidiaries’ are not engaged in any material litigation, claims or arbitration either as plaintiff or defendant, and the Board of RHB Bank is not aware of any proceedings pending or threatened against the RHB Bank Group which may materially affect the financial position and business of the RHB Bank Group.

RHB Bank is currently engaged in the following material litigation matters as a plaintiff:

- (i) RHB Bank has filed a claim at the High Court of Malaysia in Kuala Lumpur (the “High Court”) against five defendants, i.e. Kris Angsana Sdn Bhd (“**KASB**”), Kemajuan Amoy Bhd, Tan Sri Dato’ Lim Cheng Pow, Lim Sue Beng and Lim Bee Ling for default of banking facilities granted by RHB Bank to KASB (“**KASB Banking Facilities**”). The amount being claimed is (a) RM19,367,024.32 owing under the Term Loan I Facility as at 27.06.2006 together with interest thereon at the rate of 3.50% per annum above the Base Lending Rate of RHB Bank on monthly rests from 28.06.2006 until full settlement; and (b) RM101,811,721.96 owing under the Term Loan II Facility as at 27.06.2006 together with interest thereon at the rate of 3.50% per annum above the Base Lending Rate of RHB Bank on monthly rests from 28.06.2006 until full settlement. The defendants have filed their defence and counterclaim on 28.12.2006. RHB Bank has filed its reply and defence to counterclaim on 11.01.2007. An application for summary judgment against the defendants was first fixed for hearing on 27.07.2007 and it has been postponed for several times. The next hearing date has been fixed on 15.11.2007.
- (ii) RHB Bank has filed a claim at the High Court against KASB for an order for sale of the properties held under (a) Geran No. 539, Lot 57, Seksyen 88; (b) Geran No. 540, Lot 58, Seksyen 88; and (c) Geran No. 29727, Lot 92, Seksyen 88, all in the Town and District of Kuala Lumpur, State of Federal Territory of Kuala Lumpur, all of which have been charged to RHB Bank pursuant to the KASB Banking Facilities as stated in Section 8.2 (i) above. The amount being claimed is (a) RM19,833,343.43 owing under the Term Loan I Facility as at 21.11.2006 together with interest thereon at the rate of 3.50% per annum above the Base Lending Rate of RHB Bank from 22.11.2006 until full settlement; and (b) RM104,147,791.14 owing under the Term

Loan 1 Facility as at 21.11.2006 together with interest thereon at the rate of 3.50% per annum above the Base Lending Rate of RHB Bank from 22.11.2006 until full settlement. KASB has filed an application to stay the originating summons proceedings pending the outcome of the civil suit in Section 8.2(i) above.. On 20.09.2007, the Court dismissed KASB's application for the stay of the originating summons proceedings. The originating summons proceedings have been fixed for hearing on 04.12.2007.

- (iii) RHB Bank has also applied for an order for sale in respect of the properties owned by KASB held under (a) Geran Mukim 35, Lot 50, Seksyen 88; (b) Geran Mukim 36, Lot 51, Seksyen 88; (c) Geran Mukim 37, Lot 52, Seksyen 88; (d) Geran Mukim 2045, Lot 45, Seksyen 88; (e) Geran Mukim 2402, Lot 90, Seksyen 88; and (f) Geran Mukim 2404, Lot 88, Seksyen 88, all in the Town and District of Kuala Lumpur, State of Federal of Territory, Kuala Lumpur. The hearing of the application for the order of sale was fixed for hearing on 28.08.2007. However, the Land Administrator, Federal Territory of Kuala Lumpur postponed the said hearing until the disposal of the case set out in Section 8.2 (i) above or until such further order is made by the High Court.
- (iv) RHB Bank has filed a claim at the High Court against (1) Modular MJ Sdn Bhd, (2) Hamdan bin Ismail, (3) Zainal Abidin bin Kushrin, (4) Abdul Halim bin Haji Dahlan and (5) Choy Tai Seng for the sums outstanding under two overdraft facilities granted to Modular MJ Sdn Bhd. The remaining defendants (2<sup>nd</sup> to 5<sup>th</sup>) are guarantors under the overdraft facilities. There was a counterclaim by the 1<sup>st</sup> defendant on the basis of an alleged of breach of duty by RHB Bank due to the fiduciary relationship between RHB Bank and the 1<sup>st</sup> defendant (as claimed by the 1<sup>st</sup> Defendant). The amount of counterclaim by the 1<sup>st</sup> defendant is (a) special damages of RM356,556,930.00; (b) interest thereon at the rate of 8% per annum from the date of judgment until settlement in full; (c) aggravated damages (unquantified); (d) exemplary damages (unquantified); and (e) cost. On 09.11.2001, summary judgement was granted against the 2<sup>nd</sup> to 4<sup>th</sup> defendants, i.e. the guarantors. Their appeal to the Court of Appeal came up for hearing on 27.08.2007 wherein a representative of the OA's office withdrew the appeal on behalf of the 3<sup>rd</sup> and 4<sup>th</sup> defendants who were earlier adjudicated as bankrupts. The court further dismissed the appeal by the 2<sup>nd</sup> & 5<sup>th</sup> defendants. On 12.10.2006, judgment was granted against the 1<sup>st</sup> defendant, and the 1<sup>st</sup> defendant's counterclaim was dismissed with costs.
- (v) RHB Bank has filed a claim at the High Court in Sibu against Dominance Resources Sdn Bhd and Datuk Philip Ling Lee Kang for default of both the overdraft facility and the hire purchase facility. The amount being claimed for the overdraft facility is RM23,073,790.76 as at 08.06.2007 with interest thereon at the rate of 3.5% per annum above RHB Bank's Base Lending Rate compounded monthly from 09.06.2007 until the date of full payment and the amount being claimed for the hire purchase facility is RM18,710,736.39 as at 08.06.2007 with interest thereon at the rate of 17.3% per annum calculated on a daily basis from 09.06.2007 until the date of full payment. RHB Bank has obtained judgment against both defendants on 15.08.2006 for the aforesaid sums. However, the 1<sup>st</sup> defendant has been subsequently wound up by HSBC Bank Malaysia Berhad and RHB Bank had filed the Proof of Debt. The Director General of Insolvency has been appointed as the Official Receiver by the Court and a creditors' meeting was held on 11.04.2007.

- (vi) RHB Bank has filed a claim at the High Court in Johor against Bantar Sdn Bhd for default of both the fixed loan facility and an overdraft facility (“Facilities”). As at 25.1.2005, the total amount outstanding under the fixed loan facility is RM23,155,123.62 and under the overdraft facility is RM38,429,977.38. RHB Bank had obtained an order for sale of the property charged by the defendant to RHB Bank as security for the Facilities. On 1.12.2006, RHB Bank had withdrawn the Summons of Directions with liberty to file afresh.
- (vii) RHB Bank has filed a claim against Spring Capital Investment Ltd (“SCI”) for RM43,212,648.82 as a result of SCI’s default on the USD 8,000,000 term loan, which was assigned from RHB Labuan to RHB Bank on 26.07.1999. Judgment in Default of Appearance was entered into against SCI on 04.07.2006 and the same was served on SCI on 21.07.2006 via AR registered post.
- (viii) RHB Bank has filed a claim against Suniwang Holdings Sdn Bhd, Datuk Joseph Lee Yok Min @ Ambrose and Pius Lee Fu Ming for default of facility. Actions against the 1<sup>st</sup> and 2<sup>nd</sup> defendants were discontinued as the Winding-up Order and the Receiving Order had been made against them on 07.11.2001 and 22.05.2001 respectively. Proof of Debts against the 1<sup>st</sup> and 2<sup>nd</sup> defendants had been filed on 20.03.2002 and 10.10.2001 respectively. The amount being claimed by RHB Bank against the 3<sup>rd</sup> defendant is RM59,373,412.37. The consent judgment was entered against the 3<sup>rd</sup> defendant for the said sum but the Court ruled that RHB Bank shall not enforce this judgment against the 3<sup>rd</sup> defendant until after the disposal of the properties comprising 248 parcels of land charged to RHB Bank by Syarikat Tanah Lawas Sdn Bhd and Balmoral Holdings Sdn Bhd, or after the expiry of the 2 years grace period, whichever is earlier. As the 2 years grace period had lapsed and the properties remain unsold, RHB Bank commenced the enforcement of the judgment against the 3<sup>rd</sup> defendant by way of bankruptcy proceedings. A creditor’s petition which was fixed for hearing on 25.07.2007 was postponed to a date yet to be fixed.
- (ix) RHB Bank has filed a claim at the Miri High Court against Grolink Marine Industry Sdn Bhd (“GMI”) and 5 others for default of facilities granted to GMI. The amount being claimed against all the defendants is RM4,594,678.63. However, the defendants had on 07.01.2004 filed a Defence and Counter-Claim in the sum of RM65,608,000, which includes special damages of RM5,608,000 and general damages of RM60,000,000. On 17.08.2004, a summary judgment application was filed against the defendants and thereafter in August 2004, the defendants commenced negotiations with RHB Bank for settlement. On 31.03.2007, the Miri High Court directed, inter alia, that Consent Judgment be recorded as per the terms of the Deed of Settlement dated 15.03.2007 and that the defendants shall withdraw the Defence and Counter-Claim, failing which RHB Bank could enforce the Consent Judgment.
- (x) RHB Bank has filed a claim against Bandar Sungai Buaya Sdn Bhd for default of facilities at a total claim of RM36,566,680.00. The hearing of the Originating Summons was fixed on 08.03.2007. The Order for Sale was granted on 28.03.2007 and the auction that was fixed on 28.06.2007 was called off as RHB Bank’s solicitors only managed to extract from the Court the approved Draft Order for Sale two days prior to the auction. The hearing for Summons for Directions has been fixed on 22.10.2007.

- (xi) Sime Bank Berhad (now known as RHB Bank) (“Sime Bank”) has filed a claim against Everise Capital Sdn Bhd (“**1<sup>st</sup> Defendant**”) and the guarantors, Repco Holdings Bhd (“**2<sup>nd</sup> Defendant**”) and Low Thiam Hock for the outstanding sums payable under the credit facility granted by Sime Bank. The amount claimed by Sime Bank is RM301,712,892.35 as at 31.10.1998 together with interest at 3.5% per annum above the bank’s Cost of Funds of RM295,420,040.79 from 01.11.1998 until full payment and cost. However, a counterclaim for general damages was filed by the 2<sup>nd</sup> Defendant against Sime Bank together with Sime Securities Berhad and Sime Merchant Bankers Berhad. The 2<sup>nd</sup> Defendant alleged that there was conspiracy between Sime Securities Berhad and its associated entities, namely Sime Bank and Sime Merchant Bankers Berhad as Sime Bank was the party responsible for disbursing the 1<sup>st</sup> Defendant loan monies to Sime Securities Berhad. The 2<sup>nd</sup> Defendant was voluntarily wound up and the liquidators have been appointed on 08.12.2004. The parties are in principle agreeable to a global settlement whereby all parties consent to a discontinuance of all claims with no order as to costs and no liberty to file afresh. The matter is now fixed for mention on 29.11.2007 pending the negotiation between the parties in two other connected suits (Suit No. MT3-22-1448-1998 and Suit No. MT4-22-1494-1998). \* Note: Sime Bank’s rights to this case have been transferred to Pengurusan Danaharta Nasional Berhad while its liabilities of this case have been taken over by BNM (with Sime Bank managing the liabilities on behalf of BNM).
- (xii) A claim was filed by RHB Bank against City Plaza Management Sdn Bhd, Haji Damit bin Awang Abu Bakar and Datin Hajah Rahmah binti Haji Aziz @ Suzana Bell. The 1<sup>st</sup> defendant was granted a fixed loan of B\$15,000,000 (“**FL**”) to finance the construction of a 9-storey commercial complex. However, the account was classified as NPL in August 1998 when the 1<sup>st</sup> defendant failed to service the interest on the progressive release. Consequently, the account was sold to Danaharta Managers Sdn Bhd (“**Danaharta**”) on 19.10.1999. When the 1<sup>st</sup> defendant subsequently failed to revert with the settlement arrangement, Danaharta had on 30.09.2004 instructed RHB Bank to initiate legal action. On 01.03.2004, RHB Bank’s solicitor was served with the defendants’ Defence and Counter-Claim of B\$89,911,000 (approximately RM205,000,000) plus damages to be assessed. The defendants claimed that there was promise by the then UMBC to finance the construction of the whole project and the FL released to them was only for the first phase. Thus, relying on the above they had commenced construction of the 2<sup>nd</sup> phase which resulted in the contractor not getting paid although 80% of the project has already been completed. Hence, the defendants claimed that RHB Bank is liable to indemnify them for the debt owed to the contractor, who had filed action against them. On 19.07.2004, a summary judgment was obtained against the defendants and on 12.02.2005; the Court dismissed the defendants’ Defence and Counter-Claim. On 16.11.2006, RHB Bank’s solicitors were informed that the 2<sup>nd</sup> defendant has been adjudged bankrupt by a third party. Proof of Debt for RM24,899,064.61 has been filed by RHB Bank and the next Creditors’ meeting was fixed on 08.03.2007. RHB Bank proceeded with the auction of the charged property on 17.03.2007 but there were no tenders received.

RHB Bank is currently engaged in the following material litigation matters as a defendant:

- (i) A claim was filed at the High Court by Hualon Corporation against RHB Bank (as one of the class A creditors) and 13 others under a scheme of arrangement and the claim generally involves (a) the invalidity of appointment of receivers and managers by the class A creditors over the assets, properties and undertakings of the plaintiff; (b) trespass and conversion as a result of paragraph (a) above; (c) breach of duty to appoint competent receivers and managers; and (d) breach of duty by the receivers and managers. The amount claimed by Hualon Corporation is (a) special damages of: (i) RM61,048,734.40 for loss from operations and USD 422,000.00 per day from 16.01.2007 until the plaintiff fully resumes operations; (ii) the sum of RM765,912.88 being shutting-down and restarting costs on 18.12.2006; (iii) RM8,000,000.00 being costs of start-up of plant to full capacity; (iv) RM12,268,800.00 being unabsorbed fixed costs loss; (v) RM324,493,594.65 being damages for inducing breach of contract, and (b) unliquidated claims for general damages. RHB Bank's application to strike out the plaintiff's claim is fixed for hearing on 29.10.2007. The plaintiff's application for interlocutory injunction is fixed for mention on 29.10.2007 pending disposal of the defendants' application to strike out the plaintiff's claim.
- (ii) A claim was filed at the High Court by Hassan Bin Hussain against RHB Bank for wrongful cancellation of the overdraft facility of RM150,000.00 granted by RHB Bank to Syarikat Limau Terengganu. The amount being claimed is RM48,000,000.00 as general damages and interest of 4% per annum on RM150,000.00 (facility amount) calculated from 19.02.1997 until the date of filing of the writ of summons and further interest of 8% per annum on the said facility amount calculated from the date of the filing of the writ of summons until the date of full settlement. The matter has been fixed for pre-trial case management on 12.07.2007.
- (iii) A counterclaim was filed at the High Court of Penang by Tat Seng Brother Bina Sdn Bhd ("**TSBB**") against RHB Bank for, inter alia, the delay by RHB Bank in disbursing the loan to TSBB as well as the termination of the facilities by RHB Bank before TSBB's project was successfully completed. The total amount being claimed is RM90,600,000, which includes general damages of RM70,600,000.00, special damages of RM10,000,000.00 and punitive damages of RM10,000,000.00. RHB Bank's solicitors have filed Defence to the Counter-Claim on 14.09.2007. RHB Bank's application for summary judgment has been fixed for hearing on 20.11.2007 and the same is pending filing and service of TSBB's further Affidavit-In-Reply. In respect of the foreclosure action by RHB Bank, the Originating Summons has been fixed for hearing on 08.10.2007.
- (iv) A claim was filed at the High Court of Kuching by Rindaya Wood Processing Sdn Bhd ("**Rindaya Wood**") against RHB Bank for wrongful appointment of the Receivers & Managers over Rindaya Wood. The total amount being claimed by Rindaya Wood is RM101,000,000, which includes RM48,000,000 for loss of profit for the years from 2000 to 2006 and RM53,000,000 for estimated loss in value of the plant and equipment due to deterioration from lack of use and maintenance. RHB Bank's solicitors had on 18.05.2006 filed and served the Defence and Counter-Claim. During the hearing on 07.08.2007, the Court dismissed Rindaya Wood's application to strike out the counter-claim against Rindaya Wood with cost to Rindaya Wood in any event.

- (v) A claim was filed at the High Court of Ipoh by Mohd Hilmi bin Hj Abdul Karim and Normah bt Muhammad against RHB Bank and Ong Cheng Chuan. The plaintiffs claimed that RHB Bank's failure to complete documentation in favour of the Ministry of Finance has caused the Government to withdraw the housing loan approved to the 2<sup>nd</sup> defendant and thus resulted in severe loss, damage, injury and embarrassment to the plaintiffs. The plaintiffs' claims in this action include RM200,000,000 for general damages and defamation, and RM500,000 for loss of value in the property. RHB Bank's solicitors had on 01.12.2006 filed the Memorandum of Appearance at the Ipoh High Court and served it on the plaintiffs' solicitors on the same day. Further, RHB Bank's defence was filed on 09.01.2007. On 11.09.2007, RHB Bank was informed by its solicitors that the plaintiffs' solicitors have applied for sanction from the Director General of Insolvency to act for the 1<sup>st</sup> plaintiff and the Senior Assistant Registrar has fixed a new mention date on 06.12.2007 pending the outcome of the application for the sanction.
- (vi) A claim was filed by Pg Anak Siti Hajah Rafe'ah bte YTM Pg Bendahara Muda Hj Hassim @ Pg Hajah ChuChu Besar against RHB Bank for, inter alia, B\$4,680,000 (approximately RM102,900,000) and damages for misrepresentation, breach of fiduciary duty and negligence. Facilities were granted to Yeoh Poh Chuan ("YPC") to part finance the construction of shop houses cum apartments on a parcel of land owned by the plaintiff. In respect of the said construction, there was a Development Agreement made between YPC and the defendant on 06.12.1996 ("DA"). The account was classified as NPL in 1999 when YPC faced financial problems and the said construction was abandoned at 40% completion. YPC declared himself a bankrupt at Ipoh High Court on 23.11.1999 and Proof of Debt for a claim of about B\$2,192,425 was submitted by RHB Bank on 07.01.2003. On 12.06.2003, the plaintiff's solicitor issued a notice to the branch of RHB Bank requesting for an unconditional release of RHB Bank's right and interest over the project failing which they will proceed with legal actions against RHB Bank. The plaintiff claimed that by reason of RHB Bank's breach of its fidelity duty and continued negligence, the plaintiff has suffered losses, namely loss of use of the land and revenue for period the project remains incomplete. The plaintiff also contended that RHB Bank had knowingly allowed its then solicitors to negotiate or deal with the plaintiff on the DA without disclosing that the said solicitors were agent of RHB Bank. RHB Bank's solicitors had on 24.11.2004 filed the Summons in Chambers and Affidavit in Support to strike out the plaintiff's claim in Court. However, the said Summons in Chambers was dismissed by the Court on 28.02.2007. Summons for Direction to proceed with the trial has been fixed for hearing on 13.08.2007.

None of the litigation is expected to have a material adverse effect on the financial results of the RHB Bank Group.

### **8.3 Commitment and Contingent Liabilities**

In the normal course of business, RHB Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. RHB Bank has also given continuing guarantee to BNM to meet the liabilities and financial obligations and requirements of its subsidiary, RHB Labuan, arising from its offshore banking business in the Federal Territory of Labuan. RHB Bank and its subsidiaries also have lease commitments in respect of rented premises which are classified as operating leases.



#### **8.4 Potential Conflict of Interest and Appropriate Mitigating Measures**

Save as disclosed below, RHB Investment Bank is not aware of any circumstances that would give rise to a conflict of interest in its capacity as the Principal Adviser/Lead Arranger and the Facility Agent in the MTN Programme.

Both RHB Bank and RHB Investment Bank have a common shareholder, RHB Capital. As at 30 September 2007, both RHB Bank and RHB Investment Bank are wholly owned by RHB Capital.

The Board has been informed and is fully aware of the potential conflict of interest situation as described above. Notwithstanding that, the Board intends to proceed with the implementation of the MTN Programme.

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**APPENDIX**

**LATEST AUDITED FINANCIAL STATEMENTS OF RHB BANK FOR THE FINANCIAL  
YEAR ENDED 31 DECEMBER 2006**

Company No.

6171	M
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**RHB BANK BERHAD**  
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS**

**31 DECEMBER 2006**

Company No.

6171	M
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**RHB BANK BERHAD**  
(Incorporated in Malaysia)

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JALAN TUN RAZAK  
50400 KUALA LUMPUR  
MALAYSIA

TEL : 603-92878888  
FAX : 603-92806507

Company No.

6171	M
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## **RHB BANK BERHAD**

(Incorporated in Malaysia)

### **DIRECTORS' REPORT (CONTINUED)**

#### **CURRENT ASSETS**

Before the financial statements of the Group and the Bank were made out, the directors took reasonable steps to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Group and 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 Group and the Bank misleading.

#### **VALUATION METHODS**

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and 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 Group or 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 Group or 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 Group or 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 Group or 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 Group or the Bank, which would render any amount stated in the financial statements misleading.

#### **ITEMS OF AN UNUSUAL NATURE**

The results of the Group and 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 Group or the Bank for the financial year in which this report is made.

Company No.

6171	M
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**RHB BANK BERHAD**  
(Incorporated in Malaysia)

## **DIRECTORS' REPORT (CONTINUED)**

### **ORDINARY SHARES DIVIDENDS**

The dividends proposed and paid by the Bank since 31 December 2005 were as follows: -

	RM'000
In respect of previous financial year	
Ordinary shares	
Final dividend of 4.1% less tax	57,564
In respect of current financial year	
Ordinary shares	
First interim dividend of 4.5% less tax	<u>62,700</u>
	<u>120,264</u>

At the forthcoming Annual General Meeting, a final gross dividend in respect of the current financial year of 9.4% less tax amounting to RM133.81 million will be proposed for shareholders' approval. These financial statements do not reflect this final dividend which will be accounted for in the shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2007 when approved by the shareholders.

### **IRREDEEMABLE NON-CUMULATIVE CONVERTIBLE PREFERENCE SHARES ('INCPS') DIVIDENDS**

The dividends paid by the Bank since 31 December 2005 were as follows: -

	RM'000
First semi-annual dividend of 5% less tax paid on 31 May 2006	<u>49,117</u>
Second semi-annual dividend of 5% less tax paid on 30 November 2006	<u>49,386</u>

### **RESERVES AND PROVISIONS**

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

### **NON-PERFORMING DEBTS AND FINANCING**

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

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

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

Company No.

6171	M
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**RHB BANK BERHAD**

(Incorporated in Malaysia)

**DIRECTORS' REPORT (CONTINUED)**

**CURRENT ASSETS**

Before the financial statements of the Group and the Bank were made out, the directors took reasonable steps to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Group and 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 Group and the Bank misleading.

**VALUATION METHODS**

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Group and 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 Group or 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 Group or 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 Group or 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 Group or 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 Group or the Bank, which would render any amount stated in the financial statements misleading.

**ITEMS OF AN UNUSUAL NATURE**

The results of the Group and 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 Group or the Bank for the financial year in which this report is made.

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**RHB BANK BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR**

Significant events during the financial year are disclosed in Note 43 to the financial statements.

**DIRECTORS OF THE BANK**

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

Datuk Azlan Zainol	Non-Independent Non-Executive Chairman
Dato Abdullah Mat Noh	Non-Independent Non-Executive Deputy Chairman
Tuan Haji Khairuddin Ahmad	Non-Independent Non-Executive Director
Dato' Vaseehar Hassan Abdul Razack	Non-Independent Non-Executive Director
Dato' Mohd Salleh Haji Harun	Independent Non-Executive Director
Dato' Othman Jusoh	Independent Non-Executive Director
Prof Balachandran A. Shanmugam	Independent Non-Executive Director
Johari Abdul Muid	Non-Independent Non-Executive Director
Ismael Fariz Ali	Non-Independent Non-Executive Director
Dato' Mohamed Khadar Merican	Independent Non-Executive Director
Ong Seng Pheow	Independent Non-Executive Director (appointed on 20 November 2006)

In accordance with Article 100 of the Bank's Articles of Association, Tuan Haji Khairuddin Ahmad, Dato' Mohd Salleh Haji Harun and Dato' Othman Jusoh retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Pursuant to Article 104 of the Bank's Articles of Association, Mr Ong Seng Pheow who is appointed during the financial year, retires at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.



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**RHB BANK BERHAD**  
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## **DIRECTORS' REPORT (CONTINUED)**

### **DIRECTORS' INTERESTS IN SECURITIES**

According to the register of directors' shareholding, the interests of the directors in office as at 31 December 2006 in the securities of related corporations were as follows:

	Number of Ordinary Shares of RM1 each			
	As at 1.1.2006/ Date of Appointment	Bought	Sold	As at 31.12.2006
<b>Ultimate Holding Company</b>				
<b>Rashid Hussain Berhad</b>				
Dato' Vaseehar Hassan Abdul Razack - Indirect <sup>1</sup>	238,127,000	-	-	238,127,000
Dato' Mohamed Khadar Merican - Direct	5,000	-	-	5,000
<b>Holding Company</b>				
<b>RHB Capital Berhad</b>				
Tuan Haji Khairuddin Ahmad - Direct	15,000	-	-	15,000
Dato' Vaseehar Hassan Abdul Razack - Indirect <sup>2</sup>	1,182,896,459	-	(2,000,000)	1,180,896,459
Dato' Mohd Salleh Haji Harun - Direct	15,000	-	-	15,000
Dato' Mohamed Khadar Merican - Direct	10,000	-	-	10,000
	Number of Warrants 1997/2007			
	As at 1.1.2006	Bought	Sold	As at 31.12.2006
<b>Ultimate Holding Company</b>				
<b>Rashid Hussain Berhad</b>				
Tuan Haji Khairuddin Ahmad - Indirect <sup>3</sup>	3,000	-	-	3,000

Each warrant of Rashid Hussain Berhad ('Warrants 1997/2002') entitles the registered holder to subscribe for one new ordinary share of RM1.00 each in Rashid Hussain Berhad at any time within a period of four and three quarter (4 3/4) years from the date of issue on 25 June 1997 at an exercise price of RM18.30 per share. The exercise price is subject to adjustments from time to time in accordance with the conditions stipulated in the Deed Poll executed on 25 June 1997. Pursuant to a Supplemental Deed Poll dated 23 June 1999, the exercise period of the Warrants 1997/2002 has been extended by five (5) years to expire on 24 March 2007 and the Warrants 1997/2002 are now known as Warrants 1997/2007.

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**RHB BANK BERHAD**

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**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)**

	Number of Warrants 1999/2009		
	As at 1.1.2006	Bought	Sold
<b>Ultimate Holding Company</b>			
<b>Rashid Hussain Berhad</b>			
Tuan Haji Khairuddin Ahmad			
- Direct	5,000	-	-

Each warrant of Rashid Hussain Berhad ('Warrants 1999/2002') entitles the registered holder to subscribe for one new ordinary share of RM1.00 each in Rashid Hussain Berhad at any time from the date of issue on 17 August 1999 at an initial exercise price of RM4.35 per share. The exercise price is subject to adjustments from time to time in accordance with the conditions stipulated in the Deed Poll executed on 23 June 1999. Pursuant to a Supplemental Deed Poll dated 20 March 2002, the exercise period of the Warrants 1999/2002 has been extended by approximately seven (7) years to expire on 16 August 2009 and the Warrants 1999/2002 are now known as Warrants 1999/2009.

	Number of Warrants 2001/2007		
	As at 1.1.2006	Bought	Sold
<b>Ultimate Holding Company</b>			
<b>Rashid Hussain Berhad</b>			
Tuan Haji Khairuddin Ahmad			
- Indirect <sup>3</sup>	13,000	-	-
Dato' Vaseehar Hassan Abdul Razack			
- Indirect <sup>1</sup>	8,000,000	-	-

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

	Nominal Amount (RM) of 2002/2012 0.5% Irredeemable Convertible Unsecured Loan Stocks of RM1 each nominal value ('RHB ICULS-A')		
	As at 1.1.2006	Bought	Sold
<b>Ultimate Holding Company</b>			
<b>Rashid Hussain Berhad</b>			
Dato' Vaseehar Hassan Abdul Razack			
- Indirect <sup>1</sup>	449,206,479	-	-

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

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# **RHB BANK BERHAD**

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## **DIRECTORS' REPORT (CONTINUED)**

### **DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)**

Nominal Amount (RM) of 2002/2012 3.0% Irredeemable Convertible Unsecured Loan Stocks of RM1 each nominal value ('RHB ICULS-B')			
As at 1.1.2006	Bought	Converted/ Sold	As at 31.12.2006

#### **Ultimate Holding Company Rashid Hussain Berhad**

Dato' Vaseehar Hassan Abdul Razack

- Indirect <sup>1</sup>	403,471,898	-	-	403,471,898
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Each RHB ICULS-B entitles the registered holder to convert the RHB ICULS-B into one (1) new ordinary share of RM1.00 each in Rashid Hussain Berhad ('New Share') at the conversion price of RM1.13 per New Share ('Conversion Price') at any time within a period of ten (10) years from the date of issue on 24 December 2002 in accordance with the Trust Deed constituting RHB ICULS-B dated 24 December 2002. The Conversion Price shall be satisfied by surrendering for conversion into New Shares such nominal value of RHB ICULS-B which equal to the Conversion Price or a combination of such nominal value of RHB ICULS-B and cash which aggregates to the Conversion Price, provided that at least RM1.00 nominal value of RHB ICULS-B is surrendered for conversion into one (1) New Share.

Notes:

<sup>1</sup> Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of his indirect substantial interest in Utama Banking Group Berhad ('UBG'), a substantial shareholder of Rashid Hussain Berhad.

<sup>2</sup> Deemed interest pursuant to Section 6A of the Companies Act, 1965 by virtue of his indirect substantial interest in Rashid Hussain Berhad.

<sup>3</sup> The indirect interest is held through family members.

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

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

### **DIRECTORS' BENEFITS**

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

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

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**RHB BANK BERHAD**  
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## **DIRECTORS' REPORT (CONTINUED)**

### **DISCLOSURE OF COMMITTEES**

#### **NOMINATING COMMITTEE**

A Nomination Committee was established on 5 September 2002 which was renamed as Nominating Committee on 28 August 2003. During the financial year ended 31 December 2006, a total of 8 meetings were held. The Nominating Committee comprises the following members and details of attendance of each member at the Nominating Committee meetings held during the year as at 31 December 2006 are as follows:-

<b>Composition of the Nominating Committee</b>	<b>Attendance at the committee meetings</b>
<b>Current Members:</b>	
1. Dato' Othman Jusoh (Chairman/Independent Non-Executive Director) - Appointed as Chairman on 29 August 2006	7 out of 8 meetings
2. Dato' Mohd Salleh Haji Harun (Member/Independent Non-Executive Director) - Resigned as Chairman on 29 August 2006 but remained a Member	8 out of 8 meetings
3. Dato Abdullah Mat Noh (Member/Non-Independent Non-Executive Director)	8 out of 8 meetings
4. Prof Balachandran A. Shanmugam (Member/Independent Non-Executive Director)	8 out of 8 meetings
5. Tuan Haji Khairuddin Ahmad (Member/Non-Independent Non-Executive Director)	8 out of 8 meetings

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

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

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**RHB BANK BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**DISCLOSURE OF COMMITTEES (CONTINUED)**

**REMUNERATION AND HUMAN RESOURCE COMMITTEE**

The Human Resource Committee was established on 4 May 2000 which was renamed as the Remuneration and Human Resource Committee on 28 August 2003. During the financial year ended 31 December 2006, a total of 5 meetings were held. The Remuneration and Human Resource Committee comprises the following members and details of attendance of each member at the Remuneration and Human Resource Committee meetings held during the year as at 31 December 2006 are as follows:-

<b>Composition of the Remuneration and Human Resource Committee</b>	<b>Attendance at the committee meetings</b>
<b>Current Members:</b>	
1. Dato' Othman Jusoh (Chairman/Independent Non-Executive Director) - Appointed as Chairman and Member on 29 August 2006	2 out of 2 meetings
2. Dato' Vaseehar Hassan Abdul Razack (Member/Non-Independent Non-Executive Director)	5 out of 5 meetings
3. Encik Ismael Fariz Ali (Member/Non-Independent Non-Executive Director)	4 out of 5 meetings
<b>Previous Member:</b>	
4. Dato' Mohd Salleh Haji Harun (Chairman/Independent Non-Executive Director) - Resigned as Chairman and Member on 29 August 2006	3 out of 3 meetings

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

**RHB BANK BERHAD**

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**DIRECTORS' REPORT (CONTINUED)****DISCLOSURE OF COMMITTEES (CONTINUED)****RISK MANAGEMENT COMMITTEE**

A Risk Management Committee was established on 30 January 2001. During the financial year ended 31 December 2006, a total of 12 meetings were held. The Risk Management Committee comprises the following members and details of attendance of each member at the Risk Management Committee meetings held during the year as at 31 December 2006 are as follows:-

<b>Composition of the Risk Management Committee</b>	<b>Attendance at the Committee meetings</b>
<b>Current Members:</b>	
1. Dato' Mohd Salleh Haji Harun (Chairman/Independent Non-Executive Director)	10 out of 12 meetings
2. Dato' Othman Jusoh (Member/Independent Non-Executive Director)	8 out of 12 meetings
3. Tuan Haji Khairuddin Ahmad (Member/Non-Independent Non-Executive Director)	12 out of 12 meetings
4. Prof Balachandran A. Shanmugam (Member/Independent Non-Executive Director)	12 out of 12 meetings

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

A Statement on the Bank's Risk Management Framework is set out in Note 39 to the financial statements for the financial year ended 31 December 2006.

**HOLDING AND ULTIMATE HOLDING COMPANY**

The directors regard RHB Capital Berhad and Rashid Hussain Berhad, both companies incorporated in Malaysia, as the holding and ultimate holding company respectively.

**2007 BUSINESS PLAN AND OUTLOOK**

The banking landscape continues to evolve with increasing liberalization and globalization, presenting new demands and challenges. Against this backdrop, the Bank will continue to focus on managing markets and segments proactively, leveraging on cross-selling within the Bank and the Group to provide our customers comprehensive financial solutions. While pursuing growth in targeted segments, the Bank will also strive to manage funding costs actively and optimize delivery channel efficiency. Risk management continues to underpin the Bank's operations.

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**RHB BANK BERHAD**  
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## **DIRECTORS' REPORT (CONTINUED)**

### **RATINGS ACCORDED BY THE RATING AGENCIES**

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

<b>Agencies</b>	<b>Date Accorded</b>	<b>Ratings</b>
Rating Agency Malaysia Berhad	8 November 2006	Long Term Rating – AA3 Short Term Rating – P1 Subordinated Bonds Rating – A1
Standard & Poor's	24 May 2006	Long Term Counterparty Credit Rating – BBB Short Term Counterparty Credit Rating – A-2 Subordinated Bonds Rating – BBB- Bank Fundamental Strength Rating – C
Moody's Investors Service	25 May 2006	Long Term Bank Deposits Rating – A3 Short Term Bank Deposits Rating – P-1 Subordinated Debt Rating – Baa1 Bank Financial Strength – D
Fitch Ratings *	6 July 2006	Long Term Senior Foreign Currency Rating – BBB Subordinated Notes Rating – BBB- Individual Rating – C/D Support Rating – 2

\* The Bank has given notice to cease the rating services provided by Fitch Ratings on 18 May 2006.

### **DESCRIPTION OF THE RATING ACCORDED**

#### **Rating Agency Malaysia Berhad**

Long term rating (Financial institutions)

**AA** Financial Institution ('FIs') rated in this category are adjudged to offer high safety for timely payments of financial obligations. This level of rating indicates corporate entities with sound credit profiles and without significant problems. Entities rated in this category are, however, considered to be somewhat more vulnerable to adverse changes in economic conditions than those entities rated in the highest category.

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

Short term rating (Financial institutions)

**P1** FIs in this category have superior capacities for timely payments of obligations.

Long term rating (RM subordinated bonds)

**A** Adequate safety for timely payment of interest and principal. More susceptible to changes in circumstances and economic conditions than debts in higher-rated categories.

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

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**RHB BANK BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**DESCRIPTION OF THE RATING ACCORDED (CONTINUED)**

**Standard and Poor's**

Long term issuer credit rating

**BBB** An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show the relative standing within the major rating categories.

Short term issuer credit rating

**A-2** An obligor rated 'A-2' has satisfactory capacity to meet its financial commitments. However, it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in the highest rating category.

Long term issue credit rating (USD subordinated debt)

**BBB** An obligation rated 'BBB' exhibits adequate protection parameters. However adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show the relative standing within the major rating categories.

Bank fundamental strength rating ('BFSR')

**C** A bank or financial institution, in the absence of extraordinary assistance or interference from its corporate group, regulator or government, assigned a BFSR of 'C' has adequate fundamental strength. However, the bank or financial institution is more sensitive to uncertainties and adverse circumstances to a greater degree than higher-rated entities.

**Moody's Investors Service**

Long term bank deposit rating

**A** Banks rated A for deposits offer good credit quality. However, elements may be present that suggest a susceptibility to impairment over the long term.

Note:

Moody's appends the numerical modifiers 1, 2 and 3 to each generic rating category from 'Aa' to 'Caa'. The modifier 1 indicates that the bank is in the higher end of its letter-rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the bank is in the lower end of its letter-ranking category.

Short term bank deposit rating

**P-1** Banks rated Prime-1 for deposits offer superior credit quality and a very strong capacity for timely payment of short term deposit obligations.



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**RHB BANK BERHAD**  
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## **DIRECTORS' REPORT (CONTINUED)**

### **DESCRIPTION OF THE RATING ACCORDED (CONTINUED)**

Long term obligation rating (USD subordinated debt)

**Baa** Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

Note:

Moody's appends the numerical modifiers 1, 2 and 3 to each generic rating category from 'Aa' to 'Caa'. The modifier 1 indicates that the obligation ranks in the higher end of its letter-rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of its generic rating category.

Bank financial strength rating ('BFSR')

**D** Banks rated D display modest intrinsic financial strength, potentially requiring some outside support at times. Such institutions may be limited by one or more of the following factors: a weak business franchise, financial fundamentals that are deficient in one or more respects; or an unpredictable and unstable operating environment.

Where appropriate, a "+" modifier will be appended to ratings below the 'A' category and a "-" modifier will be appended to ratings above the 'E' category to distinguish those banks that fall in intermediate categories.

### **Fitch Ratings**

Long term foreign currency credit rating (Bank and USD subordinated debt)

**BBB** Good credit quality. 'BBB' ratings indicate that there is currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.

The modifiers "+" or "-" may be appended to a rating to denote relative status within the major rating categories. Such suffixes are not added to the 'AAA' Long term rating category, to categories below 'CCC' or to short term ratings other than 'F1'.

Bank individual rating

**C** An adequate bank, which, however, possesses one or more troublesome aspects. There may be concerns regarding its profitability and balance sheet integrity, franchise, management, operating environment or prospects.

**D** A bank, which has weaknesses of internal and/or external origin. There are concerns regarding its profitability, substance and resilience, balance sheet integrity, franchise, management, operating environment or prospects. Banks in emerging markets are necessarily faced with greater number of potential deficiencies of external origin.

Notes: Gradations may be used among the five ratings: i.e. A/B, B/C, C/D, and D/E.

Bank support rating

**2** A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-term rating floor of 'BBB-'.

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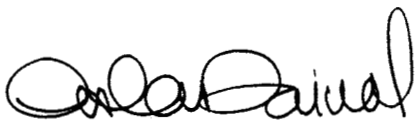
**RHB BANK BERHAD**  
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**DIRECTORS' REPORT (CONTINUED)**

**AUDITORS**

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

In accordance with the resolution of the Board of Directors dated 28 February 2007.



DATUK AZLAN ZAINOL  
NON-INDEPENDENT NON-EXECUTIVE  
CHAIRMAN



DATO ABDULLAH MAT NOH  
NON-INDEPENDENT NON-EXECUTIVE  
DEPUTY CHAIRMAN

Kuala Lumpur

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**RHB BANK BERHAD**  
(Incorporated in Malaysia)

BALANCE SHEETS AS AT 31 DECEMBER 2006

	Note	<u>31.12.2006</u> RM'000	<u>Group</u> <u>31.12.2005</u> RM'000	<u>31.12.2006</u> RM'000	<u>Bank</u> <u>31.12.2005</u> RM'000
<b>ASSETS</b>					
Cash and short-term funds	2	9,623,320	10,790,936	8,571,796	12,539,401
Securities purchased under resale agreements		2,691,541	2,219,491	2,691,541	2,219,491
Deposits and placements with banks and other financial institutions	3	5,068,831	2,431,491	4,004,276	1,981,441
Securities held for trading	4	1,945,762	1,761,937	1,417,972	890,492
Securities available-for-sale	5	5,713,828	1,895,580	5,607,140	1,726,819
Securities held-to-maturity	6	13,020,680	14,078,589	12,002,779	12,843,807
Loans, advances and financing	7	52,741,606	47,634,111	46,879,331	37,090,808
Other assets	8	623,811	430,409	691,627	689,033
Tax recoverable		65	17,449	-	-
Deferred taxation assets	9	251,720	240,038	210,747	171,138
Statutory deposits	10	1,835,744	1,619,025	1,665,315	1,233,745
Investment in subsidiaries	11	-	-	828,956	1,389,849
Investment in an associate	12	4,683	4,198	-	-
Property, plant and equipment	13	598,789	628,239	471,894	486,433
Goodwill	14	1,004,017	1,004,017	905,519	892,012
<b>TOTAL ASSETS</b>		<u>95,124,397</u>	<u>84,755,510</u>	<u>85,948,893</u>	<u>74,154,469</u>

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

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**RHB BANK BERHAD**

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## BALANCE SHEETS AS AT 31 DECEMBER 2006 (CONTINUED)

	Note	<u>31.12.2006</u> RM'000	<u>Group</u> <u>31.12.2005</u> RM'000	<u>31.12.2006</u> RM'000	<u>Bank</u> <u>31.12.2005</u> RM'000
<b>LIABILITIES, INCPS AND SHAREHOLDERS' EQUITY</b>					
Deposits from customers	15	55,785,316	48,704,834	47,791,098	40,844,274
Deposits and placements of banks and other financial institutions	16	9,876,493	10,597,657	9,332,836	9,770,738
Obligations on securities sold under repurchase agreements		13,364,811	10,329,421	13,364,811	10,341,624
Bills and acceptances payable		3,778,758	3,313,060	3,762,216	3,279,024
Recourse obligation on loans sold to Cagamas Berhad		2,879,284	3,356,992	2,879,284	2,006,549
Other liabilities	17	1,684,974	1,363,876	1,425,857	1,074,223
Provision for taxation and zakat		79,425	19,214	56,564	15,675
Deferred taxation liabilities	9	17	8	-	-
Long term borrowings	18	282,400	-	282,400	-
Subordinated obligations	19	1,328,158	1,365,252	1,328,158	1,365,252
		<u>89,059,636</u>	<u>79,050,314</u>	<u>80,223,224</u>	<u>68,697,359</u>
Irredeemable Non-Cumulative Convertible Preference Shares ('INCPS')	20	1,368,099	1,368,099	1,368,099	1,368,099
		<u>90,427,735</u>	<u>80,418,413</u>	<u>81,591,323</u>	<u>70,065,458</u>
Ordinary share capital	21	1,949,986	1,949,986	1,949,986	1,949,986
Reserves	22	2,746,676	2,387,111	2,407,584	2,139,025
Shareholders' equity		<u>4,696,662</u>	<u>4,337,097</u>	<u>4,357,570</u>	<u>4,089,011</u>
<b>TOTAL LIABILITIES, INCPS AND SHAREHOLDERS' EQUITY</b>		<u>95,124,397</u>	<u>84,755,510</u>	<u>85,948,893</u>	<u>74,154,469</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	36	<u>50,208,685</u>	<u>40,364,815</u>	<u>46,614,708</u>	<u>37,682,648</u>

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

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**RHB BANK BERHAD**  
(Incorporated in Malaysia)

**INCOME STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006**

		<b>Group</b>		<b>Bank</b>	
	Note	<b>Year ended</b> <b>31.12.2006</b> <b>RM'000</b>	<b>Year ended</b> <b>31.12.2005</b> <b>RM'000</b>	<b>Year ended</b> <b>31.12.2006</b> <b>RM'000</b>	<b>Year ended</b> <b>31.12.2005</b> <b>RM'000</b>
Interest income	23	<b>4,139,257</b>	3,288,689	<b>3,994,572</b>	2,824,271
Interest expense	24	<b>(2,235,029)</b>	(1,689,894)	<b>(2,158,462)</b>	(1,519,198)
Net interest income		<b>1,904,228</b>	1,598,795	<b>1,836,110</b>	1,305,073
Other operating income	25	<b>617,520</b>	560,253	<b>668,840</b>	576,563
Income from Islamic banking business	26	<b>2,521,748</b> <b>236,099</b>	2,159,048 147,635	<b>2,504,950</b> <b>-</b>	1,881,636 23,685
Other operating expenses	27	<b>2,757,847</b> <b>(1,208,881)</b>	2,306,683 (1,103,581)	<b>2,504,950</b> <b>(1,110,953)</b>	1,905,321 (930,044)
Operating profit before allowances		<b>1,548,966</b>	1,203,102	<b>1,393,997</b>	975,277
Allowance for losses on loans and financing	29	<b>(667,296)</b>	(495,072)	<b>(643,959)</b>	(403,043)
Allowance for impairment losses	30	<b>(36,600)</b>	(84,289)	<b>(35,464)</b>	(93,904)
Share of results of an associate		<b>845,070</b> <b>485</b>	623,741 314	<b>714,574</b> <b>-</b>	478,330 -
Profit before INCPS dividends, zakat and taxation		<b>845,555</b>	624,055	<b>714,574</b>	478,330
INCPS dividends	31	<b>(136,810)</b>	(136,842)	<b>(136,810)</b>	(136,842)
Profit after INCPS dividends but before zakat and taxation		<b>708,745</b>	487,213	<b>577,764</b>	341,488
Zakat		<b>1,166</b>	(921)	<b>-</b>	-
Taxation	32	<b>(206,063)</b>	(108,555)	<b>(185,719)</b>	(71,686)
Net profit for the financial year		<b>503,848</b>	377,737	<b>392,045</b>	269,802
Earnings per ordinary share					
- Basic earnings per 50 sen share	33	<b>12.9 sen</b>	9.7 sen	<b>10.1 sen</b>	6.9 sen
Ordinary dividend per 50 sen share less income tax	34	<b>5.0 sen</b>	3.5 sen	<b>5.0 sen</b>	3.5 sen

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

Company No.

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**RHB BANK BERHAD**  
(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006**

GROUP	Share Capital RM'000	Share Premium RM'000	Statutory reserves RM'000	Translation reserves RM'000	AFS reserves RM'000	Retained profits RM'000	Total RM'000
Balance as at 31.12.2005	1,949,986	8,563	1,596,396	(3,252)	5,142	780,262	4,337,097
Currency translation differences	-	-	-	(17,411)	-	-	(17,411)
Unrealised net loss on revaluation of securities available-for-sale	-	-	-	-	(22,785)	-	(22,785)
AFS reserve realised on disposal of AFS Securities	-	-	-	-	1,705	-	1,705
Net transfer to income statement on impairment	-	-	-	-	10,939	-	10,939
Deferred tax	-	-	-	-	3,533	-	3,533
Income and expenses recognised directly in equity	-	-	-	(17,411)	(6,608)	-	(24,019)
Net profit for the financial year	-	-	-	-	-	503,848	503,848
Total recognised income and expenses for the financial year	-	-	-	(17,411)	(6,608)	503,848	479,829
Transfer to statutory reserves	-	-	193,107	-	-	(193,107)	-
Ordinary dividends paid during the year	-	-	-	-	-	(120,264)	(120,264)
Balance as at 31.12.2006	1,949,986	8,563	1,789,503	(20,663)	(1,466)	970,739	4,696,662
Balance as at 31.12.2004	1,949,986	8,563	1,450,369	11,854	(21,420)	710,011	4,109,363
Currency translation differences	-	-	-	(15,106)	-	-	(15,106)
Unrealised net loss on revaluation of securities available-for-sale	-	-	-	-	(25,241)	-	(25,241)
AFS reserve realised on disposal of AFS securities	-	-	-	-	(32,242)	-	(32,242)
Net transfer to income statement on impairment	-	-	-	-	95,769	-	95,769
Deferred tax	-	-	-	-	(11,724)	-	(11,724)
Income and expenses recognised directly in equity	-	-	-	(15,106)	26,562	-	11,456
Net profit for the financial year	-	-	-	-	-	377,737	377,737
Total recognised income and expenses for the financial year	-	-	-	(15,106)	26,562	377,737	389,193
Transfer to statutory reserves	-	-	146,027	-	-	(146,027)	-
Ordinary dividends paid during the year	-	-	-	-	-	(161,459)	(161,459)
Balance as at 31.12.2005	1,949,986	8,563	1,596,396	(3,252)	5,142	780,262	4,337,097

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

Company No.

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**RHB BANK BERHAD**  
(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**

BANK	Non-distributable				Distributable		Total RM'000
	Share Capital RM'000	Share Premium RM'000	Statutory reserves RM'000	Translation reserves RM'000	AFS reserves RM'000	Retained profits RM'000	
Balance as at 31.12.2005	1,949,986	8,563	1,529,557	(288)	8,080	593,113	4,089,011
Amount vested over from RHB Delta Finance	-	-	-	-	148	-	148
Currency translation differences	-	-	-	5,873	-	-	5,873
Unrealised net loss on revaluation of securities available-for-sale	-	-	-	-	(24,544)	-	(24,544)
AFS reserve realised on disposal of AFS Securities	-	-	-	-	768	-	768
Net transfer to income statement on impairment	-	-	-	-	10,939	-	10,939
Deferred tax	-	-	-	-	3,594	-	3,594
Income and expenses recognised directly in equity	-	-	-	5,873	(9,095)	-	(3,222)
Net profit for the financial year	-	-	-	-	-	392,045	392,045
Total recognised income and expenses for the financial year	-	-	-	5,873	(9,095)	392,045	388,823
Transfer to statutory reserves	-	-	196,023	-	-	(196,023)	-
Ordinary dividends paid during the year	-	-	-	-	-	(120,264)	(120,264)
Balance as at 31.12.2006	1,949,986	8,563	1,725,580	5,585	(1,015)	668,871	4,357,570
Balance as at 31.12.2004	1,949,986	8,563	1,394,656	14,424	(21,965)	619,671	3,965,335
Currency translation differences	-	-	-	(14,712)	-	-	(14,712)
Unrealised net loss on revaluation of securities available-for-sale	-	-	-	-	(21,649)	-	(21,649)
AFS reserve realised on disposal of AFS securities	-	-	-	-	(32,242)	-	(32,242)
Net transfer to income statement on impairment	-	-	-	-	95,620	-	95,620
Deferred tax	-	-	-	-	(11,684)	-	(11,684)
Income and expenses recognised directly in equity	-	-	-	(14,712)	30,045	-	15,333
Net profit for the financial year	-	-	-	-	-	269,802	269,802
Total recognised income and expenses for the financial year	-	-	-	(14,712)	30,045	269,802	285,135
Transfer to statutory reserves	-	-	134,901	-	-	(134,901)	-
Ordinary dividends paid during the year	-	-	-	-	-	(161,459)	(161,459)
Balance as at 31.12.2005	1,949,986	8,563	1,529,557	(288)	8,080	593,113	4,089,011

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

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# **RHB BANK BERHAD**

(Incorporated in Malaysia)

## **CONSOLIDATED CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006**

<b>GROUP</b>	<b>Year ended 31.12.2006 RM'000</b>	<b>Year ended 31.12.2005 RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit after INCPS dividends but before zakat and taxation	708,745	487,213
Adjustments for:		
INCPS dividend	136,810	136,842
Share of results of an associate	(485)	(314)
Property, plant and equipment:		
- Depreciation	85,737	92,171
- Gain on disposal	(3,896)	(1,112)
- Loss on disposal	77	67
- Written off	10	41
- Allowance for impairment losses	2,478	-
Write back of allowance for impairment loss	(2,001)	-
Net loss/(gain) on sale of securities available-for-sale	768	(32,242)
Net gain from redemption of securities held-to-maturity	(60)	(14,042)
Interest income from securities available-for-sale	(75,071)	(52,455)
Interest income from securities held-to-maturity	(564,797)	(437,410)
Allowance for impairment losses of securities available-for-sale	46,385	103,565
Allowance for impairment losses of securities held-to-maturity	34,758	13,533
Write back of allowance for impairment loss of securities available-for-sale	(35,446)	(7,796)
Write back of allowance for impairment loss of securities held-to-maturity	(9,574)	(25,013)
Dividend income from securities available-for-sale	(3,625)	(3,590)
Allowance for losses on loans and financing	743,918	630,843
Interest suspended clawback net of recoveries	(111,312)	(119,460)
Amortisation of premium less accretion of discount	(10,472)	(9,058)
Amortisation of discount for subordinated obligations	232	236
Unrealised exchange (gain)/loss	(29,219)	16,935
	<u>913,960</u>	<u>778,954</u>
<b>Increase in operating assets:</b>		
Deposits and placements with banks and other financial institutions	(2,636,067)	(1,941,138)
Securities purchased under resale agreements	(471,581)	(2,180,161)
Securities held for trading	(171,111)	(833,733)
Loans, advances and financing	(5,694,231)	(5,089,473)
Other assets	(105,761)	(113,009)
Statutory deposits	(218,126)	(285,721)
	<u>(9,296,877)</u>	<u>(10,443,235)</u>
<b>Increase/(Decrease) in operating liabilities:</b>		
Deposits from customers	7,016,362	(218,125)
Deposits and placements of banks and other financial institutions	(746,161)	3,973,120
Obligations on securities sold under repurchase agreements	3,035,390	2,828,472
Bills and acceptances payable	465,531	688,980
Recourse obligation on loans sold to Cagamas Berhad	(477,708)	(9,859)
Other liabilities	258,480	244,827
Long term borrowings	282,400	-
Subordinated obligations	-	(3,064)
	<u>9,834,294</u>	<u>7,504,351</u>



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**RHB BANK BERHAD**

(Incorporated in Malaysia)

**CONSOLIDATED CASH FLOW STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**

<b>GROUP</b>	<b>Note</b>	<b>Year ended 31.12.2006 RM'000</b>	<b>Year ended 31.12.2005 RM'000</b>
Cash generated from/(used in) operations		1,451,377	(2,159,930)
Zakat paid		(54)	(99)
Taxation paid		(172,958)	(164,966)
Net cash generated from/(used in) operating activities		<u>1,278,365</u>	<u>(2,324,995)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(67,261)	(62,958)
Proceeds from disposal of property, plant and equipment		15,779	6,319
Net (purchase)/sale of securities available-for-sale		(3,847,778)	4,439,500
Net sale/(purchase) of securities held-to-maturity		1,056,512	(3,424,052)
Interest received from securities available-for-sale		56,919	19,294
Interest received from securities held-to-maturity		571,819	404,075
Dividend income from securities available-for-sale		2,973	2,585
Net cash (used in)/generated from investing activities		<u>(2,211,037)</u>	<u>1,384,763</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid :			
- INCPS		(98,503)	(98,503)
- ordinary shares		(120,264)	(161,459)
Net cash used in financing activities		<u>(218,767)</u>	<u>(259,962)</u>
Net decrease in cash and cash equivalents		(1,151,439)	(1,200,194)
Effects of exchange rate differences		(16,177)	(8,523)
Cash and cash equivalents brought forward		<u>10,790,936</u>	<u>11,999,653</u>
Cash and cash equivalents carried forward		<u>9,623,320</u>	<u>10,790,936</u>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS:</b>			
Cash and short-term funds	2	<u>9,623,320</u>	<u>10,790,936</u>

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

Company No.

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# **RHB BANK BERHAD**

(Incorporated in Malaysia)

## **CASH FLOW STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**

<b>BANK</b>	<b>Year ended 31.12.2006 RM'000</b>	<b>Year ended 31.12.2005 RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit after INCPs dividends but before taxation and zakat	577,764	341,488
Adjustments for:		
INCPs dividend	136,810	136,842
Property, plant and equipment:		
- Depreciation	84,039	87,719
- Gain on disposal	(4,142)	(755)
- Loss on disposal	77	67
- Written off	10	3
- Allowance for impairment losses	1,342	-
Write back of allowance for impairment loss	(2,001)	-
Net loss/(gain) on sale of securities available-for-sale	768	(32,242)
Net gain from redemption of securities held-to-maturity	-	(14,042)
Interest income from securities available-for-sale	(69,192)	(50,314)
Interest income from securities held-to-maturity	(541,065)	(409,611)
Allowance for impairment loss of securities available-for-sale	46,385	103,417
Allowance for impairment loss of securities held-to-maturity	34,758	14,596
Write back of allowance for impairment loss of securities available-for-sale	(35,446)	(7,797)
Write back of allowance for impairment loss of securities held-to-maturity	(9,574)	(16,312)
Dividend income from securities available-for-sale	(3,625)	(3,513)
Dividend income from subsidiary companies	(67,656)	(34,055)
Allowance for losses on loans and financing	720,340	537,739
Interest suspended clawback net of recoveries	(109,024)	(107,652)
Amortisation of premium less accretion of discount	12,382	5,371
Amortisation of discount for subordinated obligations	232	236
Unrealised exchange (gain)/loss	(29,221)	16,935
	<u>743,961</u>	<u>568,120</u>
 (Increase)/Decrease in operating assets:		
Deposits and placements with banks and other financial institutions	(2,022,052)	(1,481,484)
Securities purchased under resale agreements	(421,639)	(2,180,161)
Securities held for trading	(520,158)	(841,515)
Loans, advances and financing	(4,490,593)	(3,500,362)
Other assets	98,137	(390,021)
Statutory deposits	(227,808)	(155,706)
	<u>(7,584,113)</u>	<u>(8,549,249)</u>
 Increase/(Decrease) in operating liabilities:		
Deposits from customers	5,825,024	532,749
Deposits and placements of banks and other financial institutions	(4,605,382)	4,290,871
Obligations on securities sold under repurchase agreements	1,672,744	2,878,675
Bills and acceptances payable	483,089	999,074
Recourse obligation on loans sold to Cagamas Berhad	872,735	(31,764)
Other liabilities	202,979	186,196
Long term borrowings	282,400	-
Subordinated obligations	-	(3,064)
	<u>4,733,589</u>	<u>8,852,737</u>

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# **RHB BANK BERHAD**

(Incorporated in Malaysia)

## **CASH FLOW STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**

<b>BANK</b>	<b>Note</b>	<b>Year ended 31.12.2006 RM'000</b>	<b>Year ended 31.12.2005 RM'000</b>
Cash (used in)/generated from operations		(2,106,563)	871,608
Zakat paid		-	(2)
Taxation paid		(146,531)	(109,606)
Net cash (used in)/generated from operating activities		<u>(2,253,094)</u>	<u>762,000</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(65,423)	(52,513)
Proceeds from disposal of property, plant and equipment		14,425	5,621
Net (purchase)/sale of securities available-for-sale		(3,885,264)	4,560,322
Net sale/(purchase) of securities held-to-maturity		1,071,863	(3,474,456)
Interest received from securities available-for-sale		19,126	17,271
Interest received from securities held-to-maturity		579,923	378,332
Dividend income from securities available-for-sale		2,973	2,530
Dividend income from subsidiary companies		51,881	33,776
Net investment in subsidiaries		17,354	(75,000)
Net cash (used in)/generated from investing activities		<u>(2,193,142)</u>	<u>1,395,883</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Principal repayment of finance lease		(470)	(434)
Dividends paid:			
- INCPS		(98,503)	(98,503)
- Ordinary shares		(120,264)	(161,459)
Net cash used in financing activities		<u>(219,237)</u>	<u>(260,396)</u>
Net (decrease)/increase in cash and cash equivalents		(4,665,473)	1,897,487
Cash and cash equivalents vested over to RHB Islamic Bank		-	(1,273,377)
Cash and cash equivalents vested from RHB Delta Finance Bhd		727,701	-
Effects of exchange rate differences		(29,833)	(10,136)
Cash and cash equivalents brought forward		<u>12,539,401</u>	<u>11,925,427</u>
Cash and cash equivalents carried forward		<u>8,571,796</u>	<u>12,539,401</u>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS:</b>			
Cash and short-term funds	2	<u>8,571,796</u>	<u>12,539,401</u>

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

**RHB BANK BERHAD**

(Incorporated in Malaysia)

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND  
CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006**

**(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The financial statements of the Group and the Bank have been prepared under the historical cost convention (unless otherwise indicated), and are in accordance with Financial Reporting Standards, the Malaysian Accounting Standards Board ('MASB') approved accounting standards in Malaysia for entities other than private entities, together with the directives and guidelines issued by Bank Negara Malaysia ('BNM'), and comply with the provisions of the Companies Act, 1965.

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

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

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.

During the financial year, the Group and the Bank adopted the following new and revised Financial Reporting Standards ('FRS') issued by MASB that are relevant and effective for financial statements commencing 1 January 2006:

- FRS 3 Business Combinations
- FRS 5 Non-current Assets Held for Sale and Presentation of Discontinued Operations
- FRS 101 Presentation of Financial Statements
- FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors
- FRS 110 Events After the Balance Sheet Date
- FRS 116 Property, Plant and Equipment
- FRS 121 The Effects of Changes in Foreign Exchange Rates
- FRS 127 Consolidated and Separate Financial Statements
- FRS 128 Investments in Associates
- FRS 132 Financial Instruments: Disclosure and Presentation
- FRS 133 Earnings Per Share
- FRS 136 Impairment of Assets
- FRS 138 Intangible Assets

**RHB BANK BERHAD**

(Incorporated in Malaysia)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND  
CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)**

All changes in accounting policies have been made in accordance with the transition provisions in the respective standards, amendments to published standards and interpretations. All standards, amendments and interpretations adopted by the Group and the Bank require retrospective application other than:

- FRS 3 Prospectively for business combinations for which the agreement date is on or after 1 January 2006;
- FRS 5 Prospectively to non-current assets (or disposal groups) that meet the criteria to be classified as held for sale and to operations that meet the criteria to be classified as discontinued on/after 1 January 2006;
- FRS 116 The exchange of property, plant and equipment is accounted at fair value prospectively;
- FRS 121 Prospective accounting for goodwill and fair value adjustments as part of foreign operations.

The adoption of the above new FRS and other interpretations do not have any significant financial impact on the results of the Group and the Bank.

The new standards, amendments to published standards and interpretations that are mandatory for the Group's financial periods beginning on or after 1 January 2007 or later periods are as follows:

- FRS 117 Leases (effective for accounting periods beginning on or after 1 October 2006). This standard requires the classification of leasehold land as prepaid lease payments. The Group and the Bank will apply this standard from financial periods beginning 1 January 2007.
- FRS 124 Related party disclosures (effective for accounting periods beginning on or after 1 October 2006). This standard affects the identification of related parties and some other related party disclosures.
- FRS 139 Financial Instruments: Recognition and Measurement (effective date yet to be determined by MASB). This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Group and the Bank will apply this standard when effective. Nevertheless, the accounting policies of the Group incorporate revised BNM/GP8 which include selected principles of FRS 139.

**RHB BANK BERHAD**

(Incorporated in Malaysia)

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND  
CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**

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

**2 BASIS OF CONSOLIDATION**

**(i) Subsidiaries**

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries, made up to the end of the financial year.

Subsidiaries are consolidated using the purchase method of accounting except for:

- (a) Internal group reorganisations, as defined in FRS 122 consolidated on/after 1 July 2001 but with agreement dates before 1 January 2006 where:
  - the ultimate shareholders remain the same, and the rights of each such shareholder, relative to the others, are unchanged; and
  - the minorities' share of net assets of the Group is not altered by the transfer
- (b) Business combinations involving entities or businesses under common control with agreement dates on/after 1 January 2006.

The Group and the Bank have taken advantage of the exemption provided by FRS 122 and FRS 3 to apply these Standards prospectively. Accordingly, business combinations entered into prior to the respective effective dates have not been restated to comply with these Standards.

Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. The cost of an acquisition is measured as fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition is reflected as goodwill. See the accounting policy Note 5 on goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intragroup transactions, balances and unrealised gains on transactions between the Group and the Bank are eliminated.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets as of the date of disposal including the cumulative amount of any exchange differences that relate to the subsidiary and it is recognised in the consolidated income statement.

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**(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****2 BASIS OF CONSOLIDATION (CONTINUED)****(ii) Associates**

Investments in associates are accounted for in the consolidated financial statements by using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

**3 INVESTMENT IN SUBSIDIARIES**

Subsidiaries are those corporations or other entities in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than one half of the voting rights.

Investment in subsidiaries are stated at cost less any impairment losses. 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 investment is assessed and written down immediately to its recoverable amount. See accounting policy Note 22 on impairment of non-financial assets.

**4 INVESTMENT IN ASSOCIATES**

Associates are those corporations or other entities in which the Group exercises significant influence but which it does not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in financial and operating policy decisions through representation on the Board but not the power to exercise control over those policies.

Investment in associates are stated at cost less any impairment losses. 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 investment is assessed and written down immediately to its recoverable amount. See accounting policy Note 22 on impairment of non-financial assets.

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**(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****5 GOODWILL**

Goodwill arising on consolidation represents the excess of the purchase price over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of subsidiaries and associates at the date of acquisition.

Goodwill is retained in the consolidated balance sheet and is stated at cost less any impairment loss and is tested at least annually for impairment. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units ('CGU') for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the synergies of the business combination in which the goodwill arose. See accounting policy Note 22 on impairment of non-financial assets.

**6 SECURITIES**

The Group and the Bank classify its securities portfolio into the following categories: held for trading securities, held-to-maturity securities or available-for-sale securities. Classification of the securities is determined at initial recognition.

**(i) Held for trading securities**

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. Securities held for trading are stated at fair value at initial recognition. 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.

**(ii) Held-to-maturity securities**

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

**(iii) Available-for-sale securities ('AFS')**

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



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**(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****6 SECURITIES (CONTINUED)****(iii) Available-for-sale securities ('AFS') (Continued)**

Interest calculated using the effective interest 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 is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value using valuation techniques. These include the use of recent arm's 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 21 on impairment of securities.

**7 REPURCHASE AGREEMENTS**

Securities purchased under resale agreements are securities which the Group has purchased with a commitment to resell at a future date. The commitment to resell the securities is reflected as an asset on the balance sheet.

Conversely, obligations on securities sold under repurchase agreements are securities which the Group has sold from its portfolio, with a commitment to repurchase at a future date. Such financing and the obligation to repurchase the securities is reflected as a liability on the balance sheet.

**8 FORECLOSED PROPERTIES**

Foreclosed properties are stated at cost. 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 22 on impairment of non-financial assets.

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

**9 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.

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

Leasehold land	Amortised over period of leases. The remaining period of the leases range from 11 years to 887 years
Buildings	2% to 3 1/3%
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%

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

At each balance sheet date, the Group 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 22 on impairment of non-financial assets.

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**(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****10 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING**

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

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

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criterias are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

**(i) Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

**(ii) Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place).

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

**10 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING (CONTINUED)**

**(ii) Cash flow hedge (Continued)**

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

**(iii) Derivatives that do not qualify for hedge accounting**

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

**11 BILLS AND ACCEPTANCES PAYABLE**

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

**12 RECOURSE OBLIGATION ON LOANS SOLD TO CAGAMAS BERHAD ('CAGAMAS')**

In the normal course of banking operations, the Group sells loans to Cagamas but undertakes to administer the loans on behalf of Cagamas and to buy back any loans which are regarded as defective based on prudence. Such financing transactions and the obligation to buy back the loans are reflected as a liability on the balance sheet.

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

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**(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****13 LEASES – WHERE THE GROUP IS LESSEE****(i) Operating lease**

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

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

**(ii) Finance lease**

Leases of assets where the Group assumes substantially all the risks and benefits of ownership of the assets are classified as finance leases. The assets are capitalised under property, plant and equipment and subject to depreciation consistent with that of depreciable assets which are owned. The assets and the corresponding lease obligations are recorded at the lower of present value of the minimum lease payments or the fair value of the leased asset at the beginning of the lease term. Each lease payment is allocated between the liability and finance charges using effective yield basis. The corresponding rental obligations, net of finance charges, are included in the liabilities. The interest element of the finance charges is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance lease is depreciated over the shorter of the estimated useful life of the asset and the lease term.

**14 LEASES – WHERE THE GROUP IS LESSOR****(i) Operating Lease**

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Lease income is recognised over the term of the lease on a straight line basis.

**(ii) Finance Lease**

When assets are leased out under a finance lease, the present value of the lease payment is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the 'sum-of-digits' method so as to reflect a constant periodic rate of return on the balance outstanding.

**15 OTHER PROVISIONS**

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

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

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**(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****16 BORROWINGS**

Borrowings are initially recognised based on the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

**17 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.

**18 CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

The Group does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is 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 Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

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

**19 INCOME RECOGNITION**

- (i) Interest income is recognised on an accruals basis. Income earned on hire purchase, block discounting and leasing business is recognised on the 'sum-of-digits' method.

Where a loan becomes non-performing, interest accrued and recognised as income prior to the date the loans are classified as non-performing are reversed out of income statement and set off against the accrued interest receivable account in the balance sheet. Subsequently the interest earned on non-performing loans shall be recognised as income on a cash basis instead of being accrued and suspended at the same time as prescribed previously.

- (ii) Dividends from all investments are recognised when the shareholders' right to receive payment is established.
- (iii) Loan arrangement fees and commissions are recognised as income when all conditions precedent is fulfilled
- (iv) Guarantee fees are recognised as income upon issuance of the guarantees. Commitment fees are recognised as income based on time apportionment.
- (v) Income from the Islamic Banking is recognised on an accruals basis in accordance with the principles of Shariah.

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

**20 ALLOWANCE FOR NON-PERFORMING DEBTS AND FINANCING**

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

A general allowance based on a percentage of the loan 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 loan or portion of a loan 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 debts and financing follows the period of default for non-performing loans of 3 months. In line with the classification of non-performing debts and financing, during the year, the Group's basis for specific allowance has changed from default period of 6 months to 3 months.

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

BNM has granted indulgence to the Group and the Bank from complying with the requirement on the impairment of loans under the revised BNM/GP8 if the allowance for non-performing debts and financing are computed based on BNM/GP3 requirements.

**21 IMPAIRMENT OF SECURITIES**

The Group 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 the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the security that can be reliably estimated.

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**(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****21 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 interest 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 interest rate, the discount rate for measuring any impairment loss is the current effective interest 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 investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale securities, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

**22 IMPAIRMENT OF NON-FINANCIAL ASSETS**

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

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.



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

**23 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 Group.

**(ii) Defined contribution plans**

A defined contribution plan is a pension plan under which the Group pays fixed contributions to the national pension scheme, Employees' Provident Fund ('EPF'). The Group'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 Group has no further payment 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.

**24 INCOME TAXES**

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group operates and include all taxes based upon the taxable profits, including withholding taxes payable by foreign subsidiaries and arising from distribution of retained earnings to companies in the Group.

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 and loss.

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

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 is determined using tax rate (and tax laws) that have been 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.

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**(A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****25 CURRENCY CONVERSION AND TRANSLATION****(i) Functional and presentation currency**

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

**(ii) 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 AFS 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 value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held for trading 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 AFS are included in AFS reserve in equity.

**(iii) Group companies**

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows :

- (a) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of transactions); and
- (c) All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowing and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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

**26 DIVIDENDS**

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

**27 CASH AND CASH EQUIVALENTS**

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

**28 SEGMENT REPORTING**

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

Segment revenue, 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, assets and 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.

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CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS  
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**(B) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

The Group 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.

(a) Allowance for losses on loans and advances

The Group makes allowance for losses based on assessment of recoverability. Whilst management's judgement is guided by the relevant BNM guidelines, judgement is made about the future and other key factors in respect of the recovery of loans and advances. Among the factors considered are the Group'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 creditor claims.

(b) Impairment of goodwill

The Group performs an impairment review on an annual basis to ensure that the carrying value of the goodwill does not exceed its recoverable amount from the CGU unit to which the goodwill is allocated. The recoverable amount represents the present value of the estimated future cash flows expected to arise from continuing operations. Therefore, in arriving at the recoverable amount, management exercise judgement in estimating the future cash flows, growth rate and discount rate.

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## **RHB BANK BERHAD**

(Incorporated in Malaysia)

### NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

#### **1 GENERAL INFORMATION**

RHB Bank Berhad ('the Bank'), a limited liability company domiciled in Malaysia, is principally engaged in all aspects of banking and finance business and in the provision of related services.

The principal activities of the Bank's subsidiaries consist of Islamic banking business, leasing, offshore banking, nominee services and property investment.

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

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

#### **2 CASH AND SHORT-TERM FUNDS**

	<b>Group</b>		<b>Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	381,043	695,251	359,750	618,838
Money at call and deposit placements maturing within one month	<u>9,242,277</u>	<u>10,095,685</u>	<u>8,212,046</u>	<u>11,920,563</u>
	<u>9,623,320</u>	<u>10,790,936</u>	<u>8,571,796</u>	<u>12,539,401</u>

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

	<b>Group</b>		<b>Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
	RM'000	RM'000	RM'000	RM'000
Licensed banks	817,331	182,391	872,776	132,341
Licensed merchant banks	20,000	-	-	-
Bank Negara Malaysia	<u>4,231,500</u>	<u>2,249,100</u>	<u>3,131,500</u>	<u>1,849,100</u>
	<u>5,068,831</u>	<u>2,431,491</u>	<u>4,004,276</u>	<u>1,981,441</u>

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**RHB BANK BERHAD**  
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**4 SECURITIES HELD FOR TRADING**

	<b>Group</b>		<b>Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
<b>At fair value</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Money market instruments:				
<u>Quoted</u>				
Malaysian government securities	146,325	25,030	146,325	25,030
Khazanah bonds	170,205	120,419	170,205	91,345
Government investment issues	149,837	208,083	149,837	189,507
Singapore government stocks	192,069	317,799	192,069	317,799
<u>Unquoted</u>				
Malaysian government treasury bills	28,965	19,807	28,965	-
Fixed rate notes	229,710	249,057	229,710	249,057
BNM bills/notes	440,460	444,592	365,732	17,754
Bankers' acceptances and Islamic accepted bills	69,212	20,437	-	-
Private debt securities	305,810	118,551	135,129	-
Quoted Securities:				
<u>In Malaysia</u>				
Shares	-	6,017	-	-
<u>Outside Malaysia</u>				
Other government securities	114,487	126,856	-	-
Bonds	98,682	105,289	-	-
Total securities held for trading	<u>1,945,762</u>	<u>1,761,937</u>	<u>1,417,972</u>	<u>890,492</u>

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**RHB BANK BERHAD**  
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**5 SECURITIES AVAILABLE-FOR-SALE**

	<b>Group</b>		<b>Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
<b>At fair value</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Money market instruments:				
<u>Quoted</u>				
Malaysian government securities	50,190	-	50,190	-
Cagamas bonds and Cagamas mudharabah bonds	451,156	585,535	451,156	570,545
Government investment issues	5,058	-	-	-
Singapore government stocks	103,952	-	103,952	-
Khazanah bonds	9,405	-	-	-
<u>Unquoted</u>				
Malaysian government treasury bills	85,677	42,534	81,934	9,677
Singapore government treasury bills	85,890	56,761	85,890	56,761
Negotiable instruments of deposit	3,220,039	-	3,220,039	-
Private debt securities	484,151	275,592	484,151	275,592
Structured notes	306,350	322,498	235,749	322,498
BNM bills/notes	401,056	99,575	401,056	-
Other government securities	-	4,546	-	4,546
	<u>5,202,924</u>	<u>1,387,041</u>	<u>5,114,117</u>	<u>1,239,619</u>
Quoted securities:				
<u>In Malaysia</u>				
Corporate loan stocks	54,813	74,789	54,813	74,789
Shares	13,751	31,975	11,878	30,959
<u>Outside Malaysia</u>				
Floating rate notes	292	313	-	-
Shares	129	135	-	58
	<u>68,985</u>	<u>107,212</u>	<u>66,691</u>	<u>105,806</u>
Unquoted securities:				
<u>In Malaysia</u>				
Corporate loan stocks	161,524	193,691	146,512	177,189
Shares	165,779	165,952	165,204	162,521
Private debt securities	65,507	38,386	65,507	38,386
<u>Outside Malaysia</u>				
Private debt securities	<u>49,109</u>	<u>3,298</u>	<u>49,109</u>	<u>3,298</u>
Total securities available-for-sale	<u>5,713,828</u>	<u>1,895,580</u>	<u>5,607,140</u>	<u>1,726,819</u>

Included in securities available-for-sale is an amount of RM3,539,529,000 (31.12.2005: RM375,000,000) being pledged to third parties in relation to securities sold under repurchase agreement.

**RHB BANK BERHAD**  
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**6 SECURITIES HELD-TO-MATURITY**

	<b>Group</b>		<b>Bank</b>	
	<b>31.12.2006</b>	<b>31.12.2005</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>At amortised cost</b>				
Money market instruments:				
<u>Quoted</u>				
Malaysian government securities	2,069,764	2,369,616	2,069,764	2,157,947
Cagamas bonds and Cagamas mudharabah bonds	911,120	656,125	850,678	530,566
Khazanah bonds	521,752	585,764	-	-
Government investment issues	80,964	-	-	-
<u>Unquoted</u>				
Malaysian government treasury bills	-	73,406	-	73,406
Thailand government treasury bills	-	47,235	-	47,235
Cagamas notes	98,157	-	98,157	-
Bankers' acceptances and Islamic accepted bills	99,065	714,033	99,065	714,033
Negotiable instruments of deposit	5,536,823	5,867,009	5,536,823	5,867,009
Prasarana bonds	1,881,558	1,954,850	1,881,558	1,954,850
Private debt securities	686,087	917,586	539,637	771,968
Structured notes	353,051	151,182	264,764	113,385
Other government securities	234,310	140,746	234,310	140,746
	<b>12,472,651</b>	<b>13,477,552</b>	<b>11,574,756</b>	<b>12,371,145</b>
Quoted securities:				
<u>In Malaysia</u>				
Floating rate notes	81,225	100,162	-	-
Unquoted securities:				
<u>In Malaysia</u>				
Promissory notes	-	375	-	375
Bonds	29,047	29,047	860	834
Private debt securities	389,458	399,183	389,458	399,183
Corporate loan stocks	205,231	187,992	205,231	187,992
Shares	500	500	500	500
<u>Outside Malaysia</u>				
Floating rate notes	10,594	-	-	-
	<b>13,188,706</b>	<b>14,194,811</b>	<b>12,170,805</b>	<b>12,960,029</b>
Accumulated impairment losses	<b>(168,026)</b>	<b>(116,222)</b>	<b>(168,026)</b>	<b>(116,222)</b>
Total securities held-to-maturity	<b>13,020,680</b>	<b>14,078,589</b>	<b>12,002,779</b>	<b>12,843,807</b>

- (i) Included in unquoted shares is RM500,000 of a third party redeemable preference shares with a nominal value of RM1.00 each which were charged to another third party as part of a financing transaction facilitated by the Bank.
- (ii) Included in securities held-to-maturity is an amount of RM8,507,728,000 (31.12.2005: RM8,879,125,000) being pledged to third parties in relation to securities sold under repurchase agreement.



**RHB BANK BERHAD**

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**7 LOANS, ADVANCES AND FINANCING**

(i) By type	<b>Group</b>		<b>Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
	RM'000	RM'000	RM'000	RM'000
Overdrafts	6,797,088	6,465,593	6,732,859	6,407,163
Term loans/financing				
- housing loans/financing	12,545,070	11,706,298	10,972,207	10,423,825
- syndicated term loans/financing	2,567,111	2,266,496	993,166	893,268
- hire purchase receivables	9,654,495	7,669,206	8,862,377	4,596
- lease receivables	281,120	295,953	-	-
- other term loans/financing	11,225,971	11,104,503	10,065,249	10,068,428
Bills receivable	1,877,730	1,628,524	1,456,467	1,130,178
Trust receipts	537,794	498,867	517,019	483,630
Claims on customers under acceptance credits	4,801,402	4,104,478	4,801,403	4,104,478
Staff loans/financing	406,299	417,836	400,058	406,508
Credit card receivables	1,288,406	994,953	1,288,406	994,953
Revolving credit	4,938,787	4,433,111	4,643,319	4,388,445
Floor stocking	8,308	7,935	8,308	-
	<u>56,929,581</u>	<u>51,593,753</u>	<u>50,740,838</u>	<u>39,305,472</u>
Less : Unearned interest and income	<u>(1,563,244)</u>	<u>(1,281,313)</u>	<u>(1,456,814)</u>	<u>(24,317)</u>
Gross loans, advances and financing	<u>55,366,337</u>	<u>50,312,440</u>	<u>49,284,024</u>	<u>39,281,155</u>
Less : Allowance for bad and doubtful debts and financing:				
- general	(965,782)	(909,527)	(843,614)	(676,608)
- specific	<u>(1,658,949)</u>	<u>(1,768,802)</u>	<u>(1,561,079)</u>	<u>(1,513,739)</u>
Net loans, advances and financing	<u>52,741,606</u>	<u>47,634,111</u>	<u>46,879,331</u>	<u>37,090,808</u>

Included in term loans are housing loans and hire purchase receivables sold to Cagamas with recourse amounting to RM2,879,284,000 (31.12.2005: RM3,356,992,000) for the Group and RM2,879,284,000 (31.12.2005: RM2,006,549,000) for the Bank.

(ii) By type of customer	<b>Group</b>		<b>Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
	RM'000	RM'000	RM'000	RM'000
Domestic non-bank financial institutions				
- Stock broking companies	1,857	2,862	1,857	2,862
- Others	831,683	1,538,106	797,331	1,498,753
Domestic business enterprises				
- Small medium enterprises	9,241,892	9,094,506	8,034,477	6,852,556
- Others	21,021,151	17,902,451	18,240,610	15,079,773
Government and statutory bodies	248,651	167,350	147,498	166,956
Individuals	23,318,568	21,137,542	21,690,649	15,381,841
Other domestic entities	57,746	54,419	41,841	37,971
Foreign entities	644,789	415,204	329,761	260,443
	<u>55,366,337</u>	<u>50,312,440</u>	<u>49,284,024</u>	<u>39,281,155</u>

**RHB BANK BERHAD**

(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**7 LOANS, ADVANCES AND FINANCING (CONTINUED)**

	<b>Group</b>		<b>Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
	RM'000	RM'000	RM'000	RM'000
(iii) By interest/profit rate sensitivity				
Fixed rate				
- Housing loans/financing	1,593,037	1,447,587	101,959	196,011
- Hire purchase receivables	8,129,916	6,485,481	7,426,139	4,171
- Other fixed rate loans/financing	3,499,775	2,953,207	1,625,851	1,456,431
Variable rate				
- Base Lending Rate plus	20,237,464	19,155,530	20,237,464	18,960,595
- Cost plus	16,576,213	16,075,401	16,233,182	15,695,727
- Other variable rates	5,329,932	4,195,234	3,659,429	2,968,220
	<u>55,366,337</u>	<u>50,312,440</u>	<u>49,284,024</u>	<u>39,281,155</u>
(iv) By purpose				
Purchase of securities	1,710,666	1,709,814	1,344,039	1,361,395
Purchase of transport vehicles	6,516,541	5,137,937	6,091,629	29,330
Purchase of landed property:				
- Residential	12,860,513	12,213,164	11,397,561	10,926,525
- Non-residential	1,574,474	1,139,347	1,634,612	1,228,935
Purchase of property, plant and equipment other than land and building	2,489,462	1,865,132	1,593,245	124,661
Personal use	1,950,507	1,817,056	1,913,855	1,787,670
Credit card	1,288,406	994,953	1,288,406	994,953
Purchase of consumer durables	114,206	141,802	113,829	130,295
Construction	2,172,003	2,521,562	1,967,546	2,400,971
Working capital	22,639,326	21,359,340	21,108,101	20,038,855
Others purposes	2,050,233	1,412,333	831,201	257,565
	<u>55,366,337</u>	<u>50,312,440</u>	<u>49,284,024</u>	<u>39,281,155</u>

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**RHB BANK BERHAD**  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**7 LOANS, ADVANCES AND FINANCING (CONTINUED)**

	<b>Group</b>		<b>Bank</b>	
(v) Movement in non-performing loans, advances and financing	<u>31.12.2006</u> RM'000	<u>31.12.2005</u> RM'000	<u>31.12.2006</u> RM'000	<u>31.12.2005</u> RM'000
At beginning of year	4,151,770	4,866,476	3,484,877	4,587,825
Amount vested over to RHB Islamic Bank	-	-	-	(258,040)
Amount vested over from RHB Delta Finance Bhd	-	-	375,910	-
Classified as non-performing during the year	4,059,982	2,474,971	3,653,161	1,814,499
Reclassified as performing during the year	(2,712,691)	(1,648,019)	(2,407,817)	(1,315,295)
Loans/financing converted to securities	(66,371)	(28,716)	(66,371)	(22,837)
Amount recovered	(560,013)	(391,096)	(514,999)	(274,148)
Amount written off	(787,600)	(1,118,358)	(749,844)	(1,044,495)
Exchange difference	(4,851)	(3,488)	(86)	(2,632)
At end of the year	4,080,226	4,151,770	3,774,831	3,484,877
Specific allowance	(1,658,949)	(1,768,802)	(1,561,079)	(1,513,739)
Net non-performing loans, advances and financing	<u>2,421,277</u>	<u>2,382,968</u>	<u>2,213,752</u>	<u>1,971,138</u>
Ratio of net non-performing loans, advances and financing to net loans, advances and financing	<u>4.5%</u>	<u>4.9%</u>	<u>4.6%</u>	<u>5.2%</u>

**RHB BANK BERHAD**

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**7 LOANS, ADVANCES AND FINANCING (CONTINUED)**

	<b>Group</b>		<b>Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
	RM'000	RM'000	RM'000	RM'000
(vi) Movement in allowance for bad and doubtful debts				
<u>General allowance</u>				
At beginning of year	909,527	809,746	676,608	684,630
Amount vested over to RHB Islamic Bank	-	-	-	(77,059)
Amount vested over from RHB Delta Finance Bhd	-	-	107,790	-
Allowance made during the year	58,277	100,842	58,616	69,839
Exchange difference	(2,022)	(1,061)	600	(802)
At end of year	<u>965,782</u>	<u>909,527</u>	<u>843,614</u>	<u>676,608</u>
As % of gross loans, advances and financing less specific allowance	<u>1.8%</u>	<u>1.9%</u>	<u>1.8%</u>	<u>1.8%</u>
<u>Specific allowance</u>				
At beginning of year	1,768,802	2,377,714	1,513,739	2,187,574
Amount vested over to RHB Islamic Bank	-	-	-	(75,661)
Amount vested over from RHB Delta Finance Bhd	-	-	142,534	-
Allowance made during the year	920,750	714,759	890,579	610,002
Transferred to accumulated impairment losses for securities	(56,215)	(12,332)	(56,215)	(12,332)
Amount recovered	(235,109)	(184,758)	(228,855)	(142,102)
Amount written off	(736,414)	(1,125,044)	(701,689)	(1,052,879)
Amount transferred from other debtors	788	-	788	-
Exchange difference	(3,653)	(1,537)	198	(863)
At end of year	<u>1,658,949</u>	<u>1,768,802</u>	<u>1,561,079</u>	<u>1,513,739</u>
(vii) Non-performing loans, advances and financing by purpose				
Purchase of securities	33,103	76,025	33,053	75,905
Purchase of transport vehicles	391,338	295,827	389,443	557
Purchase of landed property:				
- Residential	1,282,014	1,135,648	1,102,680	978,088
- Non-residential	133,866	141,597	130,764	135,704
Purchase of property, plant and equipment other than land and building	102,341	104,634	36,979	581
Personal use	171,153	182,282	163,448	175,513
Credit card	45,484	36,500	45,484	36,500
Purchase of consumer durables	10,558	14,542	10,558	12,948
Construction	334,982	428,805	329,174	409,748
Working capital	1,547,366	1,700,739	1,519,361	1,657,009
Other purposes	28,021	35,171	13,887	2,324
	<u>4,080,226</u>	<u>4,151,770</u>	<u>3,774,831</u>	<u>3,484,877</u>

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**RHB BANK BERHAD**  
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**8 OTHER ASSETS**

	Note	Group		Bank	
		<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
		RM'000	RM'000	RM'000	RM'000
Other debtors, deposits and prepayments		242,775	191,992	179,871	160,350
Accrued interest receivable		186,827	152,660	174,883	137,825
Amount recoverable from BNM		1,379	1,705	-	-
Amount due from immediate holding company	(i)	20,451	28,254	20,091	27,894
Amount due from subsidiaries		-	-	146,438	309,992
Amount due from related companies		5,335	11,960	5,322	9,409
Derivative assets	17(iv)	167,044	43,838	165,022	43,563
		<u>623,811</u>	<u>430,409</u>	<u>691,627</u>	<u>689,033</u>

- (i) Amount due from immediate holding company is unsecured, bears interest at 6.0% (31.12.2005: 4.9%) per annum and has no fixed repayment terms.

**9 DEFERRED TAXATION**

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

	Group		Bank	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets	251,720	240,038	210,747	171,138
Deferred tax liabilities	(17)	(8)	-	-
	<u>251,703</u>	<u>240,030</u>	<u>210,747</u>	<u>171,138</u>

The deferred tax assets and liabilities have been adjusted to take into account the reduction in tax rate to 27% in Year of Assessment 2007, 26% in Year of Assessment 2008 and thereafter, adjustments are made based on amounts of temporary differences expected to be reversed in the prospective years.

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NOTES TO THE FINANCIAL STATEMENTS  
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**9 DEFERRED TAXATION (CONTINUED)**

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

Deferred tax assets/(liabilities)

Group	Property, plant & equipment	Securities available- for-sale	Temporary difference arising from leasing business	Tax losses	General allowance on loans, advances and financing	Other temporary differences	Total
31.12.2006	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At beginning of year	(26,636)	(3,295)	7,964	8,958	242,618	10,421	240,030
Charged to income statement	5,435	-	8,552	(4,518)	(700)	(733)	8,036
Charged to equity	-	3,533	-	-	-	-	3,533
Exchange difference	-	-	-	104	-	-	104
At end of year	(21,201)	238	16,516	4,544	241,918	9,688	251,703
31.12.2005							
At beginning of year	(33,010)	8,429	7,964	4,595	213,961	2,214	204,153
Charged to income statement	6,374	-	-	4,435	28,657	8,207	47,673
Charged to equity	-	(11,724)	-	-	-	-	(11,724)
Exchange difference	-	-	-	(72)	-	-	(72)
At end of year	(26,636)	(3,295)	7,964	8,958	242,618	10,421	240,030

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**9 DEFERRED TAXATION (CONTINUED)**

Deferred tax assets

Bank	Property, plant & equipment	Securities available- for-sale	Tax losses	General allowance on loans, advances and financing	Other temporary differences	Total
31.12.2006	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At beginning of year	(25,162)	(3,142)	8,958	189,450	1,034	171,138
Amount vested over from RHB Delta Finance Bhd	(609)	(57)	-	30,185	6,379	35,898
Charged to income statement	5,327	-	(4,518)	(295)	(501)	13
Charged to equity	-	3,594	-	-	-	3,594
Exchange difference	-	-	104	-	-	104
At end of year	(20,444)	395	4,544	219,340	6,912	210,747
31.12.2005						
At beginning of year	(32,349)	8,542	4,595	191,696	(4,141)	168,343
Amount vested over to RHB Islamic Bank	-	-	-	(21,577)	-	(21,577)
Charged to income statement	7,187	-	4,435	19,331	5,175	36,128
Charged to equity	-	(11,684)	-	-	-	(11,684)
Exchange difference	-	-	(72)	-	-	(72)
At end of year	(25,162)	(3,142)	8,958	189,450	1,034	171,138

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**9 DEFERRED TAXATION (CONTINUED)**

	<b>Group</b>		<b>Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
	RM'000	RM'000	RM'000	RM'000
Tax losses for which the related tax credit has not been recognised in the financial statements	<u>2,485,966</u>	<u>2,600,059</u>	<u>213,893</u>	<u>327,986</u>

**10 STATUTORY DEPOSITS**

	<b>Group</b>		<b>Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
	RM'000	RM'000	RM'000	RM'000
Statutory deposits with BNM	1,760,929	1,556,280	1,590,500	1,171,000
Statutory deposits with Monetary Authority of Singapore	70,530	58,040	70,530	58,040
Statutory deposits with Ministry of Finance, Brunei	<u>4,285</u>	<u>4,705</u>	<u>4,285</u>	<u>4,705</u>
	<u>1,835,744</u>	<u>1,619,025</u>	<u>1,665,315</u>	<u>1,233,745</u>

The non-interest bearing statutory deposits are maintained with BNM in compliance with Section 37(1) (c) of the Central Bank of Malaysia Act, 1958 (revised-1994), with the Ministry of Finance, Negara Brunei Darussalam in compliance with Section 6A of the Banking Act, and with the Monetary Authority of Singapore in compliance with Banking Act, Cap. 19 and Singapore Finance Companies Act, Cap. 108. The amounts are determined by the respective authorities.

**11 INVESTMENT IN SUBSIDIARIES**

	<b>Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>
	RM'000	RM'000
Unquoted shares, at cost		
- in Malaysia	1,748,327	2,309,220
- outside Malaysia	<u>12,807</u>	<u>12,807</u>
	1,761,134	2,322,027
Amount due to subsidiaries	(39,103)	(39,103)
Reclassified to goodwill upon acquisition of assets and liabilities of a subsidiary net of fair value adjustment	(892,012)	(892,012)
Impairment loss on investment in subsidiaries	<u>(1,063)</u>	<u>(1,063)</u>
	<u>828,956</u>	<u>1,389,849</u>



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**11 INVESTMENT IN SUBSIDIARIES (CONTINUED)**

The following are the subsidiaries of the Bank:

	<u>Paid-up capital</u>	<u>Effective interest</u>		<u>Principal activities</u>
		<u>2006</u>	<u>2005</u>	
		%	%	
RHB Bank (L) Ltd	US\$54,000,000	100	100	Offshore banking
RHB Islamic Bank Berhad	RM523,424,002	100	100	Islamic Banking
RHB Capital Nominees (Tempatan) Sdn Bhd	RM10,000	100	100	Nominee services for Malaysian beneficial shareholders
-RHB Capital Nominees (Asing) Sdn Bhd	RM10,000	100	100	Nominee services for foreign beneficial shareholders
UMBC Sdn Bhd	RM499,999,818	100	100	Dormant company
RHB Investment Ltd *	S\$19,000,000	100	100	Property investment and rental
Banfora Pte Ltd *	S\$25,000,000	100	100	Property investment and rental
RHB Bank Nominees Pte Ltd *	S\$100,000	100	100	Nominee services
USB Nominees Sdn Bhd	RM10,000	100	100	Dormant company
USB Nominees (Tempatan) Sdn Bhd	RM10,000	100	100	Dormant company
USB Nominees (Asing) Sdn Bhd	RM10,000	100	100	Dormant company
RHB Delta Sdn Bhd (formerly known as RHB Delta Finance Berhad)	RM175,000,000	100	100	Dormant company
RHB Delta Nominees (Tempatan) Sdn Bhd +	RM10,000	100	100	Dormant company
RHB Leasing Sdn Bhd +	RM10,000,000	100	100	Leasing and hire purchase
INFB Jaya Sdn Bhd	RM50,000,000	100	100	Dormant company
RHB Trade Services Limited #	HK\$2.00	100	100	Processing of letters of credit reissuance favouring Hong Kong beneficiaries
RHB Capital Properties Sdn Bhd	RM21,800,000	100	100	Property investment
Utama Gilang Sdn Bhd	RM800,000,000	100	100	Dormant company
Utama Assets Sdn Bhd	RM2,300,000	100	100	Property investment
U.B. Nominees (Tempatan) Sdn Bhd	RM10,000	100	100	Dormant company

\* Subsidiaries companies audited by overseas firms associated with PricewaterhouseCoopers, Malaysia.

# Subsidiary not audited by PricewaterhouseCoopers.

+ On 1 January 2006, the operations of RHB Delta Sdn Bhd (formerly known as RHB Delta Finance Berhad) was merged into RHB Bank Berhad. Pursuant to the merger exercise, RHB Delta Nominees (Tempatan) Sdn Bhd and RHB Leasing Sdn Bhd which were previously direct subsidiaries of RHB Delta Sdn Bhd, became direct subsidiaries of the Bank.

All of the subsidiaries are incorporated in Malaysia except for RHB Investment Ltd, Banfora Pte Ltd and RHB Bank Nominees Pte Ltd which are incorporated in Singapore, and RHB Trade Services Limited which is incorporated in Hong Kong.

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## **12 INVESTMENT IN AN ASSOCIATE**

	<u>31.12.2006</u>	<u>Group</u> <u>31.12.2005</u>
	RM'000	RM'000
Unquoted shares, at cost	3,315	3,315
Share of post acquisition profit	1,368	883
	<u>4,683</u>	<u>4,198</u>
Represented by:		
Share of net assets	<u>4,683</u>	<u>4,198</u>

The details of the associate are as follows:

<u>Name of company</u>	<u>Country of incorporation</u>	<u>Paid-up share capital RM</u>	<u>Effective equity interest 2006</u>	<u>2005</u>	<u>Principal activity</u>
			%	%	
CMS Trust Management Berhad*	Malaysia	6,765,300	49	49	Management of unit trust funds

\* Shareholding held by a subsidiary company, Utama Gilang Sdn. Bhd.

Based on effective equity interest as of year end, the financial positions of the associate are as follows:

<u>Name of company</u>	<u>Assets</u> RM'000	<u>Liabilities</u> RM'000	<u>Revenue</u> RM'000	<u>Profit after taxation</u> RM'000
<b><u>2006</u></b>				
CMS Trust Management Berhad	<u>6,090</u>	<u>1,407</u>	<u>6,238</u>	<u>485</u>
<b><u>2005</u></b>				
CMS Trust Management Berhad	<u>5,133</u>	<u>935</u>	<u>5,304</u>	<u>314</u>

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**13 PROPERTY, PLANT AND EQUIPMENT**

Group	Freehold land	Leasehold land	Buildings	Renovations	Office equipment and furniture	Computer equipment and software	Motor vehicles	Total
	RM'000	Less than 50 years RM'000	50 years or more RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>31.12.2006</b>								
<u>Cost</u>								
Balance as at beginning of financial year	86,790	1,047	128,831	284,760	126,325	621,886	13,953	1,427,883
Exchange differences	19	-	1,203	554	35	192	19	2,181
Additions	-	-	-	2,472	8,302	53,631	1,343	67,261
Reclassifications	-	-	-	(22,772)	5,315	(4)	-	-
Disposals/written off	(602)	-	(4,995)	(9,397)	(27)	(17,620)	(3,364)	(38,341)
Balance as at end of financial year	86,207	1,047	125,039	255,617	139,950	658,085	11,951	1,458,984
<u>Less: Accumulated depreciation</u>								
Balance as at beginning of financial year	-	412	4,067	38,671	89,236	471,196	11,137	772,614
Exchange differences	-	-	-	120	(16)	95	19	362
Charge for the year	-	28	407	6,371	5,381	64,026	1,089	85,737
Reclassifications	-	-	-	(88)	88	-	-	-
Disposals/written off	-	-	(378)	(2,362)	(20)	(17,498)	(3,357)	(25,949)
Balance as at end of financial year	-	440	4,096	42,712	94,669	517,819	8,888	832,764
<u>Less: Impairment loss</u>								
Balance as at beginning of financial year	-	-	23,535	3,495	-	-	-	27,030
Charge for the year	1,136	-	-	1,342	-	-	-	2,478
Disposals	-	-	-	(310)	-	-	-	(310)
Written back	-	-	(1,827)	(174)	-	-	-	(2,001)
Exchange differences	-	-	252	(18)	-	-	-	234
Balance as at end of financial year	1,136	-	21,960	4,335	-	-	-	27,431
Net book value as at end of financial year	85,071	607	98,983	208,570	45,281	140,266	3,063	598,789

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**13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Group	Freehold land	Leasehold land	Buildings	Renovations	Office equipment and furniture	Computer equipment and software	Motor vehicles	Total
	RM'000	Less than 50 years RM'000	50 years or more RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31.12.2005</u>								
<u>Cost</u>								
Balance as at beginning of financial year	86,825	1,047	134,372	284,544	120,517	585,997	16,081	1,395,119
Exchange differences	(35)	-	(2,242)	(1,174)	(195)	(454)	(46)	(4,494)
Additions	-	-	-	3,518	8,509	45,130	1,411	62,958
Reclassifications	-	-	-	-	(1,355)	1,572	-	-
Disposals/written off	-	-	(3,299)	(2,128)	(1,151)	(10,359)	(3,493)	(25,700)
Balance as at end of financial year	86,790	1,047	128,831	284,760	126,325	621,886	13,953	1,427,883
<u>Less: Accumulated depreciation</u>								
Balance as at beginning of financial year	-	384	3,842	34,597	82,359	412,150	13,037	701,794
Exchange differences	-	-	(1)	(238)	(119)	(252)	(41)	(972)
Charge for the year	-	28	444	4,750	8,077	68,161	1,319	92,171
Reclassifications	-	-	-	-	-	1,442	-	-
Disposals/written off	-	-	(218)	(438)	(1,081)	(10,305)	(3,178)	(20,379)
Balance as at end of financial year	-	412	4,067	38,671	89,236	471,196	11,137	772,614
<u>Less: Impairment loss</u>								
Balance as at beginning of financial year	-	-	24,005	3,508	-	-	-	27,513
Exchange differences	-	-	(470)	(13)	-	-	-	(483)
Balance as at end of financial year	-	-	23,535	3,495	-	-	-	27,030
Net book value as at end of financial year	86,790	635	101,229	242,594	37,089	150,690	2,816	628,239

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**13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Bank	Freehold Land RM'000	Leasehold land Less than 50 years RM'000	50 years or more RM'000	Buildings RM'000	Renovations RM'000	Office equipment and furniture RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Total RM'000
<b>31.12.2006</b>									
<b>Cost</b>									
Balance as at beginning of financial year	80,574	879	31,000	232,518	117,775	156,132	605,222	11,583	1,235,683
Amount vested over from RHB Delta Finance Bhd	2,867	-	-	2,526	4,450	4,050	10,694	1,488	26,075
Exchange differences	17	-	-	274	117	204	276	22	910
Additions	-	-	-	2,352	7,136	1,368	53,326	1,241	65,423
Reclassifications	-	-	-	(22,772)	5,315	17,461	(4)	-	-
Disposals/written off	(602)	-	(4,995)	(6,805)	(27)	(2,296)	(17,614)	(3,215)	(35,554)
Balance as at end of financial year	82,856	879	26,005	208,093	134,766	176,919	651,900	11,119	1,292,537
<b>Less: Accumulated depreciation</b>									
Balance as at beginning of financial year	-	330	2,809	31,605	86,128	151,715	462,261	9,889	744,737
Amount vested over from RHB Delta Finance Bhd	-	-	-	556	1,604	3,008	6,366	984	12,518
Exchange differences	-	-	-	108	67	196	178	19	568
Charge for the year	-	24	352	5,874	5,330	8,126	63,386	947	84,039
Reclassifications	-	-	-	(88)	88	-	-	-	-
Disposals/written off	-	-	(378)	(1,681)	(20)	(2,295)	(17,492)	(3,207)	(25,073)
Balance as at end of financial year	-	354	2,783	36,374	93,197	160,750	514,699	8,632	816,789
<b>Less: Impairment loss</b>									
Balance as at beginning of financial year	-	-	3,987	526	-	-	-	-	4,513
Charge for the year	-	-	-	1,342	-	-	-	-	1,342
Written back	-	-	(1,827)	(174)	-	-	-	-	(2,001)
Balance as at end of financial year	-	-	2,160	1,694	-	-	-	-	3,854
<b>Net book value as at end of financial year</b>	<b>82,856</b>	<b>525</b>	<b>21,062</b>	<b>170,025</b>	<b>41,569</b>	<b>16,169</b>	<b>137,201</b>	<b>2,487</b>	<b>471,894</b>

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**13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Bank	Freehold land	Leasehold land	Buildings	Renovations	Office equipment and furniture	Computer equipment and software	Motor vehicles	Total
	RM'000	Less than 50 years RM'000	50 years or more RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31.12.2005</u>								
<u>Cost</u>								
Balance as at beginning of financial year	80,606	879	34,299	114,735	154,645	575,773	12,901	1,205,321
Amount vested over to RHB Islamic Bank	-	-	-	(264)	(450)	(1,393)	(232)	(2,339)
Exchange differences	(32)	-	-	(188)	(290)	(443)	(46)	(1,509)
Additions	-	-	-	4,889	3,627	39,675	827	52,513
Reclassification	-	-	-	(1,355)	1,355	-	-	-
Disposals/written off	-	-	(3,299)	(42)	(2,755)	(8,390)	(1,867)	(18,303)
Balance as at end of financial year	80,574	879	31,000	117,775	156,132	605,222	11,583	1,235,683
<u>Less: Accumulated depreciation</u>								
Balance as at beginning of financial year	-	306	2,638	78,755	146,379	405,938	10,961	672,981
Amount vested over to RHB Islamic Bank	-	-	-	(204)	(429)	(875)	(225)	(1,733)
Exchange differences	-	-	-	(194)	(282)	(241)	(39)	(868)
Charge for the year	-	24	389	7,697	8,723	65,813	885	87,719
Disposals/written off	-	-	(218)	(393)	(2,676)	(8,374)	(1,693)	(13,362)
Balance as at end of financial year	-	330	2,809	86,128	151,715	462,261	9,889	744,737
<u>Less: Impairment loss</u>								
Balance as at beginning/end of financial year	-	-	3,987	-	-	-	-	4,513
Net book value as at end of financial year	80,574	549	24,204	31,647	4,417	142,961	1,694	486,433

Included in the net book value of office equipment and furniture is an amount of RM1,041,827 (31.12.2005 : RM1,753,457) which is acquired under finance lease from subsidiaries.

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**13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	<b>Group</b>		<b>Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
	RM'000	RM'000	RM'000	RM'000
<u>Accumulated depreciation and impairment loss</u>				
Balances as at beginning of financial year	<u>799,644</u>	<u>729,307</u>	<u>749,250</u>	<u>677,494</u>
Balances as at end of financial year	<u>860,195</u>	<u>799,644</u>	<u>820,643</u>	<u>749,250</u>

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

	<b>Group and Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>
	RM'000	RM'000
<u>Cost</u>		
Renovations	7,802	5,013
Computer equipment & software	<u>32,530</u>	<u>12,750</u>
	<u>40,332</u>	<u>17,763</u>

**14 GOODWILL**

	<b>Group</b>		<b>Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
	RM'000	RM'000	RM'000	RM'000
Balance as at beginning of financial year	<u>1,004,017</u>	<u>1,018,435</u>	<u>892,012</u>	<u>892,950</u>
Fair value adjustment on assets acquired in previous year	-	(938)	-	(938)
Accumulated amortisation	-	(13,480)	-	-
Acquisition of assets and liabilities of a subsidiary	<u>-</u>	<u>-</u>	<u>13,507</u>	<u>-</u>
Balance as at end of financial year	<u>1,004,017</u>	<u>1,004,017</u>	<u>905,519</u>	<u>892,012</u>

The carrying amount of goodwill allocated to the Group's cash generating units ('CGUs') are as follows:

	<b>Group</b>
	RM'000
<u>Cash generating units ('CGUs')</u>	
Wholesale banking	375,636
Retail banking	307,919
Treasury and money market	268,600
Islamic Banking business	<u>51,862</u>
	<u>1,004,017</u>

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**14 GOODWILL (CONTINUED)**

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use pre-tax cash flow projections based on financial budgets/forecasts approved by directors covering a five-year period. Cash flows beyond the five-year period are assumed to remain the same as in year five to infinity.

The cash flow projection is derived based on a number of key factors including the past performance and the management's expectations of the market developments. The discount rate used in determining the recoverable amount of all CGUs within the business segment is 10.1%. The discount rate used is pre-tax and computed based on industry information to reflect the risks of the CGUs.

No impairment charge was required for goodwill arising from all the business segments. Management believes that any reasonable possible change to the assumptions applied is not likely to cause the recoverable amount of all the business segments to be lower than its carrying amount.

**15 DEPOSITS FROM CUSTOMERS**

	<b>Group</b>		<b>Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
	RM'000	RM'000	RM'000	RM'000
Demand deposits	15,691,206	13,671,301	13,097,838	12,240,434
Savings deposits	4,861,397	4,722,989	4,375,173	4,190,874
Fixed/investment deposits	32,480,252	28,276,770	27,708,037	22,521,116
Negotiable instrument of deposits	2,752,461	2,033,774	2,610,050	1,891,850
	<u>55,785,316</u>	<u>48,704,834</u>	<u>47,791,098</u>	<u>40,844,274</u>

- (i) The maturity structure of the fixed/investment deposits and negotiable instrument of deposits is as follows:

	<b>Group</b>		<b>Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
	RM'000	RM'000	RM'000	RM'000
Due within six months	27,773,770	23,803,198	23,154,016	18,503,869
Six months to one year	7,044,135	5,998,681	6,846,323	5,578,955
One year to three years	191,526	418,741	103,496	304,142
Three years to five years	223,282	86,059	214,252	26,000
Over five years	-	3,865	-	-
	<u>35,232,713</u>	<u>30,310,544</u>	<u>30,318,087</u>	<u>24,412,966</u>

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

	<b>Group</b>		<b>Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
	RM'000	RM'000	RM'000	RM'000
Government and statutory bodies	3,889,695	3,181,957	2,224,873	1,973,312
Business enterprises	27,326,028	21,805,579	21,897,020	17,153,977
Individuals	22,674,291	22,823,334	21,916,491	21,563,514
Others	1,895,302	893,964	1,752,714	153,471
	<u>55,785,316</u>	<u>48,704,834</u>	<u>47,791,098</u>	<u>40,844,274</u>



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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**16 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<b>Group</b>		<b>Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
	RM'000	RM'000	RM'000	RM'000
Licensed banks	8,161,117	7,089,159	7,840,785	6,462,596
Licensed finance companies	-	62,770	-	62,770
Licensed merchant banks	71,286	438,787	2,500	438,787
BNM	1,185,713	948,947	1,185,471	948,695
Other financial institutions	458,377	2,057,994	304,080	1,857,890
	<u>9,876,493</u>	<u>10,597,657</u>	<u>9,332,836</u>	<u>9,770,738</u>

**17 OTHER LIABILITIES**

		<b>Group</b>		<b>Bank</b>	
		<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
	Note	RM'000	RM'000	RM'000	RM'000
Accrued interest payable		423,386	314,599	391,560	270,062
Accruals for operational expenses		131,950	120,551	127,238	110,735
Amount due to holding company		400	1,783	341	1,783
Amount due to subsidiaries		-	-	24,723	79,710
Amount due to related companies		1,866	1,955	1,761	1,095
Amount due to BNM	(i)	296,129	256,738	296,129	256,681
Amount due to Danaharta	(ii)	1,725	1,909	1,725	1,909
Finance lease	(iii)	-	-	1,172	1,642
Prepaid instalment		61,889	51,594	61,889	1,356
Lessee deposits		82,778	80,935	650	12
Derivative liabilities	(iv)	143,668	66,059	136,243	54,253
Short term employee benefits		94,621	58,454	86,255	54,530
Other accruals and charges		446,562	409,299	296,171	240,455
		<u>1,684,974</u>	<u>1,363,876</u>	<u>1,425,857</u>	<u>1,074,223</u>

- (i) The 'Amount due to BNM' mainly comprises collections on ex-Sime Bank's non performing loans sold to BNM which are managed by the Bank. Amount due to BNM was subject to interest at rates ranging from 3.21% to 3.70% (31.12.2005: 2.79% to 2.88%) per annum.
- (ii) The 'Amount due to Danaharta' mainly comprises collections on ex-Sime Bank's overseas branches non-performing loans sold to Danaharta which is managed by the overseas branches.

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**17 OTHER LIABILITIES (CONTINUED)**

(iii) The minimum lease payments of the Bank:

	<b>Bank</b>	
	<u>31.12.2006</u>	<u>31.12.2005</u>
	RM'000	RM'000
Not later than 1 year	579	578
Later than 1 year and not later than 5 years	699	1,279
	<u>1,278</u>	<u>1,857</u>
Future finance charges	(106)	(215)
Present value	<u>1,172</u>	<u>1,642</u>

Finance lease are effectively secured as the rights to the leased assets revert to the lessor in the event of default.  
The effective interest rates of the finance leases at balance sheet date is 7.67% (31.12.2005: 7.67%) per annum.

(iv) Derivative assets/liabilities

		<b>Group</b>		<b>Bank</b>	
	<b>Note</b>	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
		RM'000	RM'000	RM'000	RM'000
Derivative assets	8	167,044	43,838	165,022	43,563
Derivative liabilities		<u>(143,668)</u>	<u>(66,059)</u>	<u>(136,243)</u>	<u>(54,253)</u>
		<u>23,376</u>	<u>(22,221)</u>	<u>28,779</u>	<u>(10,690)</u>

<b>Group</b>	<b>Contract or underlying principal amount</b>	<b>Year-end positive fair value</b>	<b>Year-end negative fair value</b>
<u>31.12.2006</u>	RM'000	RM'000	RM'000
Foreign exchange related contracts:			
- forwards/swaps	13,686,801	107,946	81,428
- options	45,390	1,512	1,208
- cross currency interest rate swaps	683,017	21,798	20,996
Interest rate related contracts:			
- futures	100,000	139	-
- swaps	3,948,397	35,649	40,036
		<u>167,044</u>	<u>143,668</u>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**17 OTHER LIABILITIES (CONTINUED)**

## (iv) Derivative assets/liabilities (continued)

Group	Contract or underlying principal amount	Year-end positive fair value	Year-end negative fair value
<u>31.12.2005</u>	RM'000	RM'000	RM'000
Foreign exchange related contracts:			
- forwards/swaps	6,939,216	13,305	16,093
- options	929,564	20,149	19,759
- cross currency interest rate swaps	188,975	167	59
Interest rate related contracts:			
- futures	151,000	136	3
- swaps	3,542,403	10,081	30,145
		<u>43,838</u>	<u>66,059</u>
Bank	Contract or underlying principal amount	Year-end positive fair value	Year-end negative fair value
<u>31.12.2006</u>	RM'000	RM'000	RM'000
Foreign exchange related contracts:			
- forwards/swaps	13,686,262	107,946	81,428
- options	45,390	1,512	1,208
- cross currency interest rate swaps	683,017	21,798	20,996
Interest rate related contracts:			
- futures	100,000	139	-
- swaps	3,547,558	33,627	32,611
		<u>165,022</u>	<u>136,243</u>
<u>31.12.2005</u>			
Foreign exchange related contracts:			
- forwards/swaps	6,927,886	13,305	16,093
- options	929,564	20,148	19,759
- cross currency interest rate swaps	188,975	167	59
Interest rate related contracts:			
- futures	151,000	136	3
- swaps	3,330,740	9,807	18,339
		<u>43,563</u>	<u>54,253</u>

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

### 18 LONG TERM BORROWINGS

	<b>Group and Bank</b>	
	<b><u>31.12.2006</u></b>	<b><u>31.12.2005</u></b>
	<b>RM'000</b>	<b>RM'000</b>
Term loan	<b><u>282,400</u></b>	<b><u>-</u></b>

On 7 April 2006, the Bank entered into an agreement with Japan Bank for International Cooperation (JBIC), to obtain an unsecured Untied Loan facility of USD100 million for a tenure of 11 years. The said loan is repayable on 8 March and 8 September each year for 20 equal instalments commencing on 8 March 2008 until 8 September 2017 and bears a floating interest rate of British Bankers Association Interest Settlement Rate in USD (BBA LIBOR) plus 0.395% per annum. The average interest rates ranging from 5.81% to 6.02% per annum.

### 19 SUBORDINATED OBLIGATIONS

	<b>Group and Bank</b>	
	<b><u>31.12.2006</u></b>	<b><u>31.12.2005</u></b>
	<b>RM'000</b>	<b>RM'000</b>
RM Subordinated Bonds 2002/2012	<b>800,000</b>	800,000
USD150 million Subordinated Notes 2002/2013	<b><u>529,500</u></b>	<u>566,925</u>
	<b>1,329,500</b>	1,366,925
Less : Unaccrued discount	<b><u>(1,342)</u></b>	<u>(1,673)</u>
	<b><u>1,328,158</u></b>	<u>1,365,252</u>

#### (i) RM Subordinated Bonds

On 24 December 2002, the Bank issued a RM800 million nominal value 10 year redeemable unsecured Subordinated Bonds ('Sub-Bonds'). The Sub-Bonds are due in 2012. The Sub-Bonds may be redeemed at par at the option of the Bank on its fifth anniversary date ('First Redemption Date') or on each anniversary of the First Redemption Date up to the maturity date.

Interest on the Sub-Bonds shall be accrued at 6.85% per annum for the first five years ('Initial Coupon'). From the First Redemption Date onwards until maturity date, the coupon rate shall be increased by 1.5% above the Initial Coupon rate or be equivalent to the base lending rate of Malayan Banking Berhad prevailing as at the First Redemption Date plus 1.5% whichever is higher. Interest is payable semi-annually in arrears from the date of issuance until maturity date.

The Sub-Bonds constitute direct, unconditional, subordinated and unsecured obligations of the Bank, and will rank *pari passu* without any preference among themselves.

#### (ii) USD Subordinated Notes

On 27 December 2002, the Bank issued a USD150 million nominal value (RM570 million equivalent) 10 year Subordinated Notes ('Sub-Notes') due 2013, callable with step-up in 2008 at 6.625% maturing on 25 January 2013. The Bank may at its option, subject to prior written approval of Bank Negara Malaysia, redeem the Sub-Notes on 25 January 2008 at their principal amount plus accrued interest. In addition, the Bank may at its option, subject to prior written approval as aforesaid, redeem the Sub-Notes at any time at their principal amount plus accrued interest in the event of certain changes affecting taxation in Malaysia as described under the "Terms and Conditions of the Notes – Redemption and Purchase".

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**19 SUBORDINATED OBLIGATIONS (CONTINUED)**

## (ii) USD Subordinated Notes (continued)

Interest on the Notes shall be accrued at 6.625% per annum from issue date to, but excluding 25 January 2008 and, thereafter, at rate per annum equal to the US Treasury Rate (as defined under "Terms and Conditions of the Notes – Interest") plus 6.475%. Interest is payable in arrears on 25 July and 25 January in each year, commenced on 25 July 2003.

The Sub-Notes constitute direct, unsecured and subordinated obligations of the Bank, and will rank *pari passu* with the RM800 million Sub-Bonds due 2012. The Sub-Notes will rank *pari passu* without any preference among themselves.

**20 IRREDEEMABLE NON-CUMULATIVE CONVERTIBLE PREFERENCE SHARES ('INCPS')**

	Number of shares			
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
	'000	'000	RM'000	RM'000
<u>Bank</u>				
Authorised:				
<u>Irredeemable non-cumulative convertible</u>				
<u>Preference shares of RM1 each</u>				
As at beginning/end of financial year	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid:				
<u>Irredeemable non-cumulative convertible</u>				
<u>Preference shares of RM1 each</u>				
As at beginning/end of financial year	<u>1,368,099</u>	<u>1,368,099</u>	<u>1,368,099</u>	<u>1,368,099</u>

The salient features of the Irredeemable Non-Cumulative Convertible Preference Shares ('INCPS') are:

- (i) A non-cumulative preferential dividend (less tax) at the following rates:
  - (a) for the period from the date of issue of INCPS to the day preceding the fifth anniversary date of issue of the INCPS, a non-cumulative preferential dividend at the rate of 8% (less tax) per annum; and
  - (b) thereafter, a non-cumulative preferential dividend at the rate of 10% (less tax) per annum.
- (ii) Save and except that the INCPS shall rank in priority to the Bank ordinary shares with regards to the preferential dividend, and with regards to the return of capital in the event of winding-up, the INCPS have no right to participate in the surplus assets and profits of the Bank.
- (iii) The INCPS carry no right to attend and vote at general meetings of the Bank unless the dividends on the INCPS are in arrears for more than 3 months or the general meeting is:
  - (a) for any resolution which varies or is deemed to vary the rights and privileges of such INCPS; or
  - (b) for any resolution for winding up of the Bank.

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**20 IRREDEEMABLE NON-CUMULATIVE CONVERTIBLE PREFERENCE SHARES ('INCPS') (CONTINUED)**

- (iv) Holders of the INCPS have the option of converting the INCPS into new Bank ordinary shares in the first 5 years from the date of issue of the INCPS (Conditional Conversion Period) should:
- (a) the Bank ceases to be a subsidiary of RHB Capital Berhad; or
  - (b) the risk weighted capital adequacy ratio of the Bank fall to a level at or below 8.5% and this is not remedied within 3 months from the occurrence of such event; or
  - (c) at any time the aggregate of dividends which are missed and not paid exceed 4% of the par value of the INCPS, or
  - (d) at any time after the Conditional Conversion Period, at the Optional Conversion Price. The Optional Conversion Price means the consolidated net assets per Bank ordinary share based on its consolidated management financial statements immediately preceding the date of conversion multiplied by 1.2 times. The Optional Conversion Price is subject to adjustments under certain circumstances in accordance with the terms of the INCPS.
- (v) In the event the Bank undertakes an initial public offering of shares for the purpose of seeking a listing on the Bursa Malaysia Securities Berhad, the outstanding INCPS will be mandatorily converted based on a specified price which would yield a return of 12% per annum on the INCPS.

**21 ORDINARY SHARE CAPITAL**

	<u>Number of shares</u>			
	<u>31.12.2006</u>	<u>31.12.2005</u>	<u>31.12.2006</u>	<u>31.12.2005</u>
	'000	'000	RM'000	RM'000
<u>Group and Bank</u>				
Authorised:				
<u>Ordinary shares of 50 sen each</u>				
As at beginning/end of financial year	<u>8,000,000</u>	<u>8,000,000</u>	<u>4,000,000</u>	<u>4,000,000</u>
Issued and fully paid:				
<u>Ordinary shares of 50 sen each</u>				
As at beginning/end of financial year	<u>3,899,972</u>	<u>3,899,972</u>	<u>1,949,986</u>	<u>1,949,986</u>

**22 RESERVES**

The statutory reserves are maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989, and Section 18 of the Singapore Finance Companies (Amendment) Act 1994, and are not distributable as cash dividends.

Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and tax exempt income under Section 12 of the Income Tax (Amendment) Act 1999 to pay dividends out of its entire retained profits as at 31 December 2006.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**23 INTEREST INCOME**

	<b>Group</b>		<b>Bank</b>	
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31.12.2006</b>	<b>31.12.2005</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Loans, advances and financing				
- Interest income other than recoveries from NPLs	2,764,571	2,305,080	2,654,698	1,828,077
- Recoveries from NPLs	212,126	174,938	208,865	159,885
Money at call and deposit placements with banks and other financial institutions	427,383	351,797	423,838	391,738
Securities purchased under resale agreement	176,014	30,385	176,014	30,385
Securities held for trading	42,422	28,908	29,510	19,619
Securities available-for-sale	71,226	52,111	69,192	50,314
Securities held-to-maturity	555,098	428,224	541,065	407,709
Others	3,613	1,719	3,613	1,719
	<u>4,252,453</u>	<u>3,373,162</u>	<u>4,106,795</u>	<u>2,889,446</u>
Amortisation of premium less accretion of discount	(12,382)	(12,035)	(12,382)	(9,700)
Interest suspended clawback	<u>(100,814)</u>	<u>(72,438)</u>	<u>(99,841)</u>	<u>(55,475)</u>
	<u><u>4,139,257</u></u>	<u><u>3,288,689</u></u>	<u><u>3,994,572</u></u>	<u><u>2,824,271</u></u>

**24 INTEREST EXPENSE**

	<b>Group</b>		<b>Bank</b>	
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31.12.2006</b>	<b>31.12.2005</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Deposits and placements of banks and other financial institutions	297,096	149,980	296,762	152,110
Deposits from customers	1,447,514	1,146,651	1,372,572	1,033,696
Subordinated obligations	91,815	92,549	91,815	92,549
Recourse obligation on loans sold to Cagamas	150,589	156,769	150,589	95,923
Obligation on securities sold under repurchase agreements	205,093	112,005	205,093	110,600
Others	42,922	31,940	41,631	34,320
	<u>2,235,029</u>	<u>1,689,894</u>	<u>2,158,462</u>	<u>1,519,198</u>

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**25 OTHER OPERATING INCOME**

	<b>Group</b>		<b>Bank</b>	
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31.12.2006</b>	<b>31.12.2005</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Fee income				
Commission	113,112	102,173	111,844	100,227
Service charges and fees	143,921	147,312	136,892	133,839
Guarantee fees	37,260	27,628	37,260	27,623
Commitment fees	41,615	37,291	41,615	37,291
Underwriting fees	1,245	1,335	1,245	1,335
Other fees	12,495	13,681	12,845	14,131
	<u>349,648</u>	<u>329,420</u>	<u>341,701</u>	<u>314,446</u>
Gain arising from sale/redemption of securities				
Net gain/(loss) from sale of:				
- Securities held for trading	29,243	13,612	28,956	13,612
- Securities available-for-sale	(768)	32,242	(768)	32,242
Net gain from redemption of securities held-to-maturity	60	14,042	-	14,042
	<u>28,535</u>	<u>59,896</u>	<u>28,188</u>	<u>59,896</u>
Gross dividend income				
Securities available-for-sale	3,625	3,590	3,625	3,513
Subsidiaries	-	-	67,656	34,055
	<u>3,625</u>	<u>3,590</u>	<u>71,281</u>	<u>37,568</u>
Unrealised gains/(losses) on revaluation				
Securities held for trading	(2,991)	(10,375)	1,135	2,260
Derivatives	16,378	5,612	10,248	(6,173)
	<u>13,387</u>	<u>(4,763)</u>	<u>11,383</u>	<u>(3,913)</u>
Other income				
Foreign exchange gain/(loss)				
- realised	147,788	149,750	143,508	147,633
- unrealised	29,219	(16,935)	29,221	(16,935)
Gain on disposal of property, plant and equipment	3,874	1,112	4,142	755
Other operating income	32,325	34,821	31,595	34,165
Other non-operating income	9,119	3,362	7,821	2,948
	<u>222,325</u>	<u>172,110</u>	<u>216,287</u>	<u>168,566</u>
	<u>617,520</u>	<u>560,253</u>	<u>668,840</u>	<u>576,563</u>



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**26 INCOME FROM ISLAMIC BANKING BUSINESS**

	<b>Group</b>		<b>Bank</b>	
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended*</b>	<b>Year ended</b>
	<b>31.12.2006</b>	<b>31.12.2005</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Income derived from investment of depositors' funds	330,642	261,588	-	50,395
Income derived from investment of shareholder's funds	88,259	39,572	-	5,358
Transfer to profit equalisation reserve	(1,563)	(13,277)	-	(5,275)
Total distributable income	417,338	287,883	-	50,478
Income attributable to depositors	(181,239)	(140,248)	-	(26,793)
Income from Islamic Banking Business	236,099	147,635	-	23,685

\* Note

The nil results is due to Islamic Banking business of RHB Bank being vested over to RHB Islamic Bank, a wholly owned subsidiary, which was incorporated on 2 February 2005. The vesting took effect on 16 March 2005 which is also the date RHB Islamic Bank Berhad began its operations.

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**27 OTHER OPERATING EXPENSES**

	<b>Group</b>		<b>Bank</b>	
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31.12.2006</b>	<b>31.12.2005</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Personnel cost</b>				
- Salaries, allowances and bonuses	496,081	444,308	464,966	399,780
- Contributions to Employees Provident Fund	71,766	67,812	67,473	62,395
- Other staff related cost	72,740	51,307	70,276	40,924
	<b>640,587</b>	<b>563,427</b>	<b>602,715</b>	<b>503,099</b>
<b>Establishment cost</b>				
- Property, plant and equipment				
- Depreciation	85,737	92,171	84,039	87,719
- Loss on disposal	77	67	77	67
- Written off	10	41	10	3
- Rental of premises	41,042	40,781	41,235	38,964
- Rental equipment	9,719	6,238	9,478	6,115
- Insurance	19,517	12,779	18,767	12,042
- Water and electricity	14,809	14,452	13,696	13,023
- Repair and maintenance	40,673	40,881	39,651	39,168
- Information technology expenses	89,648	70,836	83,682	65,851
- Others	1,856	2,221	-	-
	<b>303,088</b>	<b>280,467</b>	<b>290,635</b>	<b>262,952</b>
<b>Marketing expenses</b>				
- Sales commission	20,094	18,236	20,056	18,206
- Advertisement and publicity	29,905	36,928	28,126	32,458
- Dealers' handling and warranty fees	40,492	51,741	40,424	-
- Others	49,206	43,090	47,876	41,631
	<b>139,697</b>	<b>149,995</b>	<b>136,482</b>	<b>92,295</b>
<b>Administration and general expenses</b>				
- Communication expenses	64,642	70,765	60,248	60,681
- Auditors' remuneration (i)	2,128	2,184	1,820	1,747
- Others	58,739	36,743	19,053	9,270
	<b>125,509</b>	<b>109,692</b>	<b>81,121</b>	<b>71,698</b>
	<b>1,208,881</b>	<b>1,103,581</b>	<b>1,110,953</b>	<b>930,044</b>

Included in the personnel cost of the Group and the Bank are Directors' remuneration (exclude benefits-in-kind) totalling RM5,323,000 (31.12.2005: RM4,594,000) and RM4,541,000 (31.12.2005: RM4,021,000) respectively, as disclosed in Note 28.

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**27 OTHER OPERATING EXPENSES (CONTINUED)**

	<b>Group</b>		<b>Bank</b>	
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31.12.2006</b>	<b>31.12.2005</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
(i) PricewaterhouseCoopers ('PwC') Malaysian Firm				
Statutory audit	1,149	1,199	920	880
Fee for other services				
- Limited reviews	250	200	250	200
- Other services	125	148	113	94
Affiliates of PwC Malaysian firm (including overseas PwC firm)				
Statutory audit	604	637	537	573
	<u>2,128</u>	<u>2,184</u>	<u>1,820</u>	<u>1,747</u>

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**28 REMUNERATION OF CHIEF EXECUTIVE OFFICER ('CEO') AND DIRECTORS**

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

	<b>Group</b>		<b>Bank</b>	
	<b>Year ended 31.12.2006 RM'000</b>	<b>Year ended 31.12.2005 RM'000</b>	<b>Year ended 31.12.2006 RM'000</b>	<b>Year ended 31.12.2005 RM'000</b>
CEO and Executive Director*				
- Salary and other remuneration, including meeting allowance	1,800	2,195	1,800	2,195
- Benefits-in-kind (based on an estimated money value)	190	190	190	190
- Bonus	1,125	270	1,125	270
- Others	-	72	-	72
Non-Executive Directors				
- Fees	1,248	551	847	351
- Benefits-in-kind (based on an estimated money value)	65	86	65	86
- Others	1,150	1,506	769	1,133
	<b>5,578</b>	<b>4,870</b>	<b>4,796</b>	<b>4,297</b>

The remuneration attributable to the Chief Executive Officer of the Bank, including benefits-in-kind during the financial year amounted to RM3,115,116 (31.12.2005: RM1,922,965).

\* Executive Director was in respect of previous year only.

CEO

Michael J. Barrett

The Directors of the Bank in office since the date of the last report are as follows:

Non-executive Directors

Datuk Azlan Zainol	(Chairman)
Dato Abdullah Mat Noh	(Deputy Chairman)
Tuan Haji Khairuddin Ahmad	
Dato' Vaseehar Hassan Abdul Razack	
Dato' Mohd Salleh Haji Harun	
Dato' Othman Jusoh	
Prof Balachandran A. Shanmugam	
Johari Abdul Muid	
Ismael Fariz Ali	
Dato' Mohamed Khadar Merican	
Ong Seng Pheow	(Appointed on 20 November 2006)

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**28 REMUNERATION OF CHIEF EXECUTIVE OFFICER ('CEO') AND DIRECTORS (CONTINUED)**

The remuneration including benefits-in-kind of the Directors is within the following bands:

RM	<b>Group</b>		<b>Bank</b>	
	<b>2006</b> Number of Directors	<b>2005</b> Number of Directors	<b>2006</b> Number of Directors	<b>2005</b> Number of Directors
<b>Executive</b>				
700,001 – 750,000	-	1	-	1
<b>Non -Executive</b>				
0 – 50,000	1	-	1	1
50,001 – 100,000	2	3	2	5
100,001 – 150,000	2	2	5	2
150,001 – 200,000	2	3	2	1
200,001 – 250,000	2	-	-	1
250,001 – 300,000	1	1	1	-
300,001 – 350,000	-	1	-	-
350,001 – 400,000	1	-	-	-
400,001 – 450,000	-	-	-	-
450,001 – 500,000	-	-	-	1
500,001 – 550,000	-	-	-	-
550,001 – 600,000	-	1	-	-

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**29 ALLOWANCE FOR LOSSES ON LOANS AND FINANCING**

	<b>Group</b>		<b>Bank</b>	
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31.12.2006</b>	<b>31.12.2005</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Allowance for losses on loans and financing				
Specific allowance				
- Made during the financial year	920,750	714,759	890,579	610,002
- Written back	(235,109)	(184,758)	(228,855)	(142,102)
General allowance				
- Made during the financial year	58,277	100,842	58,616	69,839
Bad debts on loans and financing				
- Recovered	(76,502)	(56,976)	(76,381)	(55,901)
- Written off	(120)	-	-	-
	<u>667,296</u>	<u>573,867</u>	<u>643,959</u>	<u>481,838</u>
Amount recoverable from Danaharta				
- Recovered	-	(78,795)	-	(78,795)
	<u>667,296</u>	<u>495,072</u>	<u>643,959</u>	<u>403,043</u>

The Group and the Bank have evaluated its portfolio of non-performing debts that had been in default and remained uncollected for more than 7 years and also those non-performing debts in default for more than 5 years but less than 7 years. For the debts in default for more than 7 years, no value is assigned as the realisable value of collateral. For the debts in default for more than 5 years but less than 7 years, 50% of the realisable value of asset held has been assigned as collateral value. The effect of this exercise amounted to RM156,281,000 (31.12.2005: RM167, 629,000) and RM126,104,000 (31.12.2005: RM160,927,000) for the Group and the Bank respectively.

In addition, during the year, the Group and the Bank's basis for specific allowance has changed from default period of 6 months to 3 months in line with its non-performing classification of loans and financing. The additional specific allowance due to this change amounted to RM45,511,000 and RM43,511,000 for the Group and the Bank respectively.

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## NOTES TO THE FINANCIAL STATEMENTS

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### **30 ALLOWANCE FOR IMPAIRMENT LOSSES**

	<b>Group</b>		<b>Bank</b>	
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31.12.2006</b>	<b>31.12.2005</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Charged for the financial year				
- Securities available-for-sale	46,385	103,565	46,385	103,416
- Securities held-to-maturity	34,758	13,533	34,758	14,596
- Property, plant and equipment	2,478	-	1,342	-
Reversal for the financial year				
- Securities available-for-sale	(35,446)	(7,796)	(35,446)	(7,796)
- Securities held-to-maturity	(9,574)	(25,013)	(9,574)	(16,312)
- Property, plant and equipment	(2,001)	-	(2,001)	-
	<b>36,600</b>	<b>84,289</b>	<b>35,464</b>	<b>93,904</b>

### **31 INCPS DIVIDENDS**

	<b>Group and Bank</b>	
	<b>Year ended</b>	<b>Year ended</b>
	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>
INCPS		
Annual gross dividend of 10% (31.12.2005: 10%)	<b>136,810</b>	<b>136,842</b>

The INCPS dividends are paid in accordance with the terms of the INCPS (refer to Note 20).

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**32 TAXATION**

	<b>Group</b>		<b>Bank</b>	
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31.12.2006</b>	<b>31.12.2005</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Malaysian income tax:				
- Current year	249,272	207,353	222,712	158,432
- Under/(over) provision in prior years	1,793	(12,399)	-	(12,192)
Overseas taxation:				
- Current year	1,451	795	1,410	734
- Over provision in prior years	(110)	(895)	(83)	(844)
Tax refund	-	(32)	-	-
Deferred taxation (note 9)	(8,036)	(47,673)	(13)	(36,128)
Tax on INCPS dividends	(38,307)	(38,594)	(38,307)	(38,316)
	<b>206,063</b>	<b>108,555</b>	<b>185,719</b>	<b>71,686</b>

	<b>Group</b>		<b>Bank</b>	
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31.12.2006</b>	<b>31.12.2005</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Current tax</b>				
Current year	250,723	208,148	224,122	159,166
Under/(over) provision in prior years	1,683	(13,294)	(83)	(13,036)
Tax refund	-	(32)	-	-
Tax on INCPS dividends	(38,307)	(38,594)	(38,307)	(38,316)
	<b>214,099</b>	<b>156,228</b>	<b>185,732</b>	<b>107,814</b>
<b>Deferred tax</b>				
Origination and reversal of temporary differences	(28,643)	(47,673)	(18,256)	(36,128)
Change in tax rate	16,089	-	13,725	-
Reversal of previously recognised deferred tax assets	4,518	-	4,518	-
	<b>(8,036)</b>	<b>(47,673)</b>	<b>(13)</b>	<b>(36,128)</b>



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**32 TAXATION (CONTINUED)**

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

	<b>Group</b>		<b>Bank</b>	
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31.12.2006</b>	<b>31.12.2005</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Group and Bank average applicable tax rate	<b>28.0</b>	28.0	<b>28.0</b>	28.0
Tax effects in respect of: -				
Non allowable expenses	<b>2.1</b>	2.7	<b>2.4</b>	3.4
Non-taxable income	<b>(0.5)</b>	(0.1)	<b>(1.0)</b>	(2.8)
Effect of different tax rates in Labuan/other countries	<b>(2.2)</b>	(3.4)	<b>(0.1)</b>	(0.4)
Utilisation of unabsorbed business losses brought forward previously not recognised	<b>(0.1)</b>	(1.5)	<b>(0.1)</b>	(2.2)
Changes in tax rates	<b>2.7</b>	-	<b>2.9</b>	-
Other temporary differences not recognised in prior years	<b>(1.1)</b>	(0.5)	-	(1.2)
Under/(over) provision in prior years	<b>0.2</b>	(2.7)	-	(3.8)
Average effective tax rate	<b>29.1</b>	22.5	<b>32.1</b>	21.0
	<b>RM'000</b>	RM'000	<b>RM'000</b>	RM'000
Tax losses:				
Tax savings as a result of the utilisation of tax losses brought forward from previous year for which the related credit is recognised during the financial year	<b>5,103</b>	7,466	<b>5,103</b>	7,466

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**33 EARNINGS PER ORDINARY SHARE**

(a) Basic earnings per ordinary share

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

	<b>Group</b>		<b>Bank</b>	
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31.12.2006</b>	<b>31.12.2005</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Earnings per ordinary share is calculated as follows:				
Basic:				
Net profit for the financial year	<u>503,848</u>	<u>377,737</u>	<u>392,045</u>	<u>269,802</u>
Weighted average number of ordinary shares in issue ('000)	<u>3,899,972</u>	<u>3,899,972</u>	<u>3,899,972</u>	<u>3,899,972</u>
Basic earnings per share (sen)	<u>12.9</u>	<u>9.7</u>	<u>10.1</u>	<u>6.9</u>

(b) Diluted earnings per ordinary share

If the Bank's INCPS were converted to ordinary shares, the effect would be anti-dilutive and are therefore ignored in the calculation for dilutive earnings per share of the Group and the Bank.

**34 DIVIDENDS OF ORDINARY SHARES**

	<b>Group and Bank</b>			
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>31.12.2006</b>	<b>31.12.2005</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>Gross dividend per share</b>	<b>Amount of dividends, net of tax</b>	<b>Gross dividend per share</b>	<b>Amount of dividends, net of tax</b>
	<b>sen</b>	<b>RM'000</b>	<b>sen</b>	<b>RM'000</b>
Ordinary Shares				
First interim dividend	2.23	62,700	2.75	77,219
Final dividend - proposed	4.70	133,808	2.05	57,564
	<u>6.93</u>	<u>196,508</u>	<u>4.80</u>	<u>134,783</u>

At the forthcoming Annual General Meeting, a final gross dividend in respect of the current financial year of 4.70 sen per share (31.12.2005: 2.05 sen per share) less tax amounting to RM133.81 million will be proposed for shareholders' approval. These financial statements do not reflect this final dividend which will be accounted for in the shareholders' equity as an appropriation of retained profits in the next financial year when approved by the shareholders.

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**35 SIGNIFICANT RELATED PARTY DISCLOSURES**

## (a) Related parties and relationships

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

<u>Related parties</u>	<u>Relationship</u>
Rashid Hussain Berhad ('RHB')	Parent of holding company
RHB Capital Berhad	Holding company
Subsidiaries and associates of RHB as disclosed in its financial statements	Subsidiary and associated companies of the parent of holding company
Subsidiaries and associates of RHB Capital Berhad as disclosed in its financial statements	Subsidiary and associated companies of holding company
Subsidiaries of the Bank as disclosed in Note 11	Subsidiaries

As at 31 December 2006, Utama Banking Group Berhad ('UBG') held 32.6% of the ordinary shares of RM1.00 each in RHB and 449,206,479 of ICULS-A and 403,471,898 of ICULS-B that are presently convertible into ordinary shares of RHB. Pursuant to FRS 127<sub>2005</sub> which requires the consideration of these potential ordinary shares, UBG's interest in RHB would amount to 61.2%. The related parties of UBG are disclosed in UBG's financial statements.

## (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. The significant related party transactions and balances described below were carried out on terms and conditions obtainable on transactions with unrelated parties. Interest rates on all related party transactions are at normal commercial rates.

Other related companies comprise the other companies in the RHB Group.

<b>Group</b>	<b>Immediate holding company RM'000</b>	<b>Other related companies RM'000</b>
<b><u>31.12.2006</u></b>		
<u>Income</u>		
Interest on deposits and placements with other financial institutions	-	1,935
Income on securities held-to-maturity	2,919	11,901
Interest on advances	-	186
Other income	4,452	4,249
	<u>7,371</u>	<u>18,271</u>
<u>Expenditure</u>		
Interest on deposits and placements of banks and other financial institutions	-	215
Interest on fixed deposits	1,350	3,901
Interest on securities sold under REPO	3,156	2,662
Rental of premises	-	9,951
Management fee	-	1,913
Other expenses	22	22,457
	<u>4,528</u>	<u>41,104</u>

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**35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)**

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

Group	Immediate holding company RM'000	Other related companies RM'000
<b><u>31.12.2006</u></b>		
<u>Amount due from</u>		
Securities held-to-maturity	86,544	250,000
Other assets	20,451	5,335
	<u>106,995</u>	<u>255,335</u>
<u>Amount due to</u>		
Current account and fixed deposits	52,404	122,180
Securities sold under REPO	32,330	166,649
Deposits and placements of banks and other financial institutions	-	2,500
Other liabilities	400	1,866
	<u>85,134</u>	<u>293,195</u>
 <u>31.12.2005</u>		
<u>Income</u>		
Interest on deposits and placements with other financial institutions	-	332
Income on securities held-for-trading	-	2,739
Income on securities held-to-maturity	2,278	10,683
Other income	4,600	7,142
	<u>6,878</u>	<u>20,896</u>
<u>Expenditure</u>		
Interest on deposits and placements of banks and other financial institutions	-	92
Interest on fixed deposits	795	1,649
Interest on securities sold under REPO	3,488	1,837
Rental of premises	-	9,810
Management fee	-	2,260
Other expenses	27	24,007
	<u>4,310</u>	<u>39,655</u>
<u>Amount due from</u>		
Securities held-to-maturity	89,200	500,000
Other assets	28,254	11,960
	<u>117,454</u>	<u>511,960</u>
<u>Amount due to</u>		
Current account and fixed deposits	34,188	84,053
Securities sold under REPO	114,743	94,257
Deposits and placements of banks and other financial institutions	-	50,000
Other liabilities	1,783	1,955
	<u>150,714</u>	<u>230,265</u>

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**35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)**

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

	Immediate holding company RM'000	Subsidiaries RM'000	Other related companies RM'000
<b>Bank</b>			
<b><u>31.12.2006</u></b>			
<u>Income</u>			
Interest on deposits and placements with other financial institutions	-	23,259	1,935
Income on securities held-to-maturity	2,919	-	11,901
Interest on advances	-	25,232	186
Other income	4,452	67,970	3,982
	<u>7,371</u>	<u>116,461</u>	<u>18,004</u>
<u>Expenditure</u>			
Interest on deposits and placements of banks and other financial institutions	-	9,643	215
Interest on fixed deposits	1,350	284	3,810
Interest on securities sold under REPO	3,156	127	2,662
Rental of premises	-	3,214	9,673
Management fee	-	400	1,905
Reimbursement of operating expenses from a subsidiary	-	(51,228)	-
Other expenses	22	59	22,343
	<u>4,528</u>	<u>(37,501)</u>	<u>40,608</u>
<u>Amount due from</u>			
Money at call and deposit placements	-	348,909	-
Deposits and placements with banks and other financial institutions	-	222,775	-
Loans, advances and financing	-	688,562	-
Securities held-to-maturity	86,544	-	250,000
Other assets	20,091	146,438	5,322
	<u>106,635</u>	<u>1,406,684</u>	<u>255,322</u>
<u>Amount due to</u>			
Current account and fixed deposits	52,404	30,359	112,202
Securities sold under REPO	32,330	-	166,649
Deposits and placements of banks and other financial institutions	-	77,841	2,500
Finance lease	-	1,172	-
Other liabilities	341	24,723	1,761
	<u>85,075</u>	<u>134,095</u>	<u>283,112</u>

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(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**35 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)**

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

	Immediate holding company RM'000	Subsidiaries RM'000	Other related companies RM'000
Bank			
<u>31.12.2005</u>			
<u>Income</u>			
Interest on deposits and placements with other financial institutions	-	57,142	332
Interest on securities held-for-trading	-	-	2,739
Income on securities held-to-maturity	2,278	-	10,683
Interest on advances	-	10,034	-
Other income	4,600	35,091	5,701
	<u>6,878</u>	<u>102,267</u>	<u>19,455</u>
<u>Expenditure</u>			
Interest on deposits and placements of banks and other financial institutions	-	4,189	92
Interest on fixed deposits	795	20,236	655
Interest on securities sold under REPO	3,488	984	1,837
Rental of premises	-	3,196	9,482
Management fee	-	592	2,203
Reimbursement of operating expenses from a subsidiary	-	(33,761)	-
Other expenses	27	51	23,554
	<u>4,310</u>	<u>(4,513)</u>	<u>37,823</u>
<u>Amount due from</u>			
Money at call and deposit placements	-	4,432,340	-
Loans, advances and financing	-	690,616	-
Securities held-to-maturity	89,200	-	500,000
Other assets	27,894	309,992	9,409
	<u>117,094</u>	<u>5,432,948</u>	<u>509,409</u>
<u>Amount due to</u>			
Current account and fixed deposits	34,188	758,703	53,269
Securities sold under REPO	114,743	50,000	94,257
Deposits and placements of banks and other financial institutions	-	499,390	50,000
Finance lease	-	1,642	-
Other liabilities	1,783	79,710	1,095
	<u>150,714</u>	<u>1,389,445</u>	<u>198,621</u>

**RHB BANK BERHAD**  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**36 COMMITMENTS AND CONTINGENCIES**

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

Risk weighted exposures of the Group are as follows:

	31.12.2006			31.12.2005		
	Principal Amount RM'000	Credit Equivalent Amount *	Risk Weighted Amount RM'000	Principal Amount RM'000	Credit Equivalent Amount *	Risk Weighted Amount RM'000
Direct credit substitutes	1,404,457	1,404,457	1,236,516	1,447,962	1,447,962	1,285,878
Transaction-related contingent items	1,555,032	777,516	485,979	1,143,457	571,730	451,548
Short-term self-liquidating trade-related contingencies	2,555,148	511,030	328,886	1,978,963	395,793	211,859
Obligations under underwriting agreements	263,240	131,620	131,620	263,240	131,620	131,620
Housing financing sold to Cagamas with recourse	41,064	41,064	20,532	44,062	44,062	22,031
Irrevocable commitments to extend credit:						
- maturity more than one year	3,535,992	1,767,996	1,540,914	3,418,856	1,709,427	1,377,879
- maturity less than one year	21,642,939	-	-	19,775,230	-	-
Foreign exchange related contracts:						
- less than one year	14,028,126	239,098	66,916	7,905,085	116,061	38,091
- one year to less than five years	387,082	60,670	30,237	152,670	9,364	5,665
Interest rate related contracts:						
- less than one year	871,230	2,454	512	344,000	601	120
- one year to less than five years	2,654,566	83,805	19,169	3,160,918	101,414	32,808
- more than five years	522,601	33,981	17,334	188,485	6,633	2,021
Miscellaneous	747,208	-	-	541,887	-	-
Total	50,208,685	5,053,691	3,878,615	40,364,815	4,534,667	3,559,520

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**RHB BANK BERHAD**  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**36 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

Risk weighted exposures of the Bank are as follows:

	Principal Amount RM'000	31.12.2006 Credit Equivalent Amount * RM'000	Risk Weighted Amount RM'000	Principal Amount RM'000	31.12.2005 Credit Equivalent Amount * RM'000	Risk Weighted Amount RM'000
Direct credit substitutes	1,290,602	1,290,602	1,122,837	1,447,947	1,447,947	1,285,863
Transaction-related contingent items	1,460,227	730,114	439,387	1,072,126	536,064	417,451
Short-term self-liquidating trade-related contingencies	2,341,434	468,287	286,465	1,864,530	372,906	188,973
Obligations under underwriting agreements	213,240	106,620	106,620	213,240	106,620	106,620
Irrevocable commitments to extend credit:						
- maturity more than one year	2,815,107	1,407,554	1,201,260	2,544,013	1,272,007	960,386
- maturity less than one year	19,702,207	-	-	18,488,906	-	-
Foreign exchange related contracts:						
- less than one year	14,027,587	239,090	66,912	7,893,755	115,864	38,017
- one year to less than five years	387,082	60,670	30,237	152,670	9,363	5,665
Interest rate related contracts:						
- less than one year	800,600	2,383	477	344,000	601	120
- one year to less than five years	2,548,621	81,686	18,110	2,971,933	97,256	30,729
- more than five years	298,337	20,110	10,398	165,807	4,318	863
Miscellaneous	729,664	-	-	523,721	-	-
<b>Total</b>	<b>46,614,708</b>	<b>4,407,116</b>	<b>3,282,703</b>	<b>37,682,648</b>	<b>3,962,946</b>	<b>3,034,687</b>

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

Foreign exchange and interest rate related contracts are subject to market risk and credit risk.



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# **RHB BANK BERHAD**

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

### 36 COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Bank has also given a continuing guarantee to Bank Negara Malaysia to meet the liabilities and financial obligations and requirements of its subsidiary, RHB Bank (L) Ltd., arising from its offshore banking business in the Federal Territory of Labuan.

### 37 OPERATING LEASE COMMITMENTS

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

	<b>Group</b>		<b>Bank</b>	
	<b>31.12.2006</b>	<b>31.12.2005</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>Year</u>				
Within one year	29,487	32,374	29,487	29,673
Between one to five years	12,625	18,100	12,625	15,542
More than five years	35	1,483	35	1,448

### 38 CAPITAL COMMITMENTS

	<b>Group</b>		<b>Bank</b>	
	<b>31.12.2006</b>	<b>31.12.2005</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Capital expenditure for property, plant and equipment:				
Authorised and contracted for	25,927	34,317	25,627	33,757
Authorised but not contracted for	36,717	36,239	35,775	28,325
	<b>62,644</b>	<b>70,556</b>	<b>61,402</b>	<b>62,082</b>

**RHB BANK BERHAD**

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## NOTES TO THE FINANCIAL STATEMENTS

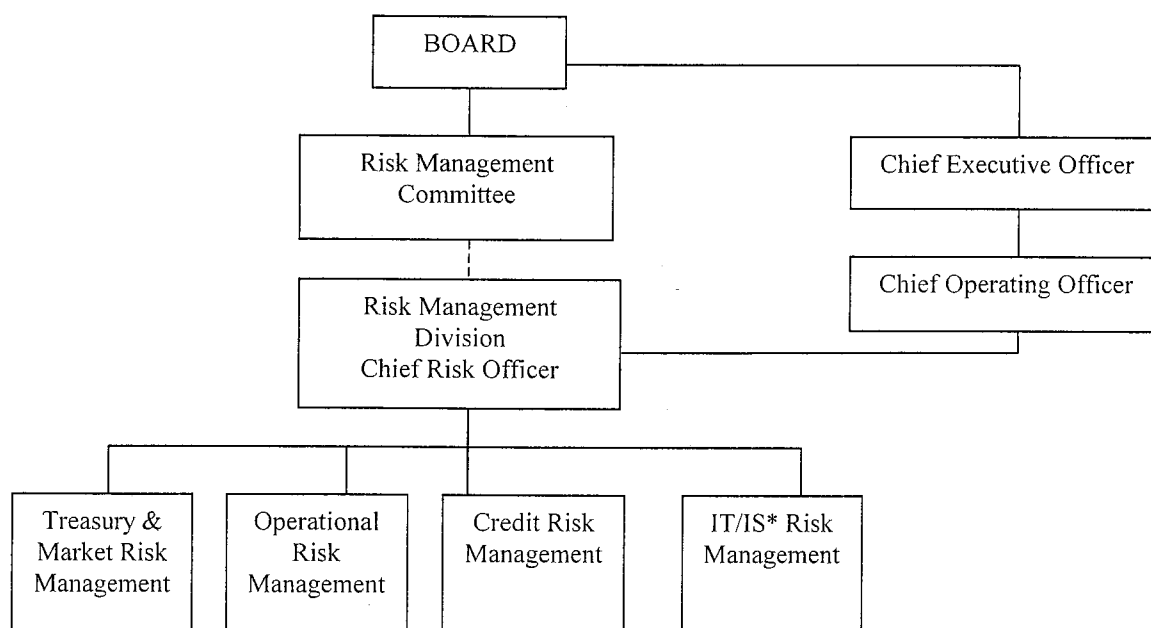
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

## OVERVIEW AND ORGANISATION

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

The RMC of the Board provides oversight and management of all risks in an integrated way. RMD is independent and reports directly to this committee. RMD through the 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 structure of risk management in the Bank is shown below:

**Structure of Risk Management**

\* Information Technology ('IT')/ IT Security ('IS')

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.

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)****MARKET RISK MANAGEMENT**

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

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

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

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

Derivative financial instruments are used principally to hedge exposures to fluctuation in foreign exchange rates and interest rates. Risk of market rate change subsequent to acquisition is generally offset by opposite effects on the items being hedged.

Some specific methods for managing the various types of market risks are:

**(a) Currency Risk**

Currency risk refers to the risk that earnings and value of financial instruments will fluctuate due to changes in foreign exchange rates.

There is an approved position limits for each currency and 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 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.

**(b) Interest Rate Risk**

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

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

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

(b) Interest/Profit Rate Risk (Continued)

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

Group	Non-trading book						Non- interest sensitive	Trading book	Total	Effective interest/ profit rate
	Up to 1 month	>1-3 months	>3-12 months	>1-5 years	Over 5 years					
	RM'000	RM'000	RM'000	RM'000	RM'000		RM'000	RM'000	RM'000	%
<b>31.12.2006</b>										
<b>Assets</b>										
Cash and short-term funds	9,240,971	-	-	-	-	-	382,349	-	9,623,320	3.56
Securities purchased under resale agreements	1,034,585	1,656,956	-	-	-	-	-	-	2,691,541	3.81
Deposits and placements with banks and other financial institutions	-	4,457,523	611,308	-	-	-	-	-	5,068,831	3.63
Securities held for trading	-	-	-	-	-	-	-	1,945,762	1,945,762	3.71
Securities available-for-sale	2,571,387	1,378,385	715,024	698,397	170,686	-	179,949	-	5,713,828	3.66
Securities held-to-maturity	2,537,605	2,775,594	1,694,789	4,664,222	1,515,996	#	(167,526)	-	13,020,680	3.75
Loans, advances and financing										6.83
- performing	29,806,417	6,403,037	4,934,467	7,619,070	2,522,981		140	-	51,286,112	
- non-performing	-	-	-	-	-		1,455,494	*	1,455,494	
Other assets	11,904	-	-	-	-		444,863	167,044	623,811	5.92
Tax recoverable	-	-	-	-	-		65	-	65	-
Deferred taxation assets	-	-	-	-	-		251,720	-	251,720	-
Statutory deposits	-	-	-	-	-		1,835,744	-	1,835,744	-
Investment in an associate	-	-	-	-	-		4,683	-	4,683	-
Property, plant and equipment	-	-	-	-	-		598,789	-	598,789	-
Goodwill	-	-	-	-	-		1,004,017	-	1,004,017	-
<b>Total assets</b>	<b>45,202,869</b>	<b>16,671,495</b>	<b>7,955,588</b>	<b>12,981,689</b>	<b>4,209,663</b>		<b>5,990,287</b>	<b>2,112,806</b>	<b>95,124,397</b>	

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR 31 DECEMBER 2006 (CONTINUED)

39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Interest/Profit Rate Risk (Continued)

Group	Non-trading book					Trading book	Total	Effective interest/profit rate %
	Up to 1 month	>1-3 months	>3-12 months	>1-5 years	Over 5 years	Non-interest sensitive		
31.12.2006	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>Liabilities</b>								
Deposits from customers	21,762,014	6,653,665	12,643,145	414,609	200	14,311,683	-	3.15
Deposits and placements of banks and other financial institutions	5,577,625	2,641,847	709,864	856,679	89,050	1,428	-	3.67
Obligations on securities sold under repurchase agreements	11,118,986	2,245,825	-	-	-	-	-	3.37
Bills and acceptances payable	1,272,468	1,493,303	605,157	-	-	407,830	-	3.88
Recourse obligation on loans sold to Cagamas Berhad	122,267	-	658,771	1,882,468	215,778	-	-	4.52
Other liabilities	296,129	-	-	-	-	1,245,177	143,668	3.66
Provision for taxation and zakat	-	-	-	-	-	79,425	-	-
Deferred taxation liabilities	-	-	-	-	-	17	-	-
Long term borrowing	282,400	-	-	-	-	-	-	5.81
Subordinated obligations	-	-	-	1,328,158	-	-	-	6.63-6.85
	40,431,889	13,034,640	14,616,937	4,481,914	305,028	16,045,560	143,668	
							89,059,636	
<b>INCPs</b>								
Shareholders' equity	-	-	-	1,368,099	-	-	-	10.00
Total liabilities and shareholders' equity	-	-	-	-	-	4,696,662	-	-
	40,431,889	13,034,640	14,616,937	5,850,013	305,028	20,742,222	143,668	
							95,124,397	
Total interest-sensitivity gap	4,770,980	3,636,855	(6,661,349)	7,131,676	3,904,635	(14,751,935)	1,969,138	-

**REB BANK BERHAD**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)****39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)****(b) Interest/Profit Rate Risk (Continued)**

Group	Non trading-book					Trading book	Total	Effective interest/profit rate
	Up to 1 month	>1-3 months	>3-12 months	>1-5 years	Over 5 years			
31.12.2005	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>Assets</b>								
Cash and short-term funds	10,485,334	-	-	-	-	-	10,790,936	2.97
Securities purchased under resale agreements	907,147	1,252,377	59,967	-	-	-	2,219,491	3.00
Deposits and placements with banks and other financial institutions	250,000	2,181,441	50	-	-	-	2,431,491	3.07
Securities held for trading	-	-	-	-	-	1,761,937	1,761,937	3.23
Securities available-for-sale	145,143	430,281	424,569	678,608	153,426	-	1,895,580	3.46
Securities held-to-maturity	1,780,533	1,914,960	3,500,573	4,460,039	2,538,206	-	14,078,589	3.46
Loans, advances and financing								6.42
- performing	26,706,076	4,567,817	3,873,557	6,790,833	4,222,213	-	46,160,670	
- non-performing	-	-	-	-	-	1,473,441	1,473,441	
Other assets	20,904	-	-	-	-	43,838	430,409	4.92
Tax recoverable	-	-	-	-	-	-	17,449	-
Deferred taxation assets	-	-	-	-	-	-	240,038	-
Statutory deposits	-	-	-	-	-	-	1,619,025	-
Investment in an associate	-	-	-	-	-	-	4,198	-
Property, plant and equipment	-	-	-	-	-	-	628,239	-
Goodwill	-	-	-	-	-	-	1,004,017	-
<b>Total assets</b>	<b>40,295,137</b>	<b>10,346,876</b>	<b>7,858,716</b>	<b>11,929,480</b>	<b>6,913,845</b>	<b>1,805,775</b>	<b>84,755,510</b>	

# Consist of equity instruments less impairment loss.

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

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)****39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)****(b) Interest/Profit Rate Risk (Continued)**

Group	Non-trading book					Trading book	Total	Effective interest/profit rate
	Up to 1 month	>1-3 months	>3-12 months	>1-5 years	Over 5 years	Non-interest sensitive	RM'000	%
31.12.2005	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>Liabilities</b>								
Deposits from customers	19,169,461	5,929,194	10,211,308	523,227	3,865	12,867,779	48,704,834	2.76
Deposits and placements of banks and other financial institutions	5,781,587	2,601,811	991,412	1,139,611	79,556	3,680	10,597,657	2.97
Obligations on securities sold under repurchase agreements	7,862,441	1,846,642	620,338	-	-	-	10,329,421	2.86
Bills and acceptances payable	1,094,038	1,329,676	550,901	-	-	338,445	3,313,060	3.31
Recourse obligation on loans sold to Cagamas Berhad	-	-	441,711	1,600,025	1,315,256	-	3,356,992	4.44
Other liabilities	256,681	-	-	-	-	1,041,136	1,363,876	2.85
Provision for taxation and zakat	-	-	-	-	-	19,214	19,214	-
Deferred taxation liabilities	-	-	-	-	-	8	8	-
Subordinated obligations	-	-	-	1,365,252	-	-	1,365,252	6.63-6.85
	34,164,208	11,707,323	12,815,670	4,628,115	1,398,677	14,270,262	79,050,314	
<b>INCPs</b>								
Shareholders' equity	-	-	-	1,368,099	-	-	1,368,099	10.00
Total liabilities and shareholders' equity	-	-	-	-	-	4,337,097	4,337,097	-
	34,164,208	11,707,323	12,815,670	5,996,214	1,398,677	18,607,359	84,755,510	
Total interest-sensitivity gap	6,130,929	(1,360,447)	(4,956,954)	5,933,266	5,515,168	(13,001,678)	1,739,716	-

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)****(b) Interest Rate Risk (Continued)**

Bank	Non-trading book					Trading book	Non-interest sensitive	Total	Effective interest rate
	Up to 1 month	>1-3 months	>3-12 months	>1-5 years	Over 5 years				
31.12.2006	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>Assets</b>									
Cash and short-term funds	8,210,741	-	-	-	-	-	361,055	8,571,796	3.57
Securities purchased under resale agreements	1,034,585	1,656,956	-	-	-	-	-	2,691,541	3.81
Deposits and placements with banks and other financial institutions	-	3,216,700	611,076	-	176,500	-	-	4,004,276	3.64
Securities held for trading	-	-	-	-	-	1,417,972	-	1,417,972	3.64
Securities available-for-sale	2,532,303	1,378,385	679,762	668,922	170,686	-	177,082	5,607,140	3.65
Securities held-to-maturity	2,456,381	2,697,789	1,626,956	3,959,646	1,429,533	-	(167,526) #	12,002,779	3.74
Loans, advances and financing									6.93
- performing	29,533,425	4,800,456	4,070,999	6,262,828	841,485	-	-	45,509,193	
- non-performing	-	-	-	-	-	-	1,370,138 *	1,370,138	
Other assets	11,904	-	-	-	-	165,022	514,701	691,627	5.92
Deferred taxation assets	-	-	-	-	-	-	210,747	210,747	-
Statutory deposits	-	-	-	-	-	-	1,665,315	1,665,315	-
Investment in subsidiaries	-	-	-	-	-	-	828,956	828,956	-
Property, plant and equipment	-	-	-	-	-	-	471,894	471,894	-
Goodwill	-	-	-	-	-	-	905,519	905,519	-
<b>Total assets</b>	<b>43,779,339</b>	<b>13,750,286</b>	<b>6,988,793</b>	<b>10,891,396</b>	<b>2,618,204</b>	<b>1,582,994</b>	<b>6,337,881</b>	<b>85,948,893</b>	

# Consist of equity instruments less impairment loss.

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



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39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Interest Rate Risk (Continued)

Bank	Non-trading book					Non-interest sensitive	Trading book	Total	Effective interest rate
	Up to 1 month	>1-3 months	>3-12 months	>1-5 years	Over 5 years				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>31.12.2006</b>									
<b>Liabilities</b>									
Deposits from customers	17,108,752	5,525,394	11,757,743	317,748	-	13,081,461	-	47,791,098	3.25
Deposits and placements of banks and other financial institutions	5,238,787	2,562,333	631,494	809,744	89,050	1,428	-	9,332,836	3.67
Obligations on securities sold under repurchase agreements	11,118,986	2,245,825	-	-	-	-	-	13,364,811	3.37
Bills and acceptances payable	1,272,468	1,493,303	600,122	-	-	396,323	-	3,762,216	3.88
Recourse obligation on loans sold to Cagamas Berhad	122,267	-	658,771	1,882,468	215,778	-	-	2,879,284	4.52
Other liabilities	296,129	-	-	-	-	993,485	136,243	1,425,857	3.66
Provision for taxation and zakat	-	-	-	-	-	56,564	-	56,564	-
Long term borrowings	282,400	-	-	-	-	-	-	282,400	5.81
Subordinated obligations	-	-	-	1,328,158	-	-	-	1,328,158	6.63-6.85
	35,439,789	11,826,855	13,648,130	4,338,118	304,828	14,529,261	136,243	80,223,224	
INCPS	-	-	-	1,368,099	-	-	-	1,368,099	10.00
Shareholders' equity	-	-	-	-	-	4,357,570	-	4,357,570	-
Total liabilities and shareholders' equity	35,439,789	11,826,855	13,648,130	5,706,217	304,828	18,886,831	136,243	85,948,893	
Total interest-sensitivity gap	8,339,550	1,923,431	(6,659,337)	5,185,179	2,313,376	(12,548,950)	1,446,751	-	

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**39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

(b) Interest Rate Risk (Continued)

Bank	Non-trading book					Trading book	Total	Effective interest rate
	Up to 1 month	>1-3 months	>3-12 months	>1-5 years	Over 5 years			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>31.12.2005</b>								
<b>Assets</b>								
Cash and short-term funds	12,310,212	-	-	-	-	-	12,539,401	3.00
Securities purchased under resale agreements	907,147	1,252,377	59,967	-	-	-	2,219,491	3.00
Deposits and placements with banks and other financial institutions	-	1,981,441	-	-	-	-	1,981,441	3.12
Securities held for trading	-	-	-	-	-	890,492	890,492	3.57
Securities available-for-sale	145,142	330,706	373,731	665,098	153,426	-	1,726,819	3.51
Securities held-to-maturity	1,693,600	1,855,220	3,390,899	3,576,927	2,442,883	-	12,843,807	3.43
Loans, advances and financing								6.34
- performing	26,008,032	3,743,632	3,255,878	2,614,844	173,892	-	35,796,278	
- non-performing	-	-	-	-	-	-	1,294,530	
Other assets	20,904	-	-	-	-	43,563	689,033	4.92
Deferred taxation assets	-	-	-	-	-	-	171,138	-
Statutory deposits	-	-	-	-	-	-	1,233,745	-
Investment in subsidiaries	-	-	-	-	-	-	1,389,849	-
Property, plant and equipment	-	-	-	-	-	-	486,433	-
Goodwill	-	-	-	-	-	-	892,012	-
<b>Total assets</b>	<b>41,085,037</b>	<b>9,163,376</b>	<b>7,080,475</b>	<b>6,856,869</b>	<b>2,770,201</b>	<b>934,055</b>	<b>74,154,469</b>	

# Consist of equity instruments less impairment loss.

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

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)****39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)****(b) Interest Rate Risk (Continued)**

Bank	Non-trading book						Effective interest rate
	Up to 1 month	>1-3 months	>3-12 months	>1-5 years	Over 5 years	Non-interest sensitive	
31.12.2005	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>Liabilities</b>							
Deposits from customers	14,135,730	5,120,567	8,998,974	348,570	-	12,240,433	2.77
Deposits and placements of banks and other financial institutions							
Obligations on securities sold under repurchase agreements	7,912,441	1,808,845	620,338	-	-	-	2.86
Bills and acceptances payable	1,075,424	1,319,615	545,540	-	-	338,445	3.31
Recourse obligation on loans sold to Cagamas Berhad	-	-	437,197	1,341,545	227,807	-	4.73
Other liabilities	256,681	-	-	-	-	763,289	2.85
Provision for taxation and zakat	-	-	-	-	-	15,675	-
Subordinated obligations	-	-	-	1,365,252	-	-	6.63-6.85
	29,060,794	10,701,521	11,314,779	3,897,127	307,363	13,361,522	
						54,253	
INCPS	-	-	-	1,368,099	-	-	Effective dividend rate
Shareholders' equity	-	-	-	-	-	-	10.00
Total liabilities and shareholders' equity	29,060,794	10,701,521	11,314,779	5,265,226	307,363	17,450,533	-
						54,253	
Total interest-sensitivity gap	12,024,243	(1,538,145)	(4,234,304)	1,591,643	2,462,838	(11,186,077)	-

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)****(c) Liquidity Risk**

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

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

**(d) Credit Risk Management**

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

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

The credit policy is to develop a strong credit culture with the objective of maintaining a well diversified, evaluated and current portfolio, fully satisfied for credit risk, giving no concern for unexpected losses and which ensures a reliable and satisfactory risk weighted return. This policy, the bedrock of credit risk management, is in the form of a written statement of credit standards, principles and guidelines, which is distributed bank-wide and used as a common source of reference. Market best practices are incorporated into this policy.

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 the Chief Credit Officer ('CCO'). The Credit Committee and the Loans Committee of the Board sanction credits beyond the individual discretionary limit of the CCO. The strict adherence to the discretionary powers sanctioned by the Board is monitored by the Compliance Division.

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

The Bank strives to maintain a diverse credit profile and track changing risk concentrations in response to market changes and external events. Risks are further mitigated through counterparty, industry and product exposure limits and risk reward mapping. A sector lending direction guide has been updated for 2005.

The Bank has a comprehensive budget and plan to move towards the advanced Basel II approaches.

In line with BNM's implementation timeline, the Bank shall implement its Basel II Standardised Approach for Credit Risks by first quarter of 2007 for parallel reporting to BNM. In respect of the Bank's progression towards compliance to the Basel II Internal Rating Based ('IRB') Approach, the Bank is in the process of 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 for models business loans, and (iii) designing and implementing modelling of expected and unexpected losses.

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**39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

(d) Credit Risk Management (Continued)

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's IRB Approach.

These IRB implementation activities are in various advanced stages of completion, and the Bank is confident of meeting the IRB standards of the Basel II Framework.

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**39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

(d) Credit Risk Management (Continued)

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

Group	Short-term funds and deposits & placements with financial institutions	Securities purchased under resale agreements	Securities held for trading	Securities available- for-sale@	Securities held-to- maturity	Loans, advances and financing #	Other financial assets *	On balance sheet total	Commitments and contingencies
31.12.2006	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	-	-	-	-	58,027	2,640,794	-	2,698,821	867,430
Mining and quarrying	-	-	-	-	-	76,585	-	76,585	93,879
Manufacturing	-	-	240,217	78,917	249,834	9,952,272	217	10,521,457	11,521,328
Electricity, gas and water	-	-	139,528	7,023	-	285,430	1,026	433,007	432,002
Construction	-	-	-	106,747	156,522	2,778,587	-	3,041,856	3,998,350
Real estate	-	-	48,736	114,926	15,555	988,130	402	1,167,749	633,397
Purchase of landed property	-	-	-	-	-	14,182,286	-	14,182,286	1,230,738
General commerce	-	-	-	23,030	15,326	6,241,379	-	6,279,735	6,262,658
Transport, storage and communication	-	-	24,936	-	1,960,906	2,696,420	156	4,682,418	1,000,005
Finance, insurance and business services	14,311,108	2,689,491	249,999	4,396,722	7,363,886	2,910,896	155,706	32,077,808	15,236,936
Government and government agencies	-	2,050	1,242,346	742,684	3,200,624	169,262	25,147	5,382,113	79,015
Purchase of securities	-	-	-	49,109	-	1,494,654	-	1,543,763	226,037
Purchase of transport vehicles	-	-	-	-	-	5,091,441	-	5,091,441	300,658
Consumption credit	-	-	-	-	-	3,334,387	-	3,334,387	4,089,784
Others	-	-	-	-	-	864,865	566,475	1,431,340	4,236,468
	14,311,108	2,691,541	1,945,762	5,519,158	13,020,680	53,707,388	749,129	91,944,766	50,208,685

# Excludes general allowance amounting to RM965,782,000.

@ Excludes equity instrument amounting to RM194,670,000.

\* Other financial assets comprise bank balances and other receivables.

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**39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**(d) Credit Risk Management (Continued)**

Group	Short-term funds and deposits & placements with financial institutions	Securities purchased under resale agreements	Securities held for trading	Securities available- for-sale <sup>@</sup>	Securities held-to- maturity	Loans, advances and financing #	Other financial assets *	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31.12.2005									
Agriculture	-	-	-	-	19,144	1,771,351	1	1,790,496	724,014
Mining and quarrying	-	-	-	-	-	55,925	-	55,925	50,323
Manufacturing	-	-	85,714	162,375	242,359	8,699,850	-	9,190,298	10,058,107
Electricity, gas and water	-	-	155,219	18,969	-	295,093	904	470,185	350,807
Construction	-	-	4,912	-	15,177	2,394,248	-	2,414,337	2,589,218
Real estate	-	-	-	45,593	65,207	1,146,505	-	1,257,305	357,829
Purchase of landed property	-	-	-	-	-	13,015,195	479	13,015,674	1,648,576
General commerce	-	-	-	22,811	-	5,622,178	-	5,663,176	5,618,727
Transport, storage and communication	-	-	-	38,193	1,981,377	2,771,719	-	4,791,289	1,027,412
Finance, insurance and business services	12,527,176	2,213,042	278,131	1,202,862	8,490,343	2,268,528	132,035	27,112,117	9,861,338
Government and government agencies	-	6,449	1,231,944	203,417	3,080,650	309,186	132,801	4,964,447	705,603
Purchase of securities	-	-	-	3,298	-	1,836,108	-	1,839,406	219,413
Purchase of transport vehicles	-	-	-	-	-	4,343,932	-	4,343,932	131,636
Consumption credit	-	-	-	-	-	2,730,995	-	2,730,995	2,897,117
Others	-	-	-	-	166,145	1,282,825	375,554	1,824,524	4,124,695
	12,527,176	2,219,491	1,755,920	1,697,518	14,078,589	48,543,638	641,774	81,464,106	40,364,815

# Excludes general allowance amounting to RM909,527,000.

@ Excludes equity instrument amounting to RM198,062,000.

\* Other financial assets comprise bank balances and other receivables.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)****39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)****(d) Credit Risk Management (Continued)**

Bank	Short-term funds and deposits & placements with financial institutions	Securities under resale agreements	Securities held for trading	Securities available- for-sale <sup>@</sup>	Securities held-to- maturity	Loans, advances and financing #	Other financial assets *	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>31.12.2006</b>									
Agriculture	-	-	-	-	58,027	1,977,985	-	2,036,012	692,615
Mining and quarrying	-	-	-	-	-	72,511	-	72,511	93,687
Manufacturing	-	-	119,814	78,625	249,834	8,200,203	-	8,648,476	10,235,813
Electricity, gas and water	-	-	-	7,023	-	151,726	-	158,749	173,637
Construction	-	-	-	106,747	10,072	2,453,731	-	2,570,550	3,801,589
Real estate	-	-	-	114,926	15,555	973,663	-	1,104,144	576,908
Purchase of landed property	-	-	-	-	-	12,745,187	-	12,745,187	1,072,219
General commerce	-	-	-	23,030	15,326	5,775,298	-	5,813,654	5,711,105
Transport, storage and communication	-	-	-	-	1,907,933	2,263,910	-	4,171,843	910,843
Finance, insurance and business services	12,216,322	2,689,491	245,025	4,326,121	7,257,535	2,654,538	237,912	29,626,944	14,823,171
Government and government agencies	-	2,050	1,053,133	724,477	2,488,497	-	2,060	4,270,217	-
Purchase of securities	-	-	-	49,109	-	1,494,654	-	1,543,763	226,037
Purchase of transport vehicles	-	-	-	-	-	5,091,441	-	5,091,441	300,658
Consumption credit	-	-	-	-	-	3,334,387	-	3,334,387	4,089,784
Others	-	-	-	-	-	533,711	567,369	1,101,080	3,906,642
	<b>12,216,322</b>	<b>2,691,541</b>	<b>1,417,972</b>	<b>5,430,058</b>	<b>12,002,779</b>	<b>47,722,945</b>	<b>807,341</b>	<b>82,288,958</b>	<b>46,614,708</b>

# Excludes general allowance amounting to RM843,614,000.

@ Excludes equity instruments amounting to RM177,082,000.

\* Other financial assets comprise bank balances and other receivables.



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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)**39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)****(d) Credit Risk Management (Continued)**

Bank	Short-term funds and deposits & placements with financial institutions	Securities purchased under resale agreements	Securities held for trading	Securities available- for-sale@	Securities held-to- maturity	Loans, advances and financing #	Other financial assets *	On balance sheet total	Commitments and contingencies
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>31.12.2005</u>									
Agriculture	-	-	-	-	19,144	1,310,870	-	1,330,014	578,031
Mining and quarrying	-	-	-	-	-	42,771	-	42,771	50,131
Manufacturing	-	-	-	162,062	242,359	6,444,106	-	6,848,527	9,312,078
Electricity, gas and water	-	-	-	18,969	-	109,243	-	128,212	221,357
Construction	-	-	-	-	15,177	2,115,989	-	2,131,166	2,520,053
Real estate	-	-	-	45,593	65,207	939,549	-	1,050,349	354,167
Purchase of landed property	-	-	-	-	-	11,843,007	-	11,843,007	1,512,912
General commerce	-	-	-	22,811	18,187	5,003,477	-	5,044,475	5,197,849
Transport, storage and communication	-	-	-	38,193	1,981,377	2,204,749	-	4,224,319	969,971
Finance, insurance and business services	13,902,004	2,213,042	249,057	1,171,371	7,713,974	2,466,492	382,966	28,098,906	9,548,856
Government and government agencies	-	6,449	641,435	70,984	2,788,382	309,186	64,743	3,881,179	705,588
Purchase of securities	-	-	-	3,298	-	1,487,847	-	1,491,145	219,413
Purchase of transport vehicles	-	-	-	-	-	24,720	-	24,720	1,470
Consumption credit	-	-	-	-	-	2,702,796	-	2,702,796	2,897,117
Others	-	-	-	-	-	762,614	390,402	1,153,016	3,593,655
	13,902,004	2,219,491	890,492	1,533,281	12,843,807	37,767,416	838,111	69,994,602	37,682,648

# Excludes general allowance amounting to RM676,608,000.

@ Excludes equity instruments amounting to RM193,538,000.

\* Other financial assets comprise bank balances and other receivables.

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)****(e) Operational Risk**

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

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

As part of its Basel II programme for operational risk management, the Bank has further enhanced its Operational Risk Management System, with 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 risk and internal control quality and tracking risk mitigation and, control improvement actions. This system improves the Bank's capabilities for the Advanced Measurement Approach of the Basel II Framework.

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

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

All new products/services introduced by the Bank are evaluated by RMD before being endorsed by RMC and subsequently approved by the Board.

**(f) Information Technology ('IT/IS') Risk**

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**40 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 loans 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, estimates of future 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, investment in subsidiary and associated companies and intangibles.

Therefore, for a significant portion of the Group and the Bank's financial instruments, including loans 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 Group and 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 the Group and the Bank's underlying value as a going concern.

Furthermore, it is the Group and 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.

**RHB BANK BERHAD**

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**40 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 interest rates at which similar deposits and placements would be made with financial institutions of similar credit risk and remaining period to maturity.

## (ii) Securities purchased under resale agreements

The fair values of securities purchased under resale agreements with maturities of less than six months approximate the carrying values. For securities purchased under resale agreements with maturities of six months and above, the estimated fair values are based on discounted cash flows using market rates for the remaining term to maturity.

## (iii) 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 interest 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.

## (iv) Loans, advances and financing

For floating rate loans, the carrying value is generally a reasonable estimate of fair value.

For fixed rate loans, the fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of loans with similar credit risk and maturities.

The fair values of impaired floating and fixed rates loans are represented by their carrying value, net of specific allowance being the expected recoverable amount.

## (v) 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 interest rates.

## (vi) 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.

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**40 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**

- (vii) Deposits and placements of banks and other financial institutions, obligations on securities held under repurchase agreements ('repos'), bills and acceptances payable

The estimated fair values of deposits and placements of banks and other financial institutions, repos, 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 interest rates with similar remaining period to maturities.

- (viii) Recourse obligation on loans sold to Cagamas Berhad

For amount due to Cagamas with maturities of less than one year, the carrying amounts are a reasonable estimate of their fair values. For amount due to Cagamas with maturities of more than one year, fair value is estimated based on discounted cash flows using prevailing money market interest rates with similar remaining period to maturity.

- (ix) Long term borrowings

The estimated fair values of other borrowings with maturities of less than six months approximate the carrying values. For other borrowings with maturities six months or more, the fair values are estimated based on discounted cash flows using prevailing market rates for borrowings with similar risk profile.

- (x) Subordinated obligations

The estimated fair value of subordinated bonds is generally based on quoted and observable market prices at the balance sheet date.

- (xi) INCPS

The estimated fair value of the INCPS is based on the price over net assets value of comparable banks, adjusted for the conversion option of the INCPS.

- (xii) Credit related commitment and contingencies

The net fair value of these items was not calculated as estimated fair values are not readily ascertainable. These financial instruments generally relate to credit risks and attract fees in line with market prices for similar arrangements. They are not presently sold nor traded. The fair value may be represented by the present value of fees expected to be received, less associated costs.

- (xiii) Foreign exchange and interest rate related contracts

The fair values of foreign exchange and interest rate related contracts are the estimated amounts the Group or the Bank would receive or pay to terminate the contracts at the balance sheet date.

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**40 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)**

The above mentioned range of methodologies and assumptions had been used in deriving the fair values of the Group's and the Bank's financial instruments at balance sheet date. The total fair value at each financial instrument approximates the total carrying value, except for the following:

31.12.2006	Group		Bank	
	Carrying value RM'000	Estimated fair value RM'000	Carrying value RM'000	Estimated fair value RM'000
<u>Financial assets</u>				
Securities held-to-maturity	13,020,680	13,044,787	12,002,779	12,019,892
Loans, advances and financing	52,741,606	52,621,378	@ 46,879,331	46,770,622 @
<u>Financial liabilities</u>				
Recourse obligation on loans sold to Cagamas Berhad	2,879,284	2,909,218	2,879,284	2,909,218
Subordinated obligations	1,328,158	1,354,849	1,328,158	1,354,849
INCPS	<u>1,368,099</u>	<u>2,497,930</u>	<u>1,368,099</u>	<u>2,497,930</u>
31.12.2005	Group		Bank	
	Carrying value RM'000	Estimated fair value RM'000	Carrying value RM'000	Estimated fair value RM'000
<u>Financial assets</u>				
Securities held-to-maturity	14,078,589	14,074,966	# 12,843,807	12,833,531 #
Loans, advances and financing	47,634,111	47,944,342	37,090,808	37,090,808
<u>Financial liabilities</u>				
Recourse obligation on loans sold to Cagamas Berhad	3,356,992	3,365,638	2,006,549	2,018,200
Subordinated obligations	1,365,252	1,416,859	1,365,252	1,416,859
INCPS	<u>1,368,099</u>	<u>2,376,880</u>	<u>1,368,099</u>	<u>2,376,880</u>

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

# The carrying amount is not written down to the fair value, as the amount is deemed to be recoverable, as substantially, it relates to government guaranteed bonds.

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

### 41 CAPITAL ADEQUACY

	<b>Group</b>		<b>Bank</b>	
	<b>31.12.2006</b>	<b>31.12.2005</b>	<b>31.12.2006</b>	<b>31.12.2005</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<u>Tier I Capital</u>				
Paid-up ordinary share capital	1,949,986	1,949,986	1,949,986	1,949,986
Paid-up INCPS	1,368,099	1,368,099	1,368,099	1,368,099
Share premium	8,563	8,563	8,563	8,563
Retained profits	970,739	780,262	831,867	714,771
Other reserves	1,768,840	1,593,144	1,717,790	1,525,017
	<u>6,066,227</u>	<u>5,700,054</u>	<u>5,876,305</u>	<u>5,566,436</u>
Less: Goodwill	(1,004,017)	(1,004,017)	(905,519)	(892,012)
Deferred tax assets	(251,703)	(240,030)	(210,747)	(171,138)
Total Tier I capital	<u>4,810,507</u>	<u>4,456,007</u>	<u>4,760,039</u>	<u>4,503,286</u>
<u>Tier II Capital</u>				
Subordinated obligations	1,328,158	1,365,252	1,328,158	1,365,252
General allowance for bad and doubtful debts and financing	965,782	909,527	877,693	716,861
Total Tier II capital	<u>2,293,940</u>	<u>2,274,779</u>	<u>2,205,851</u>	<u>2,082,113</u>
Less: Investment in subsidiaries	-	-	(628,640)	(1,189,533)
Holdings of other financial institutions capital instruments	(39,998)	(43,710)	(39,998)	(43,710)
Total capital base	<u>7,064,449</u>	<u>6,687,076</u>	<u>6,297,252</u>	<u>5,352,156</u>
<u>Capital ratios</u>				
Before proposed dividends:				
Core capital ratio	8.2%	8.6%	8.8%	10.6%
Risk-weighted capital ratio	12.1%	12.9%	11.7%	12.6%
After proposed dividends:				
Core capital ratio	8.0%	8.4%	8.6%	10.4%
Risk-weighted capital ratio	<u>11.8%</u>	<u>12.8%</u>	<u>11.5%</u>	<u>12.5%</u>

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**41 CAPITAL ADEQUACY (CONTINUED)**

Group	<u>31.12.2006</u>		<u>31.12.2005</u>	
	<u>Principal</u>	<u>Risk</u>	<u>Principal</u>	<u>Risk</u>
	<u>RM'000</u>	<u>Weighted</u>	<u>RM'000</u>	<u>Weighted</u>
		<u>RM'000</u>		<u>RM'000</u>
The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:				
(i) Credit Risk				
0%	21,812,798	-	20,014,790	-
10%	785,414	78,541	1,265,392	126,539
20%	14,820,954	2,964,191	11,370,103	2,274,021
50%	11,779,164	5,889,582	11,279,456	5,639,728
100%	47,868,686	47,868,686	42,720,341	42,720,341
	<u>97,067,016</u>	<u>56,801,000</u>	<u>86,650,082</u>	<u>50,760,629</u>
(ii) Market Risk Capital Adequacy Framework #		<u>1,457,462</u>		<u>1,021,505</u>
Total risk-weighted assets		<u>58,258,462</u>		<u>51,782,134</u>
<b>Bank</b>				
	<u>31.12.2006</u>		<u>31.12.2005</u>	
	<u>Principal</u>	<u>Risk</u>	<u>Principal</u>	<u>Risk</u>
	<u>RM'000</u>	<u>Weighted</u>	<u>RM'000</u>	<u>Weighted</u>
		<u>RM'000</u>		<u>RM'000</u>
The breakdown of risk-weighted assets in the various categories of risk-weights are as follows:				
(i) Credit Risk				
0%	18,447,830	-	16,293,001	-
10%	724,972	72,497	1,124,844	112,484
20%	14,596,022	2,919,204	15,338,926	3,067,785
50%	10,468,915	5,234,458	10,123,747	5,061,874
100%	43,963,456	43,963,456	33,126,779	33,126,779
	<u>88,201,195</u>	<u>52,189,615</u>	<u>76,007,297</u>	<u>41,368,922</u>
(ii) Market Risk Capital Adequacy Framework #		<u>1,406,004</u>		<u>985,499</u>
Total risk-weighted assets		<u>53,595,619</u>		<u>42,354,421</u>

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

The Bank figures include the operations of RHB Bank (L) Ltd.

Pursuant to Bank Negara Malaysia's circular, "Recognition of Deferred Tax Assets ('DTA') and Treatment of DTA for RWCR Purposes" dated 8 August 2003, deferred tax income/(expense) is excluded from the computation of Tier I capital and deferred tax assets are excluded from the calculation of risk weighted assets.



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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**42 SEGMENT INFORMATION**

Segment information is presented in respect of the Group's business segment and geographical segment.

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

## (i) Primary reporting format – by business segment

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

## (a) Wholesale banking

Wholesale banking caters to funding or lending needs of corporate customers including public listed corporations and its related entities, multinational corporations (including Japanese), Financial Institutions, Government and state owned entities and small and medium sized enterprises. Included under Wholesale Banking are offshore banking activities carried out by RHB Bank (L) Ltd whose borrowing and lending facilities are offered in major currencies mainly to corporate customers. This segment also includes lease financing activities carried out by RHB Leasing Sdn Bhd which is predominantly middle market customers.

## (b) Retail banking

Retail banking focuses on providing products and services to individual customers. The products and services offered to customers include credit facilities (mortgages, hire purchase financing, study loans and personal loans), credit cards, remittance services, deposit collection and investment products.

## (c) Treasury and money market

Treasury and money market operations is involved in proprietary trading in fixed income and foreign exchange, derivatives trading and structuring, managing customer-based foreign exchange and money market transactions, funding and investment in ringgit and foreign currencies.

## (d) Islamic Banking

Islamic Banking focuses on providing a full range of commercial banking products and services in accordance with the principles of Shariah to individual customers, corporate clients, Government and state owned entities and small and medium sized enterprises.

## (e) Others

Other business segments in the Group include nominee services, property investment and rental, dormant operations and other related financial services, whose results are not material to the Group and therefore do not render separate disclosure in the financial statements and have been reported in aggregate.

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**42 SEGMENT INFORMATION (CONTINUED)**

Group	Wholesale Banking	Retail Banking	Treasury & Money Market	Islamic Banking	Others	Elimination	Total
<u>31.12.2006</u>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
External revenue	1,750,259	1,708,200	1,285,883	236,099	12,435	-	4,992,876
Inter-segment revenue	10,952	-	24,246	-	3,934	(39,132)	-
Total revenue	<u>1,761,211</u>	<u>1,708,200</u>	<u>1,310,129</u>	<u>236,099</u>	<u>16,369</u>	<u>(39,132)</u>	<u>4,992,876</u>
Segment results	496,186	253,339	304,340	172,729	10,609	-	1,237,203
Subordinated obligations							(91,815)
Unallocated expenses							(300,318)
Profit from operations							<u>845,070</u>
Share of results of an associate							<u>485</u>
Profit before INCPs dividend and taxation							845,555
INCPs dividend							(136,810)
Taxation and zakat							(204,897)
Net profit for the financial year							<u><u>503,848</u></u>
<u>31.12.2005</u>							
External revenue	1,465,812	1,463,160	909,171	147,635	10,799	-	3,996,577
Inter-segment revenue	8,389	-	79,179	-	4,013	(91,581)	-
Total revenue	<u>1,474,201</u>	<u>1,463,160</u>	<u>988,350</u>	<u>147,635</u>	<u>14,812</u>	<u>(91,581)</u>	<u>3,996,577</u>
Segment results	358,955	247,604	265,868	107,123	7,948	-	987,498
Subordinated obligations							(92,549)
Unallocated expenses							(271,208) <sup>1</sup>
Profit from operations							<u>623,741</u>
Share of results of an associate							<u>314</u>
Profit before INCPs dividend and taxation							624,055
INCPs dividend							(136,842)
Taxation and zakat							(109,476)
Net profit for the financial year							<u><u>377,737</u></u>

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**42 SEGMENT INFORMATION (CONTINUED)**

Group	Wholesale Banking	Retail Banking	Treasury & Money Market	Islamic Banking	Others	Elimination	Total
31.12.2006	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Other information</u>							
Segment assets	29,721,650	22,801,820	34,453,028	8,122,541	158,016	(848,577)	94,408,478
Deferred taxation assets							251,720
Tax recoverable							65
Investment in an associate							4,683
Unallocated assets							459,451
Total assets							95,124,397
Segment liabilities	25,639,868	21,913,616	32,354,584	7,422,607	155,834	(974,221)	86,512,288
Deferred taxation liabilities							17
Taxation and zakat							79,425
Subordinated obligations							1,328,158
Unallocated liabilities							1,139,748
							89,059,636
INCPs							1,368,099
<u>Other segment items</u>							
Capital expenditure	18,009	43,980	3,614	1,448	210		67,261
Depreciation	16,315	61,257	6,554	783	828		85,737
Impairment loss	27,464	-	8,000	-	1,136		36,600
Other non-cash expense other than depreciation and impairment loss	424,224	322,856	19,278	22,177	77		788,612 <sup>2</sup>

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**42 SEGMENT INFORMATION (CONTINUED)**

Group	Wholesale Banking	Retail Banking	Treasury & Money Market	Islamic Banking	Others	Elimination	Total
31.12.2005	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Other information</u>							
Segment assets	27,072,015	21,500,340	28,731,341	7,361,139	215,286	(1,064,989)	83,815,132
Deferred taxation assets							240,038
Tax recoverable							17,449
Investment in an associate							4,198
Unallocated assets							678,693
Total assets							<u>84,755,510</u>
Segment liabilities	24,321,773	18,069,763	28,873,186	7,057,030	161,501	(1,321,386)	77,161,867
Deferred taxation liabilities							8
Taxation and zakat							19,214
Subordinated obligations							1,365,252
Unallocated liabilities							503,973
							<u>79,050,314</u>
INCPS							<u>1,368,099</u>
<u>Other segment items</u>							
Capital expenditure	12,797	37,857	5,696	6,485	123		62,958
Depreciation	17,959	66,376	6,455	576	805		92,171
Impairment loss	93,742	-	(3)	-	(896)		92,843
Other non-cash expense other than depreciation and impairment loss	310,880	262,449	12,385	16,430	68		602,212 <sup>2</sup>

Note :

1. Unallocated expenses are expenses incurred by Head Office Support Divisions which are not directly attributed to the business segments and cannot be allocated on a reasonable basis.
2. Included in other non-cash expense other than depreciation and impairment loss are loan loss and provisioning, interest-in-suspense and accretion of discount less amortisation of premium.

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

### **42 SEGMENT INFORMATION (CONTINUED)**

(ii) Secondary reporting format – by geographical segment

The geographical information is prepared based on the location of the assets.

#### **Group**

	Year ended 31.12.2006 RM'000	Year ended 31.12.2005 RM'000
<u>Total revenue</u>		
Malaysia	4,756,730	3,824,448
Outside Malaysia	236,146	172,129
Total	4,992,876	3,996,577
	As at 31.12.2006 RM'000	As at 31.12.2005 RM'000
<u>Total assets</u>		
Malaysia	90,186,313	80,207,414
Outside Malaysia	4,938,084	4,548,096
Total	95,124,397	84,755,510
	Year ended 31.12.2006 RM'000	Year ended 31.12.2005 RM'000
<u>Capital expenditure</u>		
Malaysia	63,639	60,623
Outside Malaysia	3,622	2,335
Total	67,261	62,958

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**43 SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR**Merger of RHB Bank Berhad ('RHB Bank') and RHB Delta Sdn Bhd ('RHB Delta') operations ('the Merger')

Following the regulatory approvals and High Court order obtained in December 2005 for the Merger, with effect from 1 January 2006:

- (a) All assets and liabilities of RHB Delta with the exception of the Islamic assets and liabilities were transferred to RHB Bank;
- (b) All businesses and operations of RHB Delta are conducted through RHB Bank;
- (c) The Islamic assets and liabilities of RHB Delta were transferred to RHB Islamic Bank Berhad; and
- (d) RHB Leasing Sdn Bhd and RHB Delta Nominees (Tempatan) Sdn Bhd became direct subsidiaries of RHB Bank.

The assets and liabilities of RHB Delta which were transferred to the Bank are set out in the table below.

<b>Assets transferred</b>	<b>RM'000</b>
Cash and short-term funds	727,701
Securities purchased under resale agreement	50,000
Deposits and placements with banks and other financial institutions	50
Securities available-for-sale	3,149
Securities held-to-maturity	256,655
Gross loans, advances and financing	6,130,161
Less : - specific allowance	(142,534)
- general allowance	(107,790)
Other assets	13,920
Deferred tax assets	35,898
Tax recoverable	20,214
Statutory deposits with Bank Negara Malaysia	202,951
Investment in subsidiaries	63,976
Property, plant and equipment	13,557
	<u>7,267,908</u>
<b>Liabilities transferred</b>	
Deposits from customers	1,082,131
Deposits and placements of banks and financial institutions	4,151,474
Recourse obligation on loans sold to Cagamas Berhad	1,350,443
Other liabilities	90,433
	<u>6,674,481</u>
Net assets transferred	<u>593,427</u>
Cash and cash equivalents transferred	<u>727,701</u>

The banking licence of RHB Delta Finance was surrendered on 11 January 2006.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

**44 EFFECTS ON FINANCIAL STATEMENTS ON ADOPTION OF NEW FRS**

FRS 101: Presentation of Financial Statements

The adoption of the revised FRS 101 has affected the presentation of the following:

- (i) Share of results of associates is now presented net of tax in the consolidated income statement.

The presentation of comparative financial statements of the Group have been restated to conform with the presentation in the current financial year and the following have been restated:

	As restated <u>2005</u> RM'000	As previously reported <u>2005</u> RM'000
<u>Income Statement</u>		
Share of results of associates	314	542
Profit before INCPS dividends, taxation and zakat	624,055	624,283
Profit after INCPS dividends and before taxation and zakat	487,213	487,411
Share of taxation of associates	<u>-</u>	<u>(228)</u>

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## NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (CONTINUED)

### 45 COMPARATIVE FIGURES

Certain presentation of comparative financial statements of the Group and the Bank have been restated to conform with the presentation in the current financial year and the following have been restated:

Income statement for year ended 31.12.2005	As previously reported RM'000	Reclassifications RM'000	As restated RM'000
<b>Group</b>			
Other operating income - Other income	144,016	28,094	172,110
Other operating expenses - Marketing expenses	124,465	25,530	149,995
Other operating expenses - Administration and general expenses	107,128	2,564	109,692
<b>Bank</b>			
Other operating income - Other income	140,472	28,094	168,566
Other operating expenses - Marketing expenses	66,765	25,530	92,295
Other operating expenses - Administration and general expenses	69,134	2,564	71,698

### 46 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 28 February 2007.



Company No.

6171	M
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**RHB BANK BERHAD**

(Incorporated in Malaysia)

STATEMENT BY DIRECTORS PURSUANT TO  
SECTION 169 (15) OF THE COMPANIES ACT, 1965

We, Datuk Azlan Zainol and Dato Abdullah Mat Noh, being two of the directors of RHB Bank Berhad state that, in the opinion of the directors, the financial statements set out on pages 15 to 116 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Bank as at 31 December 2006 and of the results and cash flows of the Group and 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, together with the directives and guidelines issued by Bank Negara Malaysia and the provisions of the Companies Act, 1965.

On behalf of the Board in accordance with a resolution of the Board of Directors dated 28 February 2007.



DATUK AZLAN ZAINOL  
CHAIRMAN



DATO ABDULLAH MAT NOH  
DEPUTY CHAIRMAN

Kuala Lumpur

STATUTORY DECLARATION PURSUANT TO  
SECTION 169 (16) OF THE COMPANIES ACT, 1965

I, Rupert Koh Hock Joo, the officer primarily responsible for the financial management of RHB Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 15 to 116 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 Declarations Act, 1960.



RUPERT KOH HOCK JOO

Subscribed and solemnly declared by the abovenamed Rupert Koh Hock Joo at Kuala Lumpur in Wilayah Persekutuan on

28 FEB 2007

before me :



COMMISSIONER FOR OATHS  
Kuala Lumpur

No: 86, Tingkat Bawah  
Jalan Putra  
50350 KUALA LUMPUR

REPORT OF THE AUDITORS TO THE MEMBERS OF RHB BANK BERHAD  
(Company No. 6171-M)  
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 15 to 116. These financial statements are the responsibility of the Bank's directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

In our opinion :

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965, Bank Negara Malaysia Guidelines and the MASB approved accounting standards in Malaysia for entities other than private entities so as to give a true and fair view of:
  - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
  - (ii) the state of affairs of the Group and the Bank as at 31 December 2006 and of the results and cash flows of the Group and the Bank for the financial year ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Bank and by its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.


The names of the subsidiaries of which we have not acted as auditors are indicated in note 11 of the financial statements. We have considered the financial statements of these subsidiaries and the auditor's reports thereon.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

REPORT OF THE AUDITORS TO THE MEMBERS OF RHB BANK BERHAD (CONTINUED)  
(Company No. 6171-M)  
(Incorporated in Malaysia)

The audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

  
PRICEWATERHOUSECOOPERS  
(No. AF-1146)  
Chartered Accountants

  
SOO HOO KHOON YEAP  
(No. 2682/10/07 (J))  
Partner of the firm

Kuala Lumpur  
28 February 2007

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