**UNITED OVERSEAS BANK (MALAYSIA) BHD**

(INCORPORATED IN MALAYSIA)

CO NO : 271809K

## CONTENTS



*Reports and financial statements for the year ended 31 December 2006*

## Brief Profile

United Overseas Bank (Malaysia) Bhd [“UOB (Malaysia)”] was incorporated in 1993. It is a subsidiary of United Overseas Bank Limited (“UOB”), a leading bank in Singapore with a global network of over 500 branches/offices and subsidiaries/associates in 18 countries and territories in Asia-Pacific, Western Europe and North America.

UOB has had a presence in Malaysia since 1951. Today, UOB (Malaysia) operates 41 branches throughout Malaysia, making it the foreign bank with the largest branch network in the country.

UOB (Malaysia) offers an extensive range of commercial and personal financial services through its branches as well as through its subsidiaries and associate companies. Our products and services include commercial lending, investment banking, treasury services, trade services, home loans, credit cards, wealth management, general insurance and life assurance.

UOB (Malaysia) is rated AA1 by the Rating Agency of Malaysia (RAM).

For further information, please visit www.uob.com.my

**Wee Cho Yaw**
*Chairman*

## 2006 PERFORMANCE

Fuelled by higher oil and commodity prices, the Malaysian economy performed better than 2005, with 2006 full year GDP forecast at 5.8%. The year also witnessed intense competition in the banking sector because of the entry of new foreign Islamic financial institutions as well as non-financial institutions providing retail financial services. The consolidated indigenous banks also upped their ante in the fierce competition for market share. Despite the competitive landscape, United Overseas Bank (Malaysia) Bhd ["UOB (Malaysia)"] Group achieved a creditable performance in 2006.

Profit before tax for the Group grew by 18% over 2005 to RM586 million (2005: RM497 million). This was mainly contributed by higher net interest income of RM705 million (2005: RM606 million) and higher fee income of RM400 million (2005: RM329 million). This was partially off-set by higher operating expenses of RM371 million (2005: RM293 million) as the Group continued to invest in its human capital and infrastructure. The Group also recorded higher provisions of RM167 million (2005: RM159 million) mainly due to general allowance of RM54 million provided for in 2006 (2005: nil).

At the end of the year the Group's shareholders' fund strengthened to RM2.4 billion (2005: RM2.2 billion) while total assets rose to RM32.0 billion (2005: RM31.1 billion). Total non-bank loans registered a healthy growth rate of 17% from RM17.2 billion to RM20.2 billion, while total non-bank deposits increased from RM16.6 billion to RM19.3 billion. The net NPL ratio of the Group has improved further to 4.3% from 5.0% at the end of year 2005.

The Bank's focus on growing its small and medium enterprises ("SMEs") business resulted in a 22% increase in loans to this sector. Besides SMEs, the Bank also recorded a healthy growth rate of 31% in its mortgage loan portfolio with its flexible and competitive mortgage packages to meet its customers' needs. The Bank achieved a 23% growth in its card base during the year.

The Bank's investment banking unit also gained significant momentum in 2006. The investment banking unit arranged a total of 7 Private Debts Securities ("PDS") transactions valued at RM2.6 billion. As part of the value added services, the investment banking unit also helped to put in place RM423 million worth of bridging facilities for issuers of PDS.

The Bank's efforts in contributing to the development of the Malaysia debt capital market resulted in UOB (Malaysia) being upgraded from 5th to 4th position in the Bloomberg Underwriter League Table for Malaysian Ringgit Bonds. We are the only foreign bank in the top five positions of the Bloomberg Underwriter League Table for Malaysian Ringgit Bonds.

Complementing the Malaysian Government's efforts to develop the Islamic capital market, the Bank continued to promote the issuance of Islamic bonds. Based on Bloomberg's League Table for Global Islamic Bonds, for 2006, UOB (Malaysia) was ranked 9th, with total issuance of USD283.6 million versus USD278.9 million previously.

The Bank achieved another significant milestone in its branch network expansion during the year. Four new branches were opened in Kota Damansara, Kepong, Muar and Sibu, as well as one relocated branch at Jalan Sultan Ismail.

## 2007 PROSPECTS AND PLANS

Despite a softer external environment, Malaysia's growth is expected to remain healthy with the government projecting a 6% GDP growth in 2007. The major impetus for growth in 2007 is expected to come from private consumption and investment. The expansionary fiscal spending from the Ninth Malaysian Plan is expected to partially cushion the negative spillover from the anticipated global slowdown.

With 41 strategically-located branches nationwide, UOB (Malaysia) remains the foreign bank with the largest branch network in Malaysia. With the Bank's expanded presence, customers can enjoy greater convenience and easier access to our products and services. The UOB Group has also built up a strong presence in the Asian region and our corporate customers will benefit from our well established regional presence.

## ACKNOWLEDGEMENT

I would like to thank the Board of Directors for their wise counsel and guidance during the past year. In particular, I would like to record my deep appreciation to Mr. Samuel Poon Hon Thang, who resigned from the Board on 1 November 2006.

I extend a very warm welcome to Mr. Chan Kok Seong and YBhg Dato' Maznah Binti Abdul Jalil, who joined the Board on 3 August 2006 and 27 September 2006, respectively.

My appreciation also goes to management and staff members for their commitment and contributions, and our customers for their continuous support during the year.

Wee Cho Yaw
Chairman

## BOARD OF DIRECTORS

Wee Cho Yaw
*Chairman*

Wee Ee Cheong
Ong Sea Eng Terence
Lee Chin Yong Francis
YABhg Tun Dato' Seri Dr Lim Chong Eu
Ng Kee Wei
Lim Kean Chye
Chan Kok Seong
*(Appointed on 3.8.2006)*
YBhg Dato' Maznah Binti Abdul Jalil
*(Appointed on 27.9.2006)*

## EXECUTIVE COMMITTEE

Wee Cho Yaw
*Chairman*

Wee Ee Cheong
Lee Chin Yong Francis
Chan Kok Seong
*(Appointed on 31.10.2006)*

## AUDIT COMMITTEE

YABhg Tun Dato' Seri Dr Lim Chong Eu
*Chairman*

Ng Kee Wei
Lee Chin Yong Francis
*(Appointed on 31.10.2006)*

## NOMINATING COMMITTEE

Lim Kean Chye
*Chairman*

Wee Cho Yaw
Lee Chin Yong Francis
Ng Kee Wei
Ong Sea Eng Terence
*(Appointed on 31.10.2006)*

## REMUNERATION COMMITTEE

Lim Kean Chye
*Chairman*

Wee Cho Yaw
Lee Chin Yong Francis

## RISK MANAGEMENT COMMITTEE

Ng Kee Wei
*Chairman*

Lee Chin Yong Francis
YBhg Dato' Maznah Binti Abdul Jalil
*(Appointed on 31.10.2006)*

**SENIOR MANAGEMENT**

Chan Kok Seong
*Director & Chief Executive Officer*

Yeo Kian Ing, Ken
*Senior Vice President & Senior Head*
*Delivery Channels & Operations Division*

Chun Choy Wan (Ms)
*Senior Vice President & Head*
*Centralised Credit Operations / Legal & Secretariat*
*Delivery Channels & Operations Division*

Khoo Chock Seang
*Senior Vice President & Head*
*Sales Management*
*Personal Financial Services Division*

Lai Tak Kong
*Senior Vice President & Head*
*Corporate Banking Division*

Lee Jim Leng (Ms)
*Managing Director*
*Investment Banking Services Division*

Lee Voon Seng
*Senior Vice President & Head*
*Human Resources Division*

Leong Sow Yoke (Ms)
*Senior Vice President & Head*
*Internal Audit Division*

Lin Kok Hoi
*Senior Vice President & Head*
*Operations / Channel Support*
*Delivery Channels & Operations Division*

Loong See Meng, Steven
*Senior Vice President & Head*
*Corporate Credit*
*Credit Management Division*

Lum Chee Onn
*Senior Vice President & Head*
*Information Technology Division*

Mohd Fhauzi Bin Muridan
*Senior Vice President & Head*
*Bumiputra Banking Division*

Ng Ling Tee, Steven
*Senior Vice President & Head*
*Specialised Financing Division*

Phee Chiew Tee (Ms)
*Senior Vice President & Head*
*Commercial Banking Division*

Por Peng Seong, Alex
*Senior Vice President & Head*
*Risk Management Division*

Quah Chei Jin, Albert
*Senior Vice President & Head / Chief Financial Officer*
*Corporate Services Division*

Tan Guat Ngiee, Peggy (Ms)
*Managing Director*
*Treasury Division*

Tan Kian Huat
*Senior Vice President & Head*
*Retail Commercial Banking Division*

Yong Chow Kung, Lawrence
*Senior Vice President & Head*
*International Trade Services & Remittances*
*Delivery Channels & Operations Division*

Yong Yen Ee
*Senior Vice President & Head*
*Commercial Credit*
*Credit Management Division*

# Corporate Information

**SECRETARIES**

Chun Choy Wan (Ms)
Aw Teck Yee (Ms)

**AUDITORS**

Messrs Ernst & Young
Level 23A, Menara Milenium
Jalan Damanlela, Pusat Bandar Damansara
50490 Kuala Lumpur

**SHARE CAPITAL**

Authorised: RM 2,000,000,000
Paid Up: RM 470,000,000

**REGISTERED OFFICE**

Level 11, Menara UOB
Jalan Raja Laut, 50350 Kuala Lumpur

**HEAD OFFICE**

Menara UOB, Jalan Raja Laut
Peti Surat 11212
50738 Kuala Lumpur
Telephone: 03-2692 7722
Facsimile: 03-2691 0281
Cable: BANKUOBMKUALALUMPUR
Telex: MA 34191 UOBMHO
Website: www.uob.com.my
Email: uob121@uob.com.my

## FEDERAL TERRITORY

**Main Branch Kuala Lumpur**
Level 2, Menara UOB
Jalan Raja Laut, 50350 Kuala Lumpur
Tel: 03-2692 4511
Fax: 03-2691 3110
Manager: Ms Janny Yew Beng Guay

**Medan Pasar Branch**
Bangunan UOB Medan Pasar
10-12, Medan Pasar
50050 Kuala Lumpur
Tel: 03-2772 8000
Fax: 03-2031 9387 / 03-2070 8058
Manager: Mr Kan Wing Yin

**Jalan Pudu Branch**
408-410, Jalan Pudu
55100 Kuala Lumpur
Tel: 03-9222 5135 / 03-9222 9022
Fax: 03-9221 6667
Manager: Mr Raymond Chui Keng Leng

**Jalan Imbi Branch**
197-199, Jalan Imbi
55100 Kuala Lumpur
Tel: 03-2143 5722
Fax: 03-2148 9725
Manager: Mr Chan Chee Peng

**Jalan Sultan Ismail Branch**
Unit 1-6, Ground Floor
President House
Jalan Sultan Ismail
50250 Kuala Lumpur
Tel: 03-2142 8828
Fax: 03-2141 1212
Manager: Mr Samuel Chen FuXiang

**Kepong Branch**
82, Ground Floor, Jalan 3/62D
Medan Putra Business Centre
Sri Menjalara, Off Jalan Damansara,
52200 Kuala Lumpur
Tel: 03-6286 6888
Fax: 03-6275 3668
Manager: Ms Kelly Wong Siew Ling

## SELANGOR

**Jalan Tengah Branch, Petaling Jaya**
2-6, Jalan Tengah, 46200 Petaling Jaya
Tel: 03-7955 6576 / 03-7958 2282
Fax: 03-7955 9110
Manager: Mr Kennedy Choo Wei Hong

**Jalan Othman Branch, Petaling Jaya**
39-45, Jalan Othman, 46000 Petaling Jaya
Tel: 03-7788 3333
Fax: 03-7783 8131
Manager: Ms Lew Siew Teap

**Kota Damansara Branch, Petaling Jaya**
48, Jalan PJU 5/8
Dataran Sunway, Kota Damansara
47810 Petaling Jaya
Tel: 03-6140 9881
Fax: 03-6140 9771
Manager: Mr Christopher Quah Boo Lek

**Damansara Uptown Branch, Petaling Jaya**
1, Jalan SS21/58, Ground Floor, Uptown 1
Damansara Uptown, 47400 Petaling Jaya
Tel: 03-7726 2299
Fax: 03-7727 5566
Manager: Mr Woon Siew Hoong

**Klang Branch**
2108, Jalan Meru, 41050 Klang
Tel: 03-3342 0712 / 03-3342 0713
Fax: 03-3342 1135
Manager: Ms Tsu Siew Keng

**Shah Alam Branch**
2A, Ground Floor, Wisma SunwayMas
Jalan Tengku Ampuan Zabedah C9/C
Section 9, 40100 Shah Alam
Selangor Darul Ehsan
Tel: 03-5891 6213
Fax: 03-5891 6052
Manager: En Abdul Razak bin Abdul Malek

**Puchong Branch**
6, Jalan Kenari 5, Bandar Puchong Jaya
47100 Puchong
Tel: 03-8076 8989
Fax: 03-8076 8181
Manager: Mr Foo Tek Lam

**PERAK**

**Ipoh Branch**
2, Jalan Dato' Seri Ahmad Said
30450 Ipoh
Tel: 05-254 0008 / 05-254 0200
Fax: 05-254 9092
Manager: Mr Liew Chai Kar

**MELAKA**

**Plaza Mahkota Branch**
1, Jalan PM5, Plaza Mahkota
75000 Melaka
Tel: 06-283 8840 / 06-283 8841
Fax: 06-283 8868
Manager: Ms Sim Meow Hui

**Malim Branch**
1, Jalan PPM 8
Plaza Pandan, Malim Business Park
Jalan Balai Panjang, 75250 Melaka
Tel: 06-336 4336
Fax: 06-336 4337
Manager: Mr Sneah Thean Keng

**PAHANG**

**Kuantan Branch**
2, Jalan Besar
25000 Kuantan
Tel: 09-514 4155 / 09-516 1844 / 09-516 4755
Fax: 09-513 8266
Manager: Mr Cheow Chee Seng

**Bentong Branch**
61-62, Jalan Loke Yew
28700 Bentong
Tel: 09-222 1600 / 09-222 1778
Fax: 09-222 5882
Manager: Mr How Boon Seong, Jonathan

**Raub Branch**
14 & 16, Jalan Tun Razak
27600 Raub
Tel: 09-355 1187 / 09-355 3766
Fax: 09-355 5955
Manager: Mr How Boon Seong, Jonathan

**NEGERI SEMBILAN**

**Seremban**
24-26, Jalan Dato Lee Fong Yee
70000 Seremban
Tel: 06-762 5651 / 06-762 5652
Fax: 06-763 5303
Manager: Ms Ho Fong Kun

**NORTHERN REGION**

**North Regional Centre**
4072, Jalan Bagan Luar
12000 Butterworth
Tel: 04-314 8001
Fax: 04-323 0467
Regional Manager: Mr Tan Guan Leong

**PULAU PINANG**

**Lebuh Bishop Branch**
64E-H, Lebuh Bishop
10200 Pulau Pinang
Tel: 04-258 8000
Fax: 04-261 0868
Manager: Mr Phuah Ah Keng

**Jalan Kelawei Branch**
9, Jalan Kelawei
10250 Pulau Pinang
Tel: 04-226 1777
Fax: 04-226 2382
Manager: Mr Cheok Kar Gee

**Butterworth Branch**
4071 & 4072, Jalan Bagan Luar
12000 Butterworth
Tel: 04-314 8000
Fax: 04-332 4300
Manager: Ms Julie Lee Gim See

**Bukit Mertajam Branch**
1, Jalan Tembikai, Taman Mutiara
14000 Bukit Mertajam
Tel: 04-537 9898 / 04-538 8233
Fax: 04-530 3818
Manager: Ms Jean Koay Jin Hee

**KEDAH**

**Sungai Petani Branch**
177 & 178, Jalan Kelab Cinta Sayang
Taman Ria Jaya, 08000 Sungai Petani
Tel: 04-442 8828
Fax: 04-442 9828
Manager: Mr Ho Yik Tuck

**Alor Setar Branch**
449, Jalan Raja, 05000 Alor Setar
Tel: 04-732 1366
Fax: 04-733 0621
Manager: Mr Chang Tow Heng

**KELANTAN**

**Kota Bahru Branch**
3999, Jalan Tok Hakim, 15000 Kota Bahru
Tel: 09-748 2699 / 09-748 3066
Fax: 09-748 4307
Manager: En Shaharom Kahar

**TERENGGANU**

**Kuala Terengganu Branch**
51, Jalan Sultan Ismail, 20200 Kuala Terengganu
Tel: 09-622 1644 / 09-622 7912
Fax: 09-623 4644
Manager: Mr Oh Seng Hu

**SOUTHERN REGION**

**South Regional Centre**
2, Jalan Wong Ah Fook, 80000 Johor Bahru
Tel: 07-223 4241 / 07-219 6300
Regional Manager: Mr James Seow Hooi Choon

**JOHOR**

**Jalan Wong Ah Fook Branch**
2, Jalan Wong Ah Fook, 80000 Johor Bahru
Tel: 07-219 6300
Fax: 07-224 3706
Manager: Mr Goh Boon Siang

**Taman Molek Branch**
26 & 28, Jalan Molek 1/13
Taman Molek, 81100 Johor Bahru
Tel: 07-358 2121
Fax: 07-358 1378
Manager: Mr Frederick Tang See Meng

**Batu Pahat Branch**
Ground Floor, Wisma Sing Long
9, Jalan Zabedah, 83000 Batu Pahat
Tel: 07-432 8999
Fax: 07-433 8122
Manager: Mr Koh Boon Huat

**Kluang Branch**
14-16 Jalan Dato Capt. Ahmad
86000 Kluang
Tel: 07-772 1967 / 07-772 5968 / 07-772 1969
Fax: 07-773 0267 / 07-772 1977
Manager: Mr Leong Yew Fook

**Jalan Bakri, Muar Branch**
10, Jalan Pesta 1/1
Kg. Kenangan Tun Dr. Ismail (1)
Jalan Bakri, 84000 Muar
Tel: 06-955 5881
Fax: 06-953 1181
Manager: Ms Grace Lim Lian Eng

**Kulai Branch**
31-1 & 31-2,
Jalan Raya, Kulai Besar
81000 Kulai
Tel: 07-663 1232 / 07-663 1342
Fax: 07-663 5287
Manager: Mr Soo Chee Seang

**SABAH**

**Kota Kinabalu Branch**
Ground Floor, Wisma Great Eastern Life
65, Jalan Gaya, 88000 Kota Kinabalu
Tel: 088-319 555
Fax: 088-314 888
Manager: Mr Chua Chai Hua

**Tuaran Branch**
9 & 10, Jalan Datuk Dusing
89208 Tuaran
Tel: 088-788 567
Fax: 088-788 979
Manager: Mr Chua Chai Hua

**Sandakan Branch**
2nd Avenue, 90000 Sandakan
Tel: 089-212 028 / 089-217 833
Fax: 089-225 577
Manager: Mr Chong Mun Sing

**SARAWAK**

**Kuching Branch**
1-3, Main Bazaar
93000 Kuching
Tel: 082-421 291
Fax: 082-428 546
Manager: Ms Jean Si Poi Ne

**Miri Branch**
108-110, Jalan Bendahara
98000 Miri
Tel: 085-433 322
Fax: 085-422 221
Manager: Ms Chieng Sui Chin

**Bintulu Branch**
207 & 208
Parkcity Commerce Square (Phase III)
Jalan Tun Ahmad Zaidi
97000 Bintulu
Tel: 086-312 232
Fax: 086-338 381
Manager: Mr Ronny Yii See Chieng

**Sibu Branch**
8, Lorong 7A
Jalan Pahlawan
Jaya Li Hua Commercial Centre
96000 Sibu
Tel: 084-216 089
Fax: 084-217 089
Manager: Mr Ronny Yii See Chieng

The Board is fully committed to ensuring that the principles and best practices as set out in the Malaysian Code on Corporate Governance are applied in United Overseas Bank (Malaysia) Bhd. ("UOBM").

**Board of Directors**

The Board of UOBM comprises 9 distinguished members of whom five (5) are Non-Independent Non-Executive Directors, three (3) are Independent Non-Executive Directors and one (1) is Non-Independent Executive Director. The directors have distinguished careers in the banking, finance, law, public, business and management sectors. Mr Samuel Poon Hon Thang was a Non-Independent Non-Executive Director before his resignation from the Board on 1 November 2006.

The Board has oversight responsibility for the business and affairs of UOBM. The Board sets the overall business direction and provides guidance on UOBM's strategic plans. It delegates the formulation of business policies and day-to-day management to various committees and the Chief Executive Officer. The Board meets regularly to review UOBM's business plans and the operating results achieved.

The Board meets at least six times a year. The attendance of every Board member at the meetings of the Board and the various Board Committees is as set out below:

| | Number of meetings attended in 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Board of Directors | Executive Committee | Audit Committee | Risk Management Committee | Remuneration Committee | Nominating Committee |
| Wee Cho Yaw | 6 | 44 | - | - | 1 | 3 |
| Wee Ee Cheong | 6 | 37 | - | - | - | - |
| Poon Hon Thang, Samuel (resigned as director on 1 November 2006) | 5 | 19 | 3 | 3 | - | 2 |
| Ong Sea Eng, Terence | 6 | - | - | - | - | 1 |
| Lee Chin Yong, Francis | 6 | 38 | 1 | 4 | 1 | 3 |
| YABhg Tun Dato' Seri Dr Lim Chong Eu | 6 | - | 4 | - | - | - |
| Ng Kee Wei | 6 | - | 4 | 4 | - | 3 |
| Lim Kean Chye | 6 | - | - | - | 1 | 3 |
| Chan Kok Seong (appointed director on 3 August 2006) | 2 | 6 | - | - | - | - |
| YBhg Dato' Maznah Binti Abdul Jalil (appointed director on 27 September 2006) | 1 | - | - | 1 | - | - |
| Number of meetings held in 2006 | 6 | 44 | 4 | 4 | 1 | 3 |

**Board Committees**

There are currently five board committees appointed by the Board, namely the Executive Committee, Audit Committee, Risk Management Committee, Remuneration Committee and Nominating Committee. The role and responsibilities of each committee is set out under the respective committees' terms of reference, which have been approved by the Board. Details of the membership of the five board committees are set out at page 4.

**Board Committees (continued)**

**Executive Committee ("Exco")**

The Executive Committee (Exco) was established by the Board principally to assist the Board in making decisions expeditiously and to exercise certain authorities and functions delegated to it by the Board. The Exco schedules meetings on a weekly basis, and has been given delegated authority to exercise certain of the Board's powers.

The Chief Executive Officer is responsible for the day-to-day operations of UOBM. The Board has conferred upon the Exco and the Chief Executive Officer certain discretionary limits and authority for credit and loan approvals, treasury and investment activities, capital expenditure, budgeting and human resource management.

**Audit Committee ("AC")**

The role of the Audit Committee is to assist the Board to examine financial reports and oversee audit matters. The Audit Committee meets at least four times a year. Additional meetings may be called by the Chairman of the Audit Committee to discuss specific audit issues if necessary.

The Audit Committee meets with the external auditors annually to discuss the annual financial statements and their audit findings. It also meets with the external auditors whenever it deems necessary.

The minutes of the Audit Committee meetings are formally tabled to the Board for noting and for action where necessary.

In addition to the duties and responsibilities approved by the Board, the Audit Committee acts as a forum for discussion of internal control issues and contributes to the Board's review of the effectiveness of the Company's internal control and risk management systems. The Audit Committee also conducts a review of the internal audit function to ensure the adequacy of the scope, functions and resources of Internal Audit Division and that it has the necessary authority to carry out its work impartially.

**Risk Management Committee ("RMC")**

The role of the Risk Management Committee (RMC) is to assist the Board to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning. During the year, the RMC had four meetings.

The RMC meets with the Chief Executive Officer and other senior management staff whenever it deems necessary in order to obtain their assistance in discharging their responsibilities.

The minutes of the RMC meetings are formally tabled to the Board for noting and for action where necessary.

**Remuneration Committee ("RC")**

The role of the Remuneration Committee (RC) is to provide a formal and transparent procedure for developing remuneration policy for directors, the Chief Executive Officer and key senior management officers and to ensure that compensation is competitive and consistent with the licensed institution's culture, objectives and strategy. During the year, the RC met once.

The RC may meet with the Chief Executive Officer and other senior management staff whenever it deems necessary in order to obtain their assistance in discharging their responsibilities.

**Board Committees (continued)**

**Nominating Committee ("NC")**

The Nominating Committee (NC) is to provide a formal and transparent procedure for the appointment of directors and chief executive officer as well as assessment of the effectiveness of individual directors, the board as a whole and the performance of the Chief Executive Officer and key senior management officers. During the year, the NC had three meetings.

The NC may meet with the Chief Executive Officer and other senior management staff whenever it deems necessary in order to obtain their assistance in discharging their responsibilities.

**Financial Reporting**

In presenting the annual accounts and half yearly announcements, the Board is committed to present a balanced, clear and understandable assessment of the financial position and prospect of the Bank . The Board is assisted by the Audit Committee to oversee the Bank's financial reporting by scrutinizing the information to be disclosed to ensure accuracy, adequacy and completeness.

The Statement of Responsibility by Directors in respect of preparation of the annual audited financial statements of the Bank is set out on page 26.

**Internal Controls**

The Bank has a well-established internal audit function. The Bank's Internal Audit, which reports to the AC and administratively, to the Director & CEO, assists the Board in assessing and reporting on business risks and internal controls and operates within the framework defined in its Audit Charter.

There are formal procedures for Internal Audit to report its audit findings to management and to the AC. The AC approves the Internal Audit's annual audit plan each year. The results of each audit are submitted to the AC and significant findings are discussed during the AC Meetings. The minutes of the AC Meetings are formally tabled to the Board of Directors for noting and action where necessary. In addition, the Chief Internal Auditor also briefs the Chairman and Deputy Chairman of the Board as well as the Group Chief Internal Auditor of key audit findings and other control concerns at monthly internal audit meetings.

The scope of Internal Audit covers the audit of the Bank's main units and operations, including its subsidiaries. The audits are prioritised based on audit risk assessments. Internal Audit's responsibilities include but are not limited to the audits of operations, lending practices, financial controls, management directives, regulatory compliance, information technology and the risk management process of the Bank. Internal Audit focuses its efforts on performing audits in accordance with the audit plan which prioritises the planned assignments based on a comprehensive audit risk assessment of all auditable areas identified in the Bank. The structured audit risk assessment approach ensures that all risk-rated auditable areas are kept in view to ensure appropriate coverage and audit frequency. The risk-based audit plan is reviewed annually taking into account the changing business and risk environment. A monthly audit progress report is submitted to the AC for its review and monitoring. Internal Audit also works closely with external auditors to co-ordinate their audit work plans.

Internal Audit participates actively in major systems development activities and project committees to advise on risk management and internal control measures. In addition, Internal Audit audits the various application systems in production, data centres, network security and the Information Technology Division.

# Risk Management

As the management of risk is fundamental to the financial soundness and integrity of the Bank, risk evaluation forms an integral part of the Bank's business strategy development. The Bank's risk management philosophy is that all risks taken must be identified, measured, monitored and managed within a robust risk management framework and that returns must commensurate with the risks taken.

The Board of Directors has the overall responsibility of determining the type and level of business risks that the Bank undertakes in achieving its corporate objectives. The Board has delegated to various committees the authority to formulate, review and approve policies on monitoring and managing risk exposures. The major policy decisions and proposals on risk exposures approved by these Committees are subject to review by the EXCO of the Board. The Board has appointed the Risk Management Committee to oversee senior management's activities in managing credit, market, liquidity, operational, legal and other risks and to ensure that the risk management process is in place and functioning.

The various committees comprise top management and senior executives of the Bank who meet regularly to deliberate on matters relating to the key types of risks under their respective supervision. The key risks are credit risk, balance sheet risk, liquidity risk, market risk and operational and reputational risk.

The **Credit Committee** deals with all credit risk matters, including approval of credit applications, formulation of credit policies and the review of existing credit facilities.

The **Asset Liability Committee** ('ALCO') formulates, review and approves policies and stategies regarding the balance sheet structure, liquidity needs and trading activities.

The **Risk Management Division** acts as catalyst for the development and maintenance of sound risk management policies, strategies and procedures within the Bank. The Division is independent of other business units in the Bank which are involved in risk taking activities. The Division also provides functional support to both the ALCO and Credit Committee as well as assisting the Management in managing risk inherent to the Bank.

The **Compliance** function is an independent function. It performs the role of safeguarding the Bank against regulatory risks through formulation of appropriate policies for compliance with all applicable laws, regulations and professional standards. This includes establishing anti-money laundering/counter financing of terrorism policies. In consultation with the business and support units, internal controls are evaluated and embedded into processes to ensure compliance with the said rules, regulations and professional standards. Compliance also conducts training to familiarise staff with their compliance obligations.

**Credit Risk Management**

Credit risk is defined as the potential loss arising from any failure by a borrower or a counterparty to fulfil their financial obligations, as and when they fall due. Credit risk is inherent in lending, trade finance, investment, treasury activities and other credit-related activities undertaken by the Bank.

The Executive Committee ('EXCO') is established by the Board of Directors to formulate the Bank's business strategies and conduct on-going monitoring of the Bank's performance. The EXCO, under delegated authority from the Board of Directors, approves credit policies, guidelines and procedures to control and monitor such risks. It has day-to-day responsibility for identifying and managing portfolio and risk concentration issues, including industry sector exposure. The risk parameters for accepting credit risk are clearly defined and complemented by policies and processes to ensure that the Bank maintains a well diversified and high quality credit portfolio.

To maintain independence and integrity of credit decision-making, the Bank has established a Credit Unit to segregate the credit approval function from loan origination. Credit approval authority is delegated within an established credit discretionary limit (CDL) structure that is risk-sensitive to ensure that the CDL is tiered according to the borrower's rating. The Bank has in place a very stringent process for the delegation of CDL based on the experience, seniority, product/business sector and track record of the officer. All officers with the authority to approve credits are guided by credit policies and guidelines with distinction made for institutional and individual borrowers. These credit policies and guidelines, which cover key risk parameters associated with credit structuring and approval, are periodically reviewed to ensure their continued relevance.

**Credit Risk Management (continued)**

An internal credit rating system, which incorporates both statistical models and expert-judgement scorecards, has been developed, implemented and used as part of the credit approval process. Statistical models were built for portfolios with sufficient default data, and expert judgement scorecards were developed for low default portfolios.

Generally, a borrower is assigned a Customer Risk Rating (CRR) and a Facility Risk Rating (FRR). The CRR is a borrower's standalone credit rating and is derived after a comprehensive assessment of its financial condition, the quality of its management, business risks and the industry it operates in. The FRR incorporates transaction-specific dimensions such as availability and types of collateral, seniority of the exposures, facility structures, etc.

Consumer exposures are managed on a portfolio basis. The Bank has scorecards and stringent product programs for credit underwriting purposes.

Policies are also in place to govern the approval of 'Related Parties' credit facilities. 'Related Parties' refer to individuals or companies with whom the authorised credit approving authority and/or his/her immediate family members have a relationship, whether as director, partner, shareholder or any other relationship which would give rise to a potential conflict of interest.

Credit relationships with 'Related Parties" must be established on a strictly arm's length commercial basis. An approving authority shall abstain and absent himself/herself from the deliberation and approval of credit cases where the borrower is a 'Related Party' except if the''Related Party' is a :

- Company in the UOB Group ;
- Public listed company or company related to a public listed company ;
- Company formed by professional bodies, trade or clan associations, or societies.

The Board of Directors must be informed immediately in the event that any 'Related Party' borrower is in default of payment and/or in breach of any material term of the credit facility and such default or breach is not rectified within seven days of notice from the Bank.

For the timely recognition of asset impairment, recovery action and the avoidance of undue concentration, a disciplined process is in place to regularly monitor, review and report the Bank's portfolio risks. These include large credit exposures by obligor groups, sectors, security types, internal credit ratings, industries, countries as well as level of non-performing loans, appropriateness of classification and adequacy of provisioning.

Risk concentrations by industry are monitored closely to avoid undue concentration in any particular industry. Industry risk refers to the likelihood of groups of customers being adversely affected by economic developments impacting a particular industry in which such customers operate. Exposure concentrations and non-performing loans by industry type are analysed and significant trends reported to the Credit Committee as well as to the EXCO and the Board of Directors.

In particular, the trends and composition of exposures to property-related loans are closely monitored, analysed and reported on an on-going basis to ensure that exposures are kept within regulatory limits and internal guidelines.

The Bank has in place a rigorous monitoring process that includes monthly reviews of all non-performing and special mention loans. In addition, credit reviews and audits are performed regularly to proactively manage any delinquencies, minimise undesirable concentrations, maximise recoveries, and check that credit policies and procedures are complied with. Past dues and credit limit excesses are tracked by business lines and product types, and significant trends are analysed and reported regularly to the Credit Committee and EXCO.

To assess the resultant potential losses arising from the impact of possible adverse events on the Bank's credit portfolio, credit stress tests are periodically conducted. The extent of the plausible credit impairments is analysed to determine if the potential losses are within the Bank's risk tolerance.

### Credit Risk Management (continued)

In line with the Bank's drive to adopt best practices in risk management, the Bank has intensified its preparations for the New Basel Capital Accord. The Bank is targeting to adopt the Internal Rating Based Approach for Credit Risk and the Standardised Approach for Operational Risk.

The Bank remains committed and will continue to strengthen and invest in its risk management systems, processes and practices.

### Management Of Performing Loans, Non-Performing Loans And Cumulative Provisions

The Bank classifies its loan portfolios according to the borrower's ability to repay the loan from its normal source of income. All loans and advances to customers are classified into the categories of 'Pass', 'Special Mention' or 'Non-Performing'. Non-Performing Loans are further classified as 'Substandard', 'Doubtful' or 'Loss' in accordance with BNM GP3 except the Bank has lowered the default period to 3 months instead of 6 months. Interest income on all Non-Performing Loans is suspended. Such loans will remain classified until servicing of the account is satisfactory. Where appropriate, classified loans are transferred to in-house recovery specialists to maximise recovery prospects.

| Loan Classification | Description |
|---|---|
| Pass | All payments are current and full repayment of interest and principal from normal sources is not in doubt. |
| Special Mention | There is some potential weakness in the borrower's creditworthiness, but the extent of any credit deterioration does not warrant its classification as a Non-Performing Loan. |
| Substandard | There is weakness in the borrower's creditworthiness that jeopardises normal repayment. Default has occurred or is likely to occur or the repayment schedule has been restructured. A credit is greater than 90 days past due but less than 270 days past due. |
| Doubtful | A credit is greater than 270 days past due but less than 365 days past due. |
| Loss | A credit is greater than 365 days past due. |

Specific provisions are made for each loan grade in the following manner:

| Loan Classification | Period of Default | Provision |
|---|---|---|
| Substandard | 3 months but < 9 months | 20% of any unsecured loan outstanding less interest-in-suspense |
| Doubtful | 9 months but < 12 months | 50% of any unsecured loan outstanding less interest-in-suspense |
| Loss | 12 months and above | 100% of any unsecured loan outstanding less interest-in-suspense |

A classified account is written off where there is no realisable tangible collateral securing the account and all feasible avenues of recovery have been exhausted.

### Bank Non-Performing Loans (NPLs) And Cumulative Provisions

The following table depicts the Bank's comparative NPLs and cumulative specific and general provisions as at 31 December 2005 and 31 December 2006:

| | The Bank | |
|---|---|---|
| | **Dec 2006 RM'000** | **Dec 2005 RM'000** |
| Total non-performing loans | **1,227,859** | 1,200,338 |
| General provision | **305,969** | 251,888 |
| Total specific provision | **352,240** | 336,842 |
| Cumulative provisions | **658,209** | 588,730 |
| Ratios (%) | | |
| NPLs/Gross total loans | **5.9%** | 6.7% |
| NPLs/Net total loans | **4.3%** | 4.9% |
| Cumulative provision/NPLs | **53.6%** | 49.0% |

### Rescheduled And Restructured Accounts

A rescheduled account is one where repayment terms have been modified, but the principal terms and conditions of the original contract have not changed significantly. This is done to alleviate a temporary cash flow difficulty experienced by a borrower. It is expected that the problem is short-term and not likely to recur. The full amount of the debt is still repayable and no loss of principal or interest is expected.

When an account has been rescheduled three months before it meets the criteria for auto classification, the account can be graded as 'Performing'. However, if the rescheduling takes place after the account has been graded as 'Non-Performing', it remains as such and is upgraded to 'Pass' after six months and provided there are no excesses and past dues. The Bank is required to obtain prior approval from BNM for performing loans that have been rescheduled more than once in two years.

A restructured account is one where the original terms and conditions of the facilities have been modified significantly to assist the borrower to overcome financial difficulties where the longer-term prospect of the business or project is still deemed to be viable. A restructuring exercise could encompass a change in the credit facility type, or in the repayment schedule including moratorium, or extension of interest and/or principal payments and reduction of accrued interest, including forgiveness of interest and/or reduction in interest rate charged.

When an account has been restructured based on financial consideration, the account will be graded as 'Non-Performing'. It can only be upgraded to 'Pass' after six months when all payments are current in terms of the restructured terms and conditions and there is no reasonable doubt as to the ultimate collectability of principal and interest.

### Balance Sheet Risk Management

Balance sheet risk is defined as the potential change in earnings arising from the effect of movements in interest rates on the structural banking book of the Bank that is not of a trading nature.

The Asset Liability Committee ('ALCO'), under delegated authority from the Board of Directors, approves policies, strategies and limits in relation to the management of structural balance sheet risk exposures. This risk is monitored and managed within a framework of approved policies and limits, and is reported monthly to ALCO. The decisions of ALCO and its monthly risk management reports are reviewed by the UOB Bank Group ALCO and the Bank's Risk Management Committee.

**Balance Sheet Risk Management (continued)**

The balance sheet risk in the banking book arises from customers' preferences and characteristics in the booking of assets and liabilities, which result in a mismatch in the interest repricing and maturity dates of these assets and liabilities. The Bank assesses the impact of changes in interest rates over time on the banking book by projecting the corresponding changes in Net Interest Income ('NII') and Economic Value of Equity ('EVE') of the Bank. The primary objective of balance sheet risk management, therefore, is to monitor and avert significant volatility in NII and EVE.

The table in note 37 to the financial statements represents the Bank's interest rate risk sensitivity based on repricing mismatches as at 31 December 2006. Interest rate risk will arise when more assets/liabilities than liabilities/assets are repriced in a given time band. A positive interest rate sensitivity gap exists where more interest sensitive assets than interest sensitive liabilities reprice during a given time period. Conversely, a negative interest rate sensitivity gap exists where more interest sensitive liabilities than interest sensitive assets reprice during a given time period. As at 31 December 2006, the Bank had an overall positive interest rate sensitivity gap of RM2,940 million, excluding non-interest sensitive items. This being a static position, the actual effect on NII will depend on a number of factors, including variations in interest rates within the repricing periods, variations among currencies, and the extent to which repayments are made earlier or later than the contracted dates.

The risks arising from the trading book in interest rates, foreign exchange rates and equity prices are managed and controlled und er the market risk framework that is discussed under the section 'Market Risk Management'.

**Liquidity Risk Management**

Liquidity risk is defined as the potential loss arising from the Bank's inability to meet its contractual obligations when due. Liquidity risk arises in the general funding of the Bank's activities and in the management of its assets. The Bank maintains sufficient liquidity to fund its day-to-day operations, meet customer deposit withdrawals either on demand or at contractual maturity, meet customers' demand for new loans, participate in new investments when opportunities arise, and repay borrowings as they mature. Hence, liquidity is managed to meet known as well as unanticipated cash funding needs.

Liquidity risk is managed within a framework of liquidity policies, controls and limits approved by the Bank's ALCO which are in line with the policies of UOB Bank Group and which are also adequate to meet the requirements under Bank Negara Malaysia's New Liquidity Framework. These policies, controls and limits ensure that the Bank maintains well diversified sources of funding, as well as sufficient liquidity to meet all its contractual obligations when due. The management of liquidity is carried out using a prudent strategic approach to manage the Bank's funding requirements.

Liquidity contingency funding plans have been drawn up to ensure that alternative funding strategies are in place and can be implemented on a timely basis to minimise the liquidity risks that may arise upon the occurrence of a dramatic change in market conditions. Under the plans, a team comprising senior management and representatives from all relevant units will direct the business units to take certain specified actions to create liquidity and continuous funding for the Bank's operations. Although, the Bank have self-sufficient funding capabilities, funding will also be provided by the UOB Bank Group's Head Office in Singapore to the Bank should the need arise.

### Market Risk Management

Market risk is defined as the potential loss in market value of a given portfolio that can be expected to be incurred arising from adverse movement in the level of market prices or rates, the three key components being interest rate risk, foreign currency risk and equity risk.

Interest Rate Risk refers to the volatility in net interest income as a result of changes in levels of interest rates and shifts in the composition of the assets and liabilities. Foreign currency risk is defined as the risk which arises from adverse exchange rate movements on the foreign exchange positions from time to time and Equity Risk is the risk which arises from adverse movements in the price of equities on the equity positions taken from time to time.

The Bank is exposed to market risk in its trading portfolio because the values of its trading positions are sensitive to changes in market prices and rates. Similarly, it is also exposed to market risk in its investment portfolio.

Market risk is managed using a framework of risk management processes based on market risk management policies and risk control procedures, as well as risk and loss limits. Mark-to-market technique is used to revalue marketable securities, equities and foreign currency positions. Mark-to-market of trading positions are then compared against predetermined market risk limits. The market risk limits are set after taking into account the risk appetitie of the Bank, and the risk-return relationship. Risk and loss limits are proposed by every trading desk/division, reviewed by the Market Risk Management Department and approved by Group ALCO annually. Group ALCO also reviews and approves new limits or changes to existing limits as and when these are proposed. The Trading positions and limits are regularly reported to the Management .The monitoring of market risk trading limits and the reporting of any limit excess are carried out independently by the Market Risk Management Department.

### Operational Risk Management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Potential loss may be in the form of financial loss or other damages, for example, loss of reputation and public confidence that will impact the Bank's credibility to transact, maintain liquidity and obtain new business.

Operational risk is managed through a framework of policies, techniques and procedures as approved by our Parent Bank. There are periodic risk management reports reviewed by Senior Management and Risk Management Committee.

This framework of techniques and procedures encompasses the following:

- the building of Operational Risk Profiles (ORPs);
- conduct of Operational Risk Self Assessment (ORSA) based on the ORPs;
- development of an Operational Risk Action Plan (ORAP);
- the monitoring of Key Operational Risk Indicators (KORIs);
- the collection and analysis of risk events/loss data; and
- the process for monitoring and reporting operational risk issues.

The building of the ORPs involves risk identification, the assessment of inherent or absolute risks, as well as the identification and classification of management controls. The methodology provides the tool for the profiling of significant operational risks to which business and support units are exposed. These units then define the key management policies/procedures/controls that have been established to address the identified operational risks.

**Operational Risk Management (continued)**

As part of the continual assessment, ORSA provides the business/support heads with an analytical tool to identify the wider operational risks, assess the adequacy of controls over these risks, and identify control deficiencies at an early stage so that timely action can be taken.

Where actions need to be taken, these are documented in the form of an ORAP for monitoring and reporting to management.

Processes and procedures of the business units are reviewed to ensure that they reflect current practices and the appropriate controls are in place with clear delineation of roles, responsibilities and accountability.

KORIs are statistical data that are collected and monitored regularly by business units on an on-going basis for the early detection of potential areas of operational control weakness. Trend analysis is carried out to determine whether there are systemic issues to be addressed.

A policy and framework on incident reporting was established to ensure consistent and accurate loss data collection. The loss database is being built and will facilitate the conduct of root cause analysis, thereby strengthening the operational risk management capability of the business units.

Included in the overall framework of operational risk is the disciplined product programme process. This process aims to ensure that the risks associated with each new product/service are identified, analysed and managed.

As part of the Bank's comprehensive operational risk framework, Business Continuity Management and Crisis Management strategies and plans have been developed to mitigate the potential impact of major business and\or system disruptions.

In line with the increasing need to outsource internal operations in order to achieve cost efficiency, policy has been established to ensure that outsourcing risks are identified and managed prior to entering into the arrangements as well as on an ongoing basis.

In addition, risk transfer mechanism, such as effective use of insurance to mitigate the risk of high impact loss events also form part of the operational risk management framework

As part of preparations to comply with Basel II, the Bank has mapped all its business activities to the eight Business Lines as defined by the Basel Committee on Banking Supervision.

# Directors' Report

for the year ended 31 December 2006

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Bank for the financial year ended 31 December 2006.

**PRINCIPAL ACTIVITIES**

The principal activities of the Bank during the year are banking and related financial services. The principal activities of the subsidiaries and the associates are set out in Notes 10 and 11 to the financial statements respectively. There have been no significant changes in the nature of the principal activities during the financial year.

**RESULTS**

| | Group RM'000 | Bank RM'000 |
|---|---|---|
| Profit before taxation | **585,616** | **577,393** |
| Taxation | **(167,316)** | **(169,783)** |
| Net profit for the year | **418,300** | **407,610** |

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the statements of changes in equity.

In the opinion of the directors, the results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature other than the effects arising from the changes in accounting policies due to the adoption of new and revised financial reporting standards ("FRS") as disclosed in Note 2.3 to the financial statements and the effects arising from the reclassification of certain investments as disclosed in Note 39 to the financial statements.

**DIVIDENDS**

The amount of dividends paid by the Bank since 31 December 2005 was as follows:

| | RM'000 |
|---|---|
| In respect of the financial year ended 31 December 2005 as reported in the directors' report for that year, a final dividend of 50% less 28% taxation, on 470 million ordinary shares, paid on 6 April 2006. | **169,200** |

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2006, of 50% less 27% taxation on 470 million ordinary shares, amounting to a dividend payable of RM171,550,000 will be proposed for shareholders' approval. The financial statements of the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2007.

**DIRECTORS**

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

| | |
|---|---|
| Wee Cho Yaw | |
| Wee Ee Cheong | |
| YABhg Tun Dato' Seri Dr Lim Chong Eu | |
| Ng Kee Wei | |
| Lim Kean Chye | |
| Lee Chin Yong, Francis | |
| Ong Sea Eng, Terence | |
| Chan Kok Seong | (appointed on 3 August 2006) |
| YBhg Dato' Maznah Binti Abdul Jalil | (appointed on 27 September 2006) |
| Poon Hon Thang, Samuel | (resigned on 1 November 2006) |

## DIRECTORS' BENEFITS

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Bank was a party, whereby the directors might acquire benefits by means of acquisition of shares in or debentures of the Bank or any other body corporate, other than those arising from the share options granted under the Executive Share Option Scheme of the ultimate holding company.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 27 to the financial statements or the fixed salary of a full-time employee of the Bank) by reason of a contract made by the Bank or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

## DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares and options over shares in the Bank and its related corporations during the financial year were as follows:

| | | Number of Ordinary Shares of S$1 Each | | | |
|---|---|---|---|---|---|
| | | **1.1.2006** | **Acquired** | **Disposed** | **31.12.2006** |
| **Ultimate holding corporation:**<br>**United Overseas Bank Limited** | | | | | |
| Wee Cho Yaw | - Direct | 16,390,248 | - | - | 16,390,248 |
| | - Indirect | 245,208,142 | - | - | 245,208,142 |
| Wee Ee Cheong | - Direct | 2,794,899 | - | - | 2,794,899 |
| | - Indirect | 146,085,251 | - | - | 146,085,251 |
| Ng Kee Wei | - Direct | 447,582 | - | - | 447,582 |
| | - Indirect | 1,725,189 | - | - | 1,725,189 |
| Lim Kean Chye | - Direct | 117 | - | - | 117 |
| Lee Chin Yong, Francis | - Direct | 35,000 | 35,000 | (70,000) | - |
| Ong Sea Eng, Terence | - Indirect | 5,000 | 40,000 | (35,000) | 10,000 |
| Chan Kok Seong | - Direct | 5,000 | - | - | 5,000 |

| | | Number of Options Over Ordinary Shares of S$1 Each | | | |
|---|---|---|---|---|---|
| | | **1.1.2006** | **Granted** | **Exercised** | **31.12.2006** |
| **Ultimate holding corporation:**<br>**United Overseas Bank Limited** | | | | | |
| Lee Chin Yong, Francis | - Direct | 80,000 | - | (35,000) | 45,000 |
| Ong Sea Eng, Terence | - Direct | 40,000 | - | (40,000) | - |
| Chan Kok Seong | - Direct | 24,000 | - | - | 24,000 |

Wee Cho Yaw and Wee Ee Cheong by virtue of their substantial interest in the shares in United Overseas Bank Limited are also deemed to have substantial interest in shares of the Bank and all the Bank's subsidiaries to the extent the Bank has an interest.

None of the other directors in office at the end of the financial year had any interests in shares in the Bank or its related corporations during the financial year.

## HOLDING COMPANIES

The holding and ultimate holding companies are Chung Khiaw Bank (Malaysia) Berhad, a company incorporated in Malaysia and United Overseas Bank Limited, a bank incorporated in Singapore, respectively.

## EXECUTIVE SHARE OPTIONS SCHEME OF UNITED OVERSEAS BANK LIMITED (UOB ESOS)

(a) On 6 October 1999, the ultimate holding company's shareholders approved the adoption of the UOB ESOS scheme to replace the previous Executives' Share Option Scheme. Under the UOB ESOS scheme, options may be granted to employees in the corporate grade of Vice President (or an equivalent rank) and above and selected employees below the corporate grade of Vice President (or an equivalent rank), and to directors and controlling shareholders. Particulars of the share options granted under this scheme in 2000, 2003 and 2004 (hereinafter called "Options 2000", Options 2003" and "Options 2004" respectively) have been set out in the ultimate holding company's directors' reports for the financial years ended 31 December 2000, 2003 and 2004 respectively. Options 2000 have since expired on 10 December 2005.

(b) The share options which were granted pursuant to the UOB ESOS carry the right to subscribe for new ordinary shares of United Overseas Bank Limited at the following prices:

| Options | Option Period | Offer Price S$ |
|---|---|---|
| 2003 | 6 June 2004 to 5 June 2008 | 11.67 |
| 2004 | 29 November 2005 to 28 November 2009 | 13.67 |

(c) The share options expire at the end of the respective option periods unless they lapse earlier in the event of death, bankruptcy or cessation of employment of the participant or the take-over or winding up of the Bank.

(d) The holders of the options have no right to participate, by virtue of the options, in any share issue of any other company.

## BUSINESS STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

Malaysia has achieved significant progress in developing the economy and improving the quality of life of its people. Despite the difficult and volatile external environment amidst the rising oil prices, higher electricity tariff and recent rises in the country's overnight policy rate, the Malaysian economy continue to display the resilience shown in 2005 and consumer spending remains steady, with a projected GDP growth of 5.8% in 2006 (2005: 5.2%).

The financial sector continues to be progressively transformed, following the consolidation of existing institutions as well as the introduction of foreign players. The financial landscape has witnessed greater regional and international integration. Foreign Islamic financial institutions were allowed to operate in Malaysia while locally incorporated foreign banking institutions were given clearance to establish four additional branches within a one year period effective 1 January 2006.

Following this cue, the Bank had celebrated the consecutive official opening of its 4 new branches in Kota Damansara, Kepong, Muar and Sibu, as well as one relocated branch at Jalan Sultan Ismail from 13 November to 17 November 2006. With 41 strategically-located branches nationwide, the Bank remains the foreign bank with the largest branch network in Malaysia. From the deregulation in the banking institutions, the Bank together with 3 other locally incorporated foreign banks, had launched the shared ATM network service, HOUSe, allowing its customers to access over 300 ATMs nationwide.

The Bank also demonstrated its commitment to customers by introducing more product offerings supplemented with value added services. For a more secured and expeditious way of transmitting Letters of Credit ("LC") to its export trade customers via the online electronic delivery system, E-advice of Inward Letter of Credit ("e-LC") services was launched in June 2006. The Bank led the launch of first-of-its kind remittance channel, UOB Visa Money Transfer, in the local banking fraternity which enables funds to be transferred both domestically and globally via the Visa card payment network.

On the consumer front, the Bank relentlessly enhanced its mortgage products where, UOB iNTELLIGENT home loan is constantly re-packaged to grow in tandem with customers' ever changing needs over time while UOB FlexiMortgage is designed with competitive rate offerings for those who prefer flexible repayment financing. The Bank also re-positioned its UOB i-Account as the intelligent 4-in-1 money management account, combining current, savings, time-based deposit and overdraft, which aimed to provide flexibility, convenience and rewards to fit customers fast-paced lifestyle. All-year-round events and promotions aside, the Bank initiated the contact-less Visa Wave cards via UOB VOX card and started rewarding its credit cards holders with dual rewards, Smart$ Cash Rebates on top of the existing points earned, for every ringgit charged. As a whole, the Bank has experienced a healthy growth in consumer banking with a significant mortgage loan portfolio as well as the credit card business, as evidenced by the double digit growth in both areas, this year.

**BUSINESS STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)**

In its continuous effort to stand out against intense competitive backdrop, the Bank emphasize on growth in its SMEs business through relationships and excellent customer service. With rational response to competition and hard work in enhancing its competitive advantages, the Bank rides on the Government's recent implementation of the Ninth Malaysian Plan. At the retail end, the UOB BizCash product launched in July 2006 was well received.

From the treasury desks, commercial foreign exchange activities are benefiting from the strengthening of the local currency against the greenback since the re-pegging in 2005 as well as the steady influx of the foreign direct investment funds.

At the capital market arena, the investment banking unit arranged a total of 7 Private Debt Securities ("PDS") transactions valued at RM2.6 billion. As part of the value added services, the investment banking unit also helped to put in place RM423 million worth of bridging facilities for issuers of PDS arranged by the investment banking unit.

For the second year in a row, the oil & gas sector continues to dominate the transactions arranged by the investment banking unit with total transaction value of RM1.4 billion, accounting for approximately 54% of the total transaction arranged by the investment banking unit. Other sectors lead arranged by the investment banking unit includes water and property related sectors.

Among the more notable transactions undertaken by the bank, the bank completed a RM435 million Redeemable Unsecured Bond ("RUBs") issue for Puncak Niaga Sdn Bhd in December 2006. The RUB issuance was part of a larger corporate exercise to unlock shareholder value for the Puncak Niaga Group of companies initiated by the Bank's investment banking unit.

During the year 2006, the Securities Commission of Malaysia revised its Guidelines on Real Estate Investment Trust ("REIT") to allow for REITs to issue debentures mainly PDS through a wholly-owned special purpose vehicle ("SPV") for the purpose of financing acquisitions of real-estate assets and single-purpose companies. Pursuant to that, the bank pioneered the establishment of a RM118 million PDS issuance for Quill Capita Trust ("QCT"), a REIT which will be listed on the Main Board of Bursa Malaysia on 8 January 2007. The PDS was issued by a wholly-owned SPV of QCT, Gandalf Capital Sdn Bhd, to part finance the acquisition of assets for QCT.

The Bank's effort in contributing to the development of the Malaysia debt capital market is being recognised as the Bank recorded an improvement in the Bloomberg Underwriter League Table for Malaysian Ringgit Bonds to 4th position in 2006 from 5th previously. The bank is the only foreign bank in the top five position of the Bloomberg Underwriter League Table for Malaysian Ringgit Bonds. The Bank also ranked 1st in the Malaysian Rating Corporation Berhad's ("MARC") League Table in 2006 by garnering 15.66% of the total rated issues by MARC. Again the Bank is the only foreign bank in the top five position of MARC's League Table.

Complementing the Malaysian Government's effort to develop the Islamic capital market, the Bank continues to promote the issuance of Islamic bonds. Based on Bloomberg League Table for Global Islamic Bonds, for 2006, the Bank has been accorded the 9th ranking with total issuance of USD283.6 million vs. USD278.9 million previously.

**OUTLOOK FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2007**

For 2007, the Malaysian economy is anticipated to be resilient. This is expected to be fundamentally positive, supported largely by private sector consumptions and investments spur from the Ninth Malaysian Plan and Third Industrial Master Plan. Domestic demand is expected to increase steadily.

For the financial sector, gradual liberalization is expected to continue. Further consolidation is on the cards. Competitive pressures are expected to intensify, further eroding the net interest margins of banks.

Nevertheless, the Bank remains optimistic that there is great potential for development. Ongoing efforts and initiatives will ensure that the Bank remains strong and ahead of competitors in readiness for the challenges and opportunities that come hand in hand in an environment of increased liberalization and competition.

**RATING BY EXTERNAL RATING AGENCIES**

Rating Agency Malaysia ('RAM') had reaffirmed the Bank's long term rating at AA1 and it's short term rating at P1.

An 'AA' rating is defined by RAM as being able to offer high safety for timely repayment of financial obligations. The subscript 1 in this category indicates the higher end in the 'AA' category. A P1 rating is defined by RAM as obligations which are supported by a superior capacity for timely repayment.

**OTHER STATUTORY INFORMATION**

(a) Before the balance sheets and income statements of the Group and of the Bank were made out, the directors took reasonable steps:

 (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and

 (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

(b) At the date of this report, the directors are not aware of any circumstances which would render:

 (i) the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Bank inadequate to any substantial extent; and

 (ii) the values attributed to current assets in the financial statements of the Group and of the Bank misleading.

(c) At the date of this report, the directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Bank misleading or inappropriate.

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

(e) As at the date of this report, there does not exist:

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

 (ii) any contingent liability in respect of the Group and of the Bank which has arisen since the end of the financial year.

(f) In the opinion of the directors:

 (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Bank to meet its obligations when they fall due; and

 (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group and of the Bank for the financial year in which this report is made.

**AUDITORS**

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the directors dated 27 February, 2007.

Wee Cho Yaw

Chan Kok Seong

## Statement By Directors

Pursuant To Section 169(15) Of The Companies Act, 1965

We, Wee Cho Yaw and Chan Kok Seong, being two of the directors of United Overseas Bank (Malaysia) Bhd, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 28 to 85 are drawn up in accordance with provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities modified by Bank Negara Malaysia guidelines so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2006 and of the results and cash flows of the Group and of the Bank for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 27 February, 2007.

Wee Cho Yaw

Chan Kok Seong

## Statutory Declaration

Pursuant To Section 169(16) Of The Companies Act, 1965

I, Chan Kok Seong, being the director primarily responsible for the financial management of United Overseas Bank (Malaysia) Bhd, do solemnly and sincerely declare that the accompanying financial statements set out on pages 28 to 85 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.

Subscribed and solemnly declared by the
abovenamed Chan Kok Seong
at Kuala Lumpur in the Federal Territory
on 27 February, 2007

Chan Kok Seong

Before me,

Soh Ah Kau, AMN
Commissioner for Oaths

# Report Of The Auditors To The Members Of United Overseas Bank (Malaysia) Bhd

for the year ended 31 December 2006

We have audited the financial statements set out on pages 28 to 85. 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 the 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 applicable Approved Standards on Auditing 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 the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

(a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities modified by Bank Negara Malaysia guidelines so as to give a true and fair view of:

  (i) the financial position of the Group and of the Bank as at 31 December 2006 and of the results and the cash flows of the Group and of the Bank for the year then ended; and

  (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; 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.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Bank 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.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification material to the consolidated financial statements and did not include any comment required to be made under Section 174(3) of the Act.

Ernst & Young
AF: 0039
Chartered Accountants

Choong Mei Ling
No. 1918/09/08(J)
Partner

Kuala Lumpur, Malaysia
27 February, 2007

# Balance Sheets

as at 31 December 2006

| | Note | Group 2006 RM'000 | Group 2005 RM'000 | Bank 2006 RM'000 | Bank 2005 RM'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and short-term funds | 3 | **2,427,041** | 2,815,289 | **2,427,041** | 2,815,289 |
| Securities purchased under resale agreements | | **3,105,055** | 1,752,102 | **3,105,055** | 1,752,102 |
| Deposits and placements with financial institutions | 4 | **374,334** | 2,689,850 | **374,334** | 2,689,850 |
| Held-for-trading securities | 5 | **1,249,258** | 863,807 | **1,249,258** | 863,807 |
| Available-for-sale (AFS) securities | 6 | **3,304,207** | 4,503,764 | **3,304,207** | 4,503,764 |
| Loans, advances and financing | 7 | **20,232,171** | 17,201,022 | **20,232,171** | 17,201,022 |
| Other assets | 8 | **356,919** | 327,549 | **360,948** | 330,709 |
| Statutory deposits with Bank Negara Malaysia | 9 | **497,000** | 478,500 | **497,000** | 478,500 |
| Investment in subsidiaries | 10 | **-** | - | **151** | 151 |
| Investment in associates | 11 | **163,142** | 151,452 | **122,733** | 122,733 |
| Investment properties | 12 | **10,000** | - | **10,000** | - |
| Property, plant and equipment | 13 | **242,480** | 261,737 | **241,333** | 260,772 |
| Deferred tax assets | 14 | **54,076** | 35,691 | **54,076** | 35,691 |
| **TOTAL ASSETS** | | **32,015,683** | 31,080,763 | **31,978,307** | 31,054,390 |
| **LIABILITIES AND EQUITY** | | | | | |
| Deposits from customers | 15 | **19,261,680** | 16,639,605 | **19,261,680** | 16,639,605 |
| Deposits and placements of banks and other financial institutions | 16 | **2,855,192** | 4,295,228 | **2,856,214** | 4,296,453 |
| Obligations on securities sold under repurchase agreements | | **3,709,795** | 4,510,905 | **3,709,795** | 4,510,905 |
| Bills and acceptances payable | | **2,697,630** | 1,658,952 | **2,697,630** | 1,658,952 |
| Amount due to Cagamas | 17 | **560,030** | 1,302,529 | **560,030** | 1,302,529 |
| Other liabilities | 18 | **451,493** | 470,859 | **451,309** | 470,785 |
| Taxation | | **69,418** | 38,310 | **69,418** | 38,310 |
| **TOTAL LIABILITIES** | | **29,605,238** | 28,916,388 | **29,606,076** | 28,917,539 |
| **SHARE CAPITAL** | 19 | **470,000** | 470,000 | **470,000** | 470,000 |
| **RESERVES** | 20 | **1,940,445** | 1,666,674 | **1,902,231** | 1,666,851 |
| **SHAREHOLDERS EQUITY** | | **2,410,445** | 2,136,674 | **2,372,231** | 2,136,851 |
| NEGATIVE GOODWILL | 21 | **-** | 27,701 | **-** | - |
| | | **2,410,445** | 2,164,375 | **2,372,231** | 2,136,851 |
| **TOTAL LIABILITIES AND EQUITY** | | **32,015,683** | 31,080,763 | **31,978,307** | 31,054,390 |
| **COMMITMENTS AND CONTINGENCIES** | 33 | **49,467,174** | 42,989,414 | **49,467,174** | 42,989,414 |

*The accompanying notes form an integral part of the financial statements.*

# Income Statements

for the year ended 31 December 2006

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | | **2006** | **2005** | **2006** | **2005** |
| | **Note** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Operating revenue | 22 | **1,959,116** | 1,661,855 | **1,967,427** | 1,663,535 |
| Interest income | 23 | **1,571,580** | 1,324,109 | **1,571,563** | 1,324,098 |
| Interest expense | 24 | **(866,733)** | (717,848) | **(866,733)** | (717,848) |
| Net interest income | | **704,847** | 606,261 | **704,830** | 606,250 |
| Other operating income | 25 | **399,971** | 329,132 | **408,299** | 330,823 |
| Operating income | | **1,104,818** | 935,393 | **1,113,129** | 937,073 |
| Other operating expenses | 26 | **(370,671)** | (292,679) | **(369,175)** | (291,653) |
| Operating profit before allowance for losses on loans, advances and and financing and provision for commitments and contingencies | | **734,147** | 642,714 | **743,954** | 645,420 |
| Allowance for losses on loans, advances and financing | 28 | **(166,586)** | (158,849) | **(166,583)** | (158,869) |
| Net write back of provision for commitments and contingencies | | **22** | 775 | **22** | 775 |
| Net income | | **567,583** | 484,640 | **577,393** | 487,326 |
| Amortisation of goodwill, net | | **-** | (1,560) | **-** | - |
| Share of profit of associates | | **18,033** | 13,657 | **-** | - |
| Profit before taxation | | **585,616** | 496,737 | **577,393** | 487,326 |
| Income tax expense | 29 | **(167,316)** | (139,694) | **(169,783)** | (140,227) |
| Profit for the year attributable to equity holders of the parent | | **418,300** | 357,043 | **407,610** | 347,099 |
| Basic earnings per share (sen) | 30 | **89.0** | 76.0 | **86.7** | 73.9 |
| Dividends per share (sen) | 31 | **36.5** | 36.0 | **36.5** | 36.0 |

*The accompanying notes form an integral part of the financial statements.*

# Consolidated Statement Of Changes In Equity

for the year ended 31 December 2006

| | | <---- Non-distributable | | | ----> | | Distributable | |
|---|---|---|---|---|---|---|---|---|
| **The Group** | **Note** | **Share capital RM'000** | **Share premium RM'000** | **Statutory reserve RM'000** | **Revaluation reserves RM'000** | **Net unrealised reserves on AFS securities RM'000** | **Retained profits RM'000** | **Total RM'000** |
| **2006** | | | | | | | | |
| Balance as at 1 January 2006 | | **470,000** | **322,555** | **470,000** | **35,737** | **4,763** | **833,619** | **2,136,674** |
| Effects of adopting: | | | | | | | | |
| FRS 3 | 2.3(a)(ii) | **-** | **-** | **-** | **-** | **-** | **27,701** | **27,701** |
| | | **470,000** | **322,555** | **470,000** | **35,737** | **4,763** | **861,320** | **2,164,375** |
| Net profit for the year | | **-** | **-** | **-** | **-** | **-** | **418,300** | **418,300** |
| Revaluation of properties | 12 | **-** | **-** | **-** | **55** | **-** | **-** | **55** |
| Net unrealised loss on AFS securities | | **-** | **-** | **-** | **-** | **(6,665)** | **-** | **(6,665)** |
| Realisation of revaluation reserve upon disposal of land and buildings | | **-** | **-** | **-** | **(3)** | **-** | **3** | **-** |
| Transfer to deferred tax | 14 | **-** | **-** | **-** | **1,715** | **1,865** | **-** | **3,580** |
| Dividends paid: | | | | | | | | |
| - final dividend for the year ended 31 December 2005 | 31 | **-** | **-** | **-** | **-** | **-** | **(169,200)** | **(169,200)** |
| Balance as at 31 December 2006 | | **470,000** | **322,555** | **470,000** | **37,504** | **(37)** | **1,110,423** | **2,410,445** |
| **2005** | | | | | | | | |
| Balance as at 1 January 2005 | | 470,000 | 322,555 | 470,000 | 35,164 | 11,002 | 645,776 | 1,954,497 |
| Net profit for the year | | - | - | - | - | - | 357,043 | 357,043 |
| Net unrealised loss on AFS securities | | - | - | - | - | (8,665) | - | (8,665) |
| Transfer to deferred tax | 14 | - | - | - | 573 | 2,426 | - | 2,999 |
| Dividends paid: | | | | | | | | |
| - final dividend for the year ended 31 December 2004 | 31 | - | - | - | - | - | (169,200) | (169,200) |
| Balance as at 31 December 2005 | | 470,000 | 322,555 | 470,000 | 35,737 | 4,763 | 833,619 | 2,136,674 |

*The accompanying notes form an integral part of the financial statements.*

# Statement Of Changes In Equity

for the year ended 31 December 2006

| The Bank | Note | Share capital RM'000 | Share premium RM'000 | Statutory reserve RM'000 | Revaluation reserves RM'000 | Net unrealised reserves on AFS securities RM'000 | Retained profits RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| | | <---------------------------- Non-distributable | | | | ----------------------------> | Distributable | |
| **2006** | | | | | | | | |
| Balance as at 1 January 2006 | | **470,000** | **322,555** | **470,000** | **50,789** | **4,763** | **818,744** | **2,136,851** |
| Net profit for the year | | **-** | **-** | **-** | **-** | **-** | **407,610** | **407,610** |
| Revaluation of properties | 12 | **-** | **-** | **-** | **55** | **-** | **-** | **55** |
| Net unrealised loss on AFS securities | | **-** | **-** | **-** | **-** | **(6,665)** | **-** | **(6,665)** |
| Realisation of revaluation reserve upon disposal of land and buildings | | **-** | **-** | **-** | **(3)** | **-** | **3** | **-** |
| Transfer to deferred tax | 14 | **-** | **-** | **-** | **1,715** | **1,865** | **-** | **3,580** |
| Dividends paid: | | | | | | | | |
| - final dividend for the year ended 31 December 2005 | 31 | **-** | **-** | **-** | **-** | **-** | **(169,200)** | **(169,200)** |
| Balance as at 31 December 2006 | | **470,000** | **322,555** | **470,000** | **52,556** | **(37)** | **1,057,157** | **2,372,231** |
| **2005** | | | | | | | | |
| Balance as at 1 January 2005 | | 470,000 | 322,555 | 470,000 | 50,216 | 11,002 | 640,845 | 1,964,618 |
| Net profit for the year | | - | - | - | - | - | 347,099 | 347,099 |
| Net unrealised loss on AFS securities | | - | - | - | - | (8,665) | - | (8,665) |
| Transfer to deferred tax | 14 | - | - | - | 573 | 2,426 | - | 2,999 |
| Dividends paid: | | | | | | | | |
| - final dividend for the year ended 31 December 2004 | 31 | - | - | - | - | - | (169,200) | (169,200) |
| Balance as at 31 December 2005 | | 470,000 | 322,555 | 470,000 | 50,789 | 4,763 | 818,744 | 2,136,851 |

*The accompanying notes form an integral part of the financial statements.*

# Cash Flow Statements

for the year ended 31 December 2006

| | Note | Group 2006 RM'000 | Group 2005 RM'000 | Bank 2006 RM'000 | Bank 2005 RM'000 |
|---|---|---|---|---|---|
| **Cash Flows From Operating Activities** | | | | | |
| Profit before taxation | | **585,616** | 496,737 | **577,393** | 487,326 |
| Adjustments for: | | | | | |
| Share of profits of associates | | **(18,033)** | (13,657) | **-** | - |
| Loss/(gain) on disposal of property, plant and equipment | | **1,011** | (422) | **1,011** | (422) |
| Depreciation of property, plant and equipment | | **30,405** | 28,131 | **30,178** | 28,002 |
| Write back of impairment loss on property, plant and equipment | | **-** | (1,000) | **-** | (1,000) |
| Allowance for losses on loans, advances and financing | | **166,586** | 158,849 | **166,583** | 158,869 |
| Net unrealised (gain)/loss on held-for-trading securities | | **(53,967)** | (6,860) | **(53,967)** | (6,860) |
| Write back of commitments and contingencies, net | | **(22)** | (775) | **(22)** | (775) |
| Dividend income | | **(594)** | (643) | **(9,403)** | (2,547) |
| Interest income from available-for-sale securities | | **(162,152)** | (120,555) | **(162,152)** | (120,555) |
| Gain from sale of available-for-sale securities | | **(4,078)** | 5,357 | **(4,078)** | 5,357 |
| Unrealised foreign exchange loss/(gain) | | **14,792** | (7,453) | **14,792** | (7,453) |
| Net profit from sale of held-for-trading securities | | **(1,339)** | (31,625) | **(1,339)** | (31,625) |
| Amortisation of premium less accretion of discount | | **3,768** | 3,573 | **3,768** | 3,573 |
| Amortisation of goodwill, net | | **-** | 1,560 | **-** | - |
| Operating profit before working capital changes | | **561,993** | 511,217 | **562,764** | 511,890 |
| (Increase)/decrease in operating assets: | | | | | |
| Loans and advances | | **(3,197,735)** | (1,169,949) | **(3,197,732)** | (1,169,969) |
| Held-for-trading securities | | **(330,145)** | 364,796 | **(330,145)** | 364,796 |
| Securities purchased under resale agreements | | **(1,352,953)** | 1,916,733 | **(1,352,953)** | 1,916,733 |
| Statutory deposits with Bank Negara Malaysia | | **(18,500)** | 6,500 | **(18,500)** | 6,500 |
| Other assets | | **(23,028)** | (122,898) | **(30,239)** | (127,255) |
| | | **(4,922,361)** | 995,182 | **(4,929,569)** | 990,805 |
| Increase in operating liabilities: | | | | | |
| Deposits from customers | | **2,622,074** | 732,294 | **2,622,074** | 731,281 |
| Deposits and placements of banks and other financial institutions | | **(1,440,036)** | 294,577 | **(1,440,239)** | 295,802 |
| Obligation on securities sold under repurchase agreements | | **(801,109)** | 1,382,700 | **(801,109)** | 1,382,700 |
| Bills and acceptances payable | | **1,038,678** | (323,776) | **1,038,678** | (323,776) |
| Amount due to Cagamas | | **(742,499)** | (58,526) | **(742,499)** | (58,526) |
| Other liabilities | | **(34,136)** | (5,260) | **(34,246)** | (4,559) |
| | | **642,972** | 2,022,009 | **642,659** | 2,022,922 |
| Cash (used in)/generated from operations | | **(3,717,396)** | 3,528,408 | **(3,724,146)** | 3,525,617 |
| Taxation paid | | **(150,740)** | (147,056) | **(150,740)** | (146,614) |
| Net cash (used in)/generated from operating activities | | **(3,868,136)** | 3,381,352 | **(3,874,886)** | 3,379,003 |

# Cash Flow Statements

for the year ended 31 December 2006

| | Note | Group 2006 RM'000 | Group 2005 RM'000 | Bank 2006 RM'000 | Bank 2005 RM'000 |
|---|---|---|---|---|---|
| **Cash Flows From Investing Activities** | | | | | |
| Proceeds from disposal of property, plant and equipment | | **18,816** | 3,340 | **18,816** | 3,340 |
| Purchase of property, plant and equipment | | **(41,044)** | (28,702) | **(40,636)** | (27,724) |
| Interest income from available-for-sale securities | | **162,152** | 120,555 | **162,152** | 120,555 |
| Net purchase of available-for-sale securities | | **1,193,202** | (1,163,614) | **1,193,202** | (1,163,614) |
| Dividend received | | **446** | 465 | **6,788** | 1,836 |
| Net cash generated from/(used in) investing activities | | **1,333,572** | (1,067,956) | **1,340,322** | (1,065,607) |
| **Cash Flows From Financing Activities** | | | | | |
| Dividends paid representing net cash used in financing activities | | **(169,200)** | (169,200) | **(169,200)** | (169,200) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(2,703,764)** | 2,144,196 | **(2,703,764)** | 2,144,196 |
| **Cash and cash equivalents at beginning of year** | | **5,505,139** | 3,360,943 | **5,505,139** | 3,360,943 |
| **Cash and cash equivalents at end of year** | | **2,801,375** | 5,505,139 | **2,801,375** | 5,505,139 |
| **Analysis of cash and cash equivalents** | | | | | |
| Cash and short term funds | 3 | **2,427,041** | 2,815,289 | **2,427,041** | 2,815,289 |
| Deposits and placements with financial institutions | 4 | **374,334** | 2,689,850 | **374,334** | 2,689,850 |
| | | **2,801,375** | 5,505,139 | **2,801,375** | 5,505,139 |

*The accompanying notes form an integral part of the financial statements.*

## 1. CORPORATE INFORMATION

The Bank is a limited liabililty company, incorporated and domiciled in Malaysia. The registered office of the Bank is located at Level 11, Menara UOB, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia.

The holding and ultimate holding companies of the Bank are Chung Khiaw Bank (Malaysia) Bhd, a company incorporated in Malaysia and United Overseas Bank Limited, a bank incorporated in Singapore, respectively.

The principal activities of the Bank during the year are banking and related financial services. The principal activities of the subsidiaries and the associates are set out in Notes 10 and 11 respectively. There have been no significant changes in the nature of the principal activities during the financial year.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 27 February, 2007.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The financial statements comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities modified by Bank Negara Guidelines. At the begining of the current financial year, the Group and the Bank had adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 January 2006 as described fully in Note 2.3.

The financial statements of the Group and the Bank have been prepared under the historical cost convention, unless otherwise indicated in this summary of significant accounting policies.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

### 2.2 Summary of Significant Group Accounting Policies

#### (a) Subsidiaries and Basis of Consolidation

##### (i) Subsidiaries

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

##### (ii) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 Summary of Significant Group Accounting Policies (continued)**

**(a) Subsidiaries and Basis of Consolidation (continued)**

**(ii) Basis of Consolidation (continued)**

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

**(b) Associates**

Associates are entities in which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not in control or joint control over those policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, the investment in associate is carried in the consolidated balance sheet at cost adjusted for post-acquisition changes in the Group's share of net assets of the associate. The Group's share of the net profit or loss of the associate is recognised in the consolidated profit or loss. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of such changes. In applying the equity method, unrealised gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The associate is equity accounted for from the date the Group obtains significant influence until the date the Group ceases to have significant influence over the associate.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Summary of Significant Group Accounting Policies (continued)

#### (b) Associates (continued)

The most recent available audited financial statements of the associates are used by the Group in applying the equity method. Where the dates of the audited financial statements used are not coterminous with those of the Group, the share of results is arrived at from the last audited financial statements available and management financial statements to the end of the accounting period. Uniform accounting policies are adopted for like transactions and events in similar circumstances.

In the Company's separate financial statements, investments in associates are stated at cost less impairment losses.

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

#### (c) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but instead, it is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

#### (d) Recognition of Interest Income

Interest income is recognised in the income statement on an accrual basis. Interest income includes the amortisation of premiums or accretion of discounts. Interest income is recognised on an effective yield basis. The effective interest method applies the rate that exactly discounts estimated future cash receipts through the effective life of the financial instrument to the net carrying amount of the financial asset.

Customers' accounts are classified as non-performing where repayments are in arrears for more than three months from the date of default instead of six months based on the minimum requirements of Bank Negara Malaysia's "Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts" guideline for loans and overdrafts, trade bills, bankers' acceptances and trust receipts.

Interest accrued and recognised as income prior to the date the customers' accounts are classified as non-performing shall be reversed out of the income statements and the accrued interest out of the balance sheet. Subsequently, interest earned on non-performing accounts are recognised as income on a cash basis.

#### (e) Recognition of Fees and Other Income

Loan arrangement, management and participation fees, commissions and service charges/fees are recognised as income when all conditions precedent are fulfilled.

Commitment fees and guarantee fees which are material are recognised as income based on time apportionment.

Dividends from held-for-trading and available-for-sale securities are recognised when received and declared respectively.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 Summary of Significant Group Accounting Policies (continued)**

**(f) Allowance for losses on loans, advances and financing**

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

A general allowance based on a percentage of the loan portfolio of the Bank is also made to cover possible losses which are not specifically identified.

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 Bank observes the minimum allowance policy of Bank Negara Malaysia's "Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts" guideline except that the Bank has lowered the default period to 3 months instead of 6 months.

The Bank has made additional specific allowance, hundred percent (100%) of the secured portion of non-performing loans which are in arrears for more than seven (7) years.

Bank Negara Malaysia has granted indulgence to the Group and the Bank from complying with the requirement on the impairment of loans under revised BNM/GP8 in the current and previous financial years.

**(g) Repurchase Agreements**

Securities purchased under resale agreements are securities which the Group and the Bank had 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 and the Bank has sold from its portfolio, with a commitment to repurchase at a future date. Such financing transactions and the obligation to repurchase the securities are reflected as a liability on the balance sheet.

**(h) Securities**

The holding of the securities portfolio of the Group and the Bank are segregated based on the following categories and valuation methods:

**(i) Held-for-trading Securities**

Securities are classified as held-for-trading if they are acquired and held principally for the intention of resale in the near term. The held-for-trading securities will be stated at fair value and any gain or loss arising from a change in their fair values and the derecognition of held-for-trading securities are recognised in the income statement.

**(ii) Available-for-sale Securities**

Available-for-sale securities are financial assets that are not classified as held-for-trading or held-to-maturity. The available-for-sale securities are measured at fair value or at amortised cost (less impairment losses) if the fair value cannot be reliably measured. Any gain or loss arising from a change in fair value are recognised directly in equity through the statement of changes in equity. When the financial assets are sold, collected, disposed of or impaired, the cumulative gain or loss previously recognised in equity will be transferred to the income statement.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Summary of Significant Group Accounting Policies (continued)

#### (h) Securities (continued)

The estimated fair value is based on quoted and observable market prices at the balance sheet date. Where such quoted and observable market prices are not available, fair value is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow technique is used, the estimated future cash flows are discounted based on current market rates for similar instruments at the balance sheet date.

#### (i) Property, Plant and Equipment, and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment except for freehold land and certain leasehold land are stated at cost less accumulated depreciation and any accumulated impairment losses.

Freehold land and certain leasehold land are stated at revalued amount, which is the fair value at the date of the revaluation less any accumulated impairment losses. Fair value is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. Revaluations are performed once every five years to ensure that the fair value of a revalued asset does not differ materially from that which would be determined using fair values at the balance sheet date. Any revaluation surplus is credited to the revaluation reserve included within equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss to the extent of the decrease previously recognised. A revaluation deficit is first offset against unutilised previously recognised revaluation surplus in respect of the same asset and the balance is thereafter recognised in profit or loss. Upon disposal or retirement of an asset, any revaluation reserve relating to the particular asset is transferred directly to retained earnings.

Freehold land and long term leasehold land (above 99 years) are not depreciated. Capital work-in-progress are also not depreciated as these assets are not available for use. Other leasehold land and buildings are depreciated over the period of the respective leases which range from 38 years to 99 years. Depreciation of other property, plant and equipment is provided for on a straight-line basis to write off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

| | % |
|---|---|
| Buildings | 2 |
| Office furniture, fittings and equipment | 10 - 20 |
| Computer equipment and software | 20 |
| Motor vehicles | 20 |

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Summary of Significant Group Accounting Policies (continued)

#### (j) Investment Properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Fair value is arrived at by reference to market evidence of transaction prices for similar properties and is performed by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued.

Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the Group holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year in which they arise.

#### (k) Leases

##### (i) Finance leases

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incident to ownership.

Assets acquired by way of hire purchase or finance leases are stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciation and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Bank's incremental borrowing rate is used.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised as an expense in the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for the lease assets is in accordance with that for depreciable property, plant and equipment.

##### (ii) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases except where property held under operating leases that would otherwise meet the definition of investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease.

Payments made under operating leases are charged to the income statement on the straigh line basis over the lease period.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Summary of Significant Group Accounting Policies (continued)

#### (l) Derivative Financial Instruments

Derivative financial instruments are recognised at fair value and are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gain or loss arising from the change in the fair value of the derivatives is recognised in the income statement.

#### (m) Foreign Currencies

##### (i) Functional and Presentation Currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Bank's functional currency.

##### (ii) Foreign Currency Transactions

In preparing the financial statements of the individual entities, transactions in currencies other than the Bank's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

#### (n) Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred tax is provided for, using the liability method. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Summary of Significant Group Accounting Policies (continued)

#### (n) Income Tax (continued)

Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the combination.

#### (o) Employee Benefits

##### (i) Short term employee benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

##### (ii) Post-employment benefits - Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund (“EPF”).

#### (p) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand, bank balances and deposit placements maturing less than one month held for the purpose of meeting short term commitments and readily convertible into cash without significant risk of changes in value.

#### (q) Other Assets

Other receivables are carried at anticipated realisable values. Bad debts are written off when identified. An estimate is made for dountful debts based on review of all outstanding amounts as at the balance sheet date.

#### (r) Bills and Acceptances Payable

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

#### (s) Provisions for Liabilities

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Summary of Significant Group Accounting Policies (continued)

#### (t) Liabilities

Deposits from customers, and deposits and placements of banks and financial institutions are stated at placement values. Other liabilities are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received.

#### (u) Impairment of Non-financial Assets

The carrying amounts of non-financial assets, other than investment property and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For goodwill, the recoverable amount is estimated at each balance sheet date or more frequently when indicators of impairment are identified.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs to. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

An impairment loss is recognised in profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for as a revaluation decrease to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.2 Summary of Significant Group Accounting Policies (continued)**

**(v) Financial Instruments**

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are recognised directly in equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

The accounting policies for financial instruments recognised on the balance sheet are disclosed in the individual policy statements associated with each item.

**(i) Equity instruments**

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided.

**2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs**

On 1 January 2006, the Group and the Company adopted the following FRSs mandatory for financial periods beginning on or after 1 January 2006:

| | |
|---|---|
| FRS 2 | Share-based Payment |
| FRS 3 | Business Combinations |
| FRS 5 | Non-current Assets Held for Sale and Discontinued Operations |
| FRS 101 | Presentation of Financial Statements |
| FRS 102 | Inventories |
| FRS 108 | Accounting Policies, Changes in 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 131 | Interests in Joint Ventures |
| FRS 132 | Financial Instruments: Disclosure and Presentation |
| FRS 133 | Earnings Per Share |
| FRS 136 | Impairment of Assets |
| FRS 138 | Intangible Assets |
| FRS 140 | Investment Property |

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (continued)

The Group has not adopted FRS 117 - Leases and FRS 124 - Related Party Transactions that have been issued but first effective for the Group on 1 January 2007. The Group has also not adopted FRS 139 - Financial Instruments: Recognition and Measurement as the effective date has been deferred.

Other than FRS 101, FRS 3, FRS 136 and FRS 138, the adoption of the new and revised FRSs did not result in significant changes in accounting policies of the Group. The principal changes in accounting policies and their effects resulting from the adoption of FRS 101, FRS 3, FRS 136 and FRS 138 are discussed below:

**(a) FRS 3 - Business combinations, FRS 136 - Impairment of assets and FRS 138 - Intangible assets**

The new FRS 3 has resulted in consequential amendments to two other accounting standards, FRS 136 and FRS 138. In accordance with the transitional provisions, FRS 3 has been applied for business combinations for which the agreement date is on or after 1 January 2006.

**(i) Goodwill**

Prior to 1 January 2006, goodwill was amortised on a straight-line basis over its estimated useful life of up to a maximum of 20 years and at each balance sheet date, the Group assessed if there was any indication of impairment of the cash-generating unit in which the goodwill is attached to. The adoption of FRS 3 and the revised FRS 136 has resulted in the Group ceasing annual goodwill amortisation. Goodwill is now carried at cost less accumulated impairment losses and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

In accordance with the transitional provisions of FRS 3, the Group has ceased to include annual amortisation of goodwill included in the carrying amount of investments in associates in the determination of the Group's share of profits or losses of associates. The net carrying amount of goodwill included in investments in associates as at 1 January 2006 was RM19,755,000.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2005 or prior periods. The effects on the consolidated balance sheet as at 31 December 2006 and consolidated income statement for the year ended 31 December 2006 are set out in Note 2.3(c)(i) and Note 2.3(c)(ii) respectively. This change has no impact on the Company's financial statements.

**(ii) Excess of Group's interest in net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as negative goodwill)**

Prior to 1 January 2006, negative goodwill was amortised over the weighted average useful life of the non-monetary assets acquired, except to the extent it relates to identified expected future losses as at the date of acquisition. In such cases, it was recognised in profit or loss as those expected losses were incurred. Under FRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisitions, after reassessment, is now recognised immediately in profit or loss.

In accordance with transitional provisions of FRS 3, the Group has also derecognised the remaining unamortised negative goodwill as at 1 January 2006 amounting to RM27,701,000 with a corresponding increase in retained earnings.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2005 or prior periods. The effects on the consolidated balance sheet as at 31 December 2006 and consolidated income statement for the year ended 31 December 2006 are set out in Note 2.3(c)(i) and Note 2.3(c)(ii) respectively. This change has no impact on the Company's financial statements.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (continued)**

**(a) FRS 3 - Business combinations, FRS 136 - Impairment of assets and FRS 138 - Intangible assets (continued)**

**(iii) Accounting for acquisitions**

Prior to 1 January 2006, the Group did not recognise separately the acquiree's contingent liabilities at the acquisition date as part of allocating the cost of a business combination. Upon the adoption of FRS 3, contingent liabilities are now separately recognised, provided their fair values can be measured reliably. In addition, the Group was previously allowed to recognise restructuring provisions in connection with an acquisition regardless of whether the acquiree had recognised such provisions. Upon the adoption of FRS 3, the Group is now permitted to recognise such provisions only when the acquiree has, at the acquisition date, an existing liability for restructuring recognised in accordance with FRS 137.

The change did not materially affect the financial statements of the Group and the Bank.

**(b) FRS 101: Presentation of Financial Statements**

Prior to 1 January 2006, the Group's share of taxation of associates accounted for using the equity method was included as part of the Group's income tax expense in the consolidated income statement. Upon the adoption of the revised FRS 101, the share of taxation of associates accounted for using the equity method is now included in the share of profit or loss reported in the consolidated income statement before arriving at the Group's profit or loss before tax.

The effects on the consolidated balance sheet as at 31 December 2006 and consolidated income statement for the year ended 31 December 2006 are set out in Note 2.3(c)(ii). These changes in presentation have also been applied retrospectively and as disclosed in Note 2.3(c)(iii), certain comparatives have been restated.

These changes in presentation have no impact on the Company's financial statements.

**(c) Summary of effects of adoption of new and revised FRSs on current year's financial statements**

The following tables provide estimates of the extent to which each of the line items in the balance sheets and income statements for the year ended 31 December 2006 is higher or lower than it would have been had the previous policies been applied in the current year.

**(i) Effects on Balance Sheet as at 31 December 2006**

| | Increase/(Decrease) | | |
|---|---|---|---|
| **Description of change** | **FRS 3 Note 2.3(a)(i) RM'000** | **FRS 3 Note 2.3(a)(ii) RM'000** | **Total RM'000** |
| **Group** | | | |
| Investment in associates | **3,292** | **-** | **3,292** |
| Negative goodwill | **-** | **(25,969)** | **(25,969)** |
| Retained earnings | **(3,292)** | **25,969** | **22,677** |

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 Changes in Accounting Policies and Effects Arising from Adoption of New and Revised FRSs (continued)

#### (c) Summary of effects of adoption of new and revised FRSs on current year's financial statements (continued)

**(ii) Effects on Income Statement for the year ended 31 December 2006**

| Description of change | Increase/(Decrease) FRS 3 Note 2.3(a)(i) RM'000 | FRS 3 Note 2.3(a)(ii) RM'000 | Total RM'000 |
|---|---|---|---|
| **Group** | | | |
| Amortisation of goodwill | (3,292) | 1,732 | (1,560) |
| Share of profit of associates | - | (7,249) | (7,249) |
| Profit before tax | 3,292 | (1,732) | 1,560 |
| Income tax expense | - | (7,249) | (7,249) |
| Profit for the year | 3,292 | (1,732) | 1,560 |

#### (d) Restatement of comparatives

The following comparative amounts have been restated as a result of adopting the new and revised FRSs:

| Description of change | As previously stated RM'000 | Increase/ (Decrease) RM'000 | Restated RM'000 |
|---|---|---|---|
| **For the financial year ended 31 December 2005** | | | |
| **Group** | | | |
| Share of profit of associates | 17,074 | (3,417) | 13,657 |
| Profit before tax | 500,154 | (3,417) | 496,737 |
| Taxation | | | |
| - Bank and subsidiaries | 139,694 | - | 139,694 |
| - associates | 3,417 | (3,417) | - |
| | 143,111 | (3,417) | 139,694 |
| Profit for the year | 357,043 | - | 357,043 |

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Significant Accounting Estimates and Judgements

Preparation of the financial statements involved making certain estimates, assumptions concerning the future judgements. They affect the accounting policies applied, amounts of assets, liabilities, income and expenses reported and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in these estimates and assumptions by management may have an effect on the balances as reported in financial statements.

**(a) Fair value estimation of securities**

As disclosed in Note 2.2(h), where the quoted and observable market prices of certain securities are not available, fair value is estimated using pricing models or discounted cash flow techniques. The usage of these models and techniques require the Group to make certain estimates and assumptions, including but not limited to estimated future cash flows and discount rates.

**(b) Income taxes**

Deferred tax assets are measured and recognised based on the tax rates that are expected to apply in the period when the asset is realised. Estimates are made as to the amount of taxable profits in these periods which will enable the deferred tax assets to be realised.

**(c) Allowances for losses on loans, advances and financing**

As stated in Note 2.2(f), specific allowances are made for doubtful debts which have been individually reviewed and specifically identified as substandard, bad or doubtful. The individual assessment of loans, advances and financing may include making estimates and judgements about the counterparty's financial position, fair value of the underlying collaterals and future recoverable cash flows in workout/restructuring arrangements

## 3. CASH AND SHORT-TERM FUNDS

| | Group and Bank | |
|---|---|---|
| | **2006** | **2005** |
| | **RM'000** | **RM'000** |
| Cash and balances with banks and other financial institutions | **236,775** | 182,774 |
| Money at call and deposit placements maturing within one month | **2,190,266** | 2,632,515 |
| | **2,427,041** | 2,815,289 |

## 4. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

| | Group and Bank | |
|---|---|---|
| | **2006** | **2005** |
| | **RM'000** | **RM'000** |
| Licensed banks | **-** | 172,790 |
| Bank Negara Malaysia | **300,000** | 2,500,000 |
| Other financial institutions | **74,334** | 17,060 |
| | **374,334** | 2,689,850 |

## 5. HELD-FOR-TRADING SECURITIES

| | Group and Bank | |
|---|---|---|
| | 2006 | 2005 |
| | RM'000 | RM'000 |
| **At fair value:** | | |
| Malaysian Government treasury bills | **112,509** | - |
| Bank Negara Malaysia Bills | **662,479** | - |
| Bankers' acceptances and Islamic accepted bills | **3,134** | 307,665 |
| Islamic private debt securities | **264,382** | 406,152 |
| Cagamas bonds | **49,860** | - |
| Private debt securities (Note 39 (b)) | **156,894** | 149,990 |
| **Total held-for-trading securities** | **1,249,258** | 863,807 |

## 6. AVAILABLE-FOR-SALE (AFS) SECURITIES

| | Group and Bank | |
|---|---|---|
| | 2006 | 2005 |
| | RM'000 | RM'000 |
| **At fair value:** | | |
| **Money market instruments:** | | |
| Bank Negara Malaysia Bills | **-** | 240,134 |
| Malaysian Government treasury bills | **-** | 101,827 |
| Malaysian Government securities | **2,206** | 2,266 |
| Negotiable instruments of deposits | **2,570,017** | 3,567,955 |
| Cagamas bonds | **213,721** | 60,100 |
| Private debt securities (Note 39 (b)) | **497,948** | 508,445 |
| | **3,283,892** | 4,480,727 |
| **Quoted securities:** | | |
| Shares of corporations in Malaysia | **2,740** | 3,827 |
| Corporate loan stocks | **5,027** | 5,521 |
| | **7,767** | 9,348 |
| **At cost:** | | |
| **Unquoted securities:** | | |
| Shares | **12,272** | 12,272 |
| Private debt securities | **276** | 1,417 |
| | **12,548** | 13,689 |
| **Total available-for-sale securities** | **3,304,207** | 4,503,764 |

## 7. LOANS, ADVANCES AND FINANCING

| | Group | | Bank | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Overdrafts | **2,871,023** | 2,796,237 | **2,871,023** | 2,796,237 |
| Term loans and revolving credits | | | | |
| Housing loans | **6,791,307** | 5,180,860 | **6,791,307** | 5,180,860 |
| Syndicated term loans | **105,239** | 131,052 | **105,239** | 131,052 |
| Hire purchase receivables | **-** | 3 | **-** | 3 |
| Lease receivables | **3** | 451 | **3** | 3 |
| Other term loans/financing | **6,134,316** | 5,652,116 | **6,134,316** | 5,652,116 |
| Credit cards receivable | **781,145** | 578,868 | **781,145** | 578,868 |
| Bills receivable | **112,521** | 109,123 | **112,521** | 109,123 |
| Trust receipts | **561,371** | 429,032 | **561,371** | 429,032 |
| Claims on customers under acceptance credits | **3,447,565** | 2,821,799 | **3,447,565** | 2,821,799 |
| Staff loans | | | | |
| - Executive directors | **489** | - | **489** | - |
| - Others | **91,359** | 88,446 | **91,359** | 88,446 |
| Other | **5,692** | 2,570 | **5,692** | 2,570 |
| | **20,902,030** | 17,790,557 | **20,902,030** | 17,790,109 |
| Unearned interest | **(11,650)** | (357) | **(11,650)** | (357) |
| Gross loans, advances and financing | **20,890,380** | 17,790,200 | **20,890,380** | 17,789,752 |
| Allowance for losses on loans and financing | | | | |
| - Specific | **(352,240)** | (337,234) | **(352,240)** | (336,842) |
| - General | **(305,969)** | (251,944) | **(305,969)** | (251,888) |
| Net loans, advances and financing | **20,232,171** | 17,201,022 | **20,232,171** | 17,201,022 |

### (i) By maturity structure:

| | | | | |
|---|---|---|---|---|
| Maturing within one year | **9,899,911** | 9,651,053 | **9,899,911** | 9,650,606 |
| One year to three years | **819,946** | 556,031 | **819,946** | 556,031 |
| Three years to five years | **857,300** | 761,525 | **857,300** | 761,525 |
| Over five years | **9,313,223** | 6,821,591 | **9,313,223** | 6,821,590 |
| | **20,890,380** | 17,790,200 | **20,890,380** | 17,789,752 |

### (ii) By type of customer

| | | | | |
|---|---|---|---|---|
| Domestic non-bank financial institutions | | | | |
| - Stockbroking companies | **130** | 4,769 | **130** | 4,769 |
| - Others | **108,004** | 96,012 | **108,004** | 96,012 |
| Domestic business enterprises | | | | |
| - Small medium enterprises | **5,413,640** | 4,423,161 | **5,413,640** | 4,422,742 |
| - Others | **5,788,902** | 4,998,600 | **5,788,902** | 4,998,599 |
| Government | **104,796** | 886,376 | **104,796** | 886,376 |
| Individuals | **9,251,224** | 7,295,767 | **9,251,224** | 7,295,767 |
| Other domestic entities | **214** | 2,510 | **214** | 2,482 |
| Foreign entities | **223,470** | 83,005 | **223,470** | 83,005 |
| | **20,890,380** | 17,790,200 | **20,890,380** | 17,789,752 |

## 7. LOANS, ADVANCES AND FINANCING (continued)

| | Group 2006 RM'000 | Group 2005 RM'000 | Bank 2006 RM'000 | Bank 2005 RM'000 |
|---|---|---|---|---|
| **(iii) By interest/profit rate sensitivity** | | | | |
| Fixed rate | | | | |
| Housing loans/financing | **90,759** | 87,241 | **90,759** | 87,241 |
| Hire purchase receivable | **-** | 6 | **-** | 6 |
| Other fixed rate loan/financing | **773,713** | 572,216 | **773,713** | 572,216 |
| Variable rate | | | | |
| BLR plus | **18,393,960** | 14,610,624 | **18,393,960** | 14,610,175 |
| Cost-plus | **1,090,848** | 1,114,256 | **1,090,848** | 1,114,257 |
| Other variable rates | **541,100** | 1,405,857 | **541,100** | 1,405,857 |
| | **20,890,380** | 17,790,200 | **20,890,380** | 17,789,752 |
| **(iv) By sector:** | | | | |
| Agriculture | **93,656** | 83,193 | **93,656** | 83,193 |
| Mining and quarrying | **38,655** | 24,873 | **38,655** | 24,873 |
| Manufacturing | **4,396,532** | 3,495,016 | **4,396,532** | 3,494,598 |
| Electricity, gas and water | **29,220** | 25,396 | **29,220** | 25,396 |
| Construction | **1,158,286** | 804,648 | **1,158,286** | 804,648 |
| Real estate | **715,144** | 668,431 | **715,144** | 668,431 |
| Purchase of landed property: | | | | |
| - Residential | **6,744,923** | 5,342,645 | **6,744,923** | 5,342,645 |
| - Non-residential | **707,358** | 381,594 | **707,358** | 381,594 |
| General commerce | **3,103,397** | 2,286,682 | **3,103,397** | 2,286,682 |
| Transport, storage and communication | **518,209** | 500,940 | **518,209** | 500,940 |
| Finance, insurance and business services | **1,104,978** | 1,461,509 | **1,104,978** | 1,461,509 |
| Purchase of securities | **15,132** | 52,496 | **15,132** | 52,496 |
| Purchase of transport vehicles | **10,955** | 10,286 | **10,955** | 10,286 |
| Consumption credit | **2,055,764** | 1,637,389 | **2,055,764** | 1,637,389 |
| Government agencies | **106,054** | 898,616 | **106,054** | 898,616 |
| Others | **92,117** | 116,486 | **92,117** | 116,456 |
| | **20,890,380** | 17,790,200 | **20,890,380** | 17,789,752 |
| **(v) Movements in non-performing loans, advances and financing are as follows:** | | | | |
| At beginning of the year | **1,200,785** | 1,506,588 | **1,200,338** | 1,506,121 |
| Classified as non-performing during the year | **507,901** | 431,135 | **507,898** | 431,140 |
| Amount recovered | **(160,237)** | (187,953) | **(160,237)** | (187,938) |
| Reclassified as performing | **(180,169)** | (251,625) | **(180,169)** | (251,625) |
| Amount written off | **(140,421)** | (297,360) | **(139,971)** | (297,360) |
| At end of the year | **1,227,859** | 1,200,785 | **1,227,859** | 1,200,338 |
| Specific allowance | **(352,240)** | (337,234) | **(352,240)** | (336,842) |
| Net non-performing loans, advances and financing | **875,619** | 863,551 | **875,619** | 863,496 |
| Ratio of net non-performing loans, advances and financing to net loans, advances and financing | **4.26%** | 4.95% | **4.26%** | 4.95% |

**7. LOANS, ADVANCES AND FINANCING (continued)**

| | Group | | Bank | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **(vi) Movements in allowance for losses on loans, advances and financing are as follows:** | | | | |
| **General allowance** | | | | |
| Balance as at 1 January | **251,944** | 251,950 | **251,888** | 251,888 |
| Allowance made during the year | **54,081** | - | **54,081** | - |
| Amount written back in respect of recoveries | **-** | (6) | **-** | - |
| Amount written off | **(56)** | - | **-** | - |
| Balance as at 31 December | **305,969** | 251,944 | **305,969** | 251,888 |
| As % of gross loans, advances and financing (excluding loan to Government) less specific allowance | **1.50%** | 1.52% | **1.50%** | 1.52% |
| **Specific allowance** | | | | |
| Balance as at 1 January | **337,234** | 456,227 | **336,842** | 455,821 |
| Allowance made during the year | **211,012** | 241,993 | **211,009** | 241,992 |
| Amount written back in respect of recoveries | **(61,826)** | (63,602) | **(61,826)** | (63,587) |
| Amount written off | **(134,180)** | (297,384) | **(133,785)** | (297,384) |
| Balance as at 31 December | **352,240** | 337,234 | **352,240** | 336,842 |
| **(vii) Non performing loans according to economic sectors are as follows:** | | | | |
| Agriculture | **1,852** | 3,166 | **1,852** | 3,166 |
| Mining and quarrying | **2,885** | 3,221 | **2,885** | 3,221 |
| Manufacturing | **371,588** | 401,595 | **371,588** | 401,177 |
| Construction | **25,791** | 17,052 | **25,791** | 17,052 |
| Real estate | **61,194** | 41,090 | **61,194** | 41,090 |
| Purchase of landed property: | | | | |
| - Residential | **192,076** | 160,702 | **192,076** | 160,702 |
| - Non-residential | **16,078** | 19,314 | **16,078** | 19,314 |
| General commerce | **265,117** | 223,639 | **265,117** | 223,638 |
| Transport, storage and communication | **3,575** | 5,217 | **3,575** | 5,217 |
| Finance, insurance and business services | **125,447** | 199,293 | **125,447** | 199,293 |
| Purchase of securities | **9,000** | 9,010 | **9,000** | 9,010 |
| Purchase of transport vehicles | **69** | 32 | **69** | 32 |
| Consumption credit | **130,225** | 91,257 | **130,225** | 91,257 |
| Others | **22,962** | 26,197 | **22,962** | 26,169 |
| | **1,227,859** | 1,200,785 | **1,227,859** | 1,200,338 |

## 8. OTHER ASSETS

| | Group | | Bank | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Other receivables, deposits and prepayments (Note (a)) | **267,559** | 247,960 | **267,498** | 247,930 |
| Accrued interest receivable | **48,047** | 48,483 | **48,047** | 48,483 |
| Amount due to subsidiaries | **-** | - | **4,090** | 3,190 |
| Precious metal accounts (Note (b)) | **37,579** | 27,300 | **37,579** | 27,300 |
| Foreclosed properties held for sale (Note (c)) | **3,734** | 3,806 | **3,734** | 3,806 |
| | **356,919** | 327,549 | **360,948** | 330,709 |

(a) Included in other assets is a purchased receivable amounting to RM78,441,000 (2005: RM72,833,000), inclusive of interest receivable, which is subject to a put option with a third party. This option, which originally was to expire in June 2006, was extended to March 2007.

(b) Precious metal accounts relate to precious metals on-loan to customers of the Bank. These precious metals are borrowed from the ultimate holding company on a back-to-back basis.

The net balance due from customers of the bank are stated at the gross amounts loaned amounting to RM86,828,000 (2005: RM156,223,000) net of cash collateral received from the customers of RM49,249,000 (2005: RM128,923,000). The amount due to ultimate holding company is classified as other accruals and provisions in other liabilities (Note 18).

Both the gross amounts loaned to customers and the amount due to the ultimate holding company are marked-to-market based on the prevailing prices of the respective precious metals as quoted by the ultimate holding company.

(c) Assets are classified as held for sale if their carrying amount will be recovered principally through sale rather than through continuing use. Such assets are measured at the lower of their carrying amount and fair value less costs to sell. Foreclosed properties held for sale are not subject to depreciation.

## 9. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958, the amounts of which are determined as a set percentage of total eligible liabilities.

## 10. INVESTMENT IN SUBSIDIARIES

| | Bank | |
|---|---|---|
| | **2006** | **2005** |
| | **RM'000** | **RM'000** |
| Unquoted shares in Malaysia, at cost | **151** | 151 |

**10. INVESTMENT IN SUBSIDIARIES (continued)**

The subsidiaries of the Bank, all of which are incorporated in Malaysia and held directly by the Bank, are as follows:

| | Paid-up capital | Group's effective interest | | Principal activities |
|---|---|---|---|---|
| | | 2006 | 2005 | |
| | RM | % | % | |
| UOB Smart Solutions Sdn Bhd | 10,000 | **100** | 100 | Outsourcing services |
| United Overseas Finance (Malaysia) Bhd | 2 | **100** | 100 | Dormant |
| UOBM Nominees (Tempatan) Sdn Bhd | 10,000 | **100** | 100 | Nominee services |
| UOBM Nominees (Asing) Sdn Bhd | 10,000 | **100** | 100 | Nominee services |
| United Overseas Nominees (Tempatan) Sdn Bhd | 20 | **100** | 100 | Nominee services |
| United Overseas Nominees (Asing) Sdn Bhd | 10,000 | **100** | 100 | Nominee services |
| UOB Trustee (Malaysia) Berhad | 500,000 | **100** | 100 | Trustee services |
| UOB (2006) Bhd (formerly known as Overseas Union Bank (Malaysia) Berhad) | 7 | **100** | 100 | Dormant |
| UOB Credit Bhd (formerly known as OUB Credit Bhd) | 2 | **100** | 100 | Leasing company |
| UOB 2006 Nominees (Tempatan) Sdn Bhd (formerly known as OUB Nominees (Tempatan) Sdn Bhd) | 10,000 | **100** | 100 | Dormant |
| UOB 2006 Nominees (Asing) Sdn Bhd (formerly known as OUB Nominees (Asing) Sdn Bhd) | 10,000 | **100** | 100 | Dormant |

All trading transactions of United Overseas Nominees (Tempatan) Sdn Bhd, United Overseas Nominees (Asing) Sdn Bhd, UOBM Nominees (Asing) Sdn Bhd and UOBM Nominees (Tempatan) Sdn Bhd are entered into as agents for the Bank and the records accordingly are incorporated into the books and financial statements of the Bank.

**11. INVESTMENT IN ASSOCIATES**

| | Group | | Bank | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Unquoted shares, at cost | **122,733** | 122,733 | **122,733** | 122,733 |
| Share of post-acquisition reserves | **40,409** | 28,719 | **-** | - |
| | **163,142** | 151,452 | **122,733** | 122,733 |

The associates, all of which are incorporated in Malaysia, are as follows:

| | Group's effective interest | | Principal activities |
|---|---|---|---|
| | **2006** | **2005** | |
| | **%** | **%** | |
| OSK-UOB Unit Trust Management Berhad | **30** | 30 | Management of unit trust funds |
| Uni. Asia Capital Sdn Bhd | **49** | 49 | Investment holding company |

### 11. INVESTMENT IN ASSOCIATES (continued)

The summarised financial information of the associates are as follows:

| | 2006 RM'000 | 2005 RM'000 |
|---|---|---|
| **Assets and liabilities** | | |
| Current assets | **175,718** | 163,405 |
| Non-current assets | **1,408,789** | 1,309,919 |
| Total assets | **1,584,507** | 1,473,324 |
| Current liabilities | **463,960** | 477,928 |
| Non-current liabilities | **746,614** | 653,957 |
| Total liabilities | **1,210,574** | 1,131,885 |
| **Revenue** | | |
| Revenue | **729,918** | 673,978 |
| Profit before taxation | **54,403** | 36,882 |
| Profit for the year | **38,865** | 29,311 |

The details of goodwill included within the Group's carrying amount of investment in asociates are as follows:

| | RM'000 |
|---|---|
| **Cost** | |
| At 1 January 2005, 31 December 2005 and 1 January 2006 | **32,924** |
| Effects of adopting FRS 3 (Note 2.3(a)(i)) | **(13,169)** |
| At 31 December 2006 | **19,755** |
| **Accumulated amortisation** | |
| At 1 January 2005 | **9,877** |
| Amortisation | **3,292** |
| At 31 December 2005 and 1 January 2006 | **13,169** |
| Effects of adopting FRS 3 (Note 2.3(a)(i)) | **(13,169)** |
| At 31 December 2006 | **-** |
| **Net carrying amount** | |
| At 31 December 2005 | **19,755** |
| At 31 December 2006 | **19,755** |

### 12. INVESTMENT PROPERTIES

| | Group and Bank | |
|---|---|---|
| | 2006 RM'000 | 2005 RM'000 |
| At 1 January | **-** | - |
| Transfer from property, plant and equipment | **10,000** | - |
| At 31 December | **10,000** | - |

In the current financial year, the leasehold building with a carrying amount of approximately RM9,945,000 was transferred from property, plant and equipment to investment property as it ceased to be used by the Group and the Bank. The fair value ascertained at the date of the transfer was RM10 million resulting in an increase in the revaluation reserve of the leasehold property by approximately RM55,000.

## 13. PROPERTY, PLANT AND EQUIPMENT

| Group | Freehold land RM'000 | Leasehold land RM'000 | Buildings RM'000 | Office furniture, fittings and equipment RM'000 | Computer equipment and software RM'000 | Motor vehicles RM'000 | Capital Work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2006** | | | | | | | | |
| **Cost/Valuation** | | | | | | | | |
| At 1 January 2006 | | | | | | | | |
| At cost | **-** | **1,300** | **2,552** | **110,152** | **152,574** | **5,047** | **1,459** | **273,084** |
| At valuation | **44,287** | **29,512** | **119,361** | **-** | **-** | **-** | **-** | **193,160** |
| | **44,287** | **30,812** | **121,913** | **110,152** | **152,574** | **5,047** | **1,459** | **466,244** |
| Additions | **-** | **-** | **-** | **15,525** | **21,361** | **1,342** | **2,816** | **41,044** |
| Disposals | **(20,968)** | **-** | **-** | **(3,465)** | **(8,052)** | **(484)** | **-** | **(32,969)** |
| Revaluation surplus | **-** | **-** | **55** | **-** | **-** | **-** | **-** | **55** |
| Transfer to investment property | **-** | **-** | **(10,782)** | **-** | **-** | **-** | **-** | **(10,782)** |
| At 31 December 2006 | **23,319** | **30,812** | **111,186** | **122,212** | **165,883** | **5,905** | **4,275** | **463,592** |
| Representing: | | | | | | | | |
| At cost | **-** | **1,300** | **2,552** | **122,212** | **165,883** | **5,905** | **4,275** | **302,127** |
| At valuation | **23,319** | **29,512** | **108,634** | **-** | **-** | **-** | **-** | **161,465** |
| At 31 December 2006 | **23,319** | **30,812** | **111,186** | **122,212** | **165,883** | **5,905** | **4,275** | **463,592** |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| At 1 January 2006 | **2,692** | **1,380** | **15,012** | **74,794** | **108,441** | **2,188** | **-** | **204,507** |
| Depreciation charge | **-** | **560** | **4,334** | **7,245** | **17,312** | **954** | **-** | **30,405** |
| Disposals | **-** | **-** | **-** | **(2,620)** | **(8,024)** | **(405)** | **-** | **(11,049)** |
| Reversal of impairment loss | **(1,969)** | **-** | **-** | **-** | **-** | **-** | **-** | **(1,969)** |
| Transfer to investment property | **-** | **-** | **(782)** | **-** | **-** | **-** | **-** | **(782)** |
| At 31 December 2006 | **723** | **1,940** | **18,564** | **79,419** | **117,729** | **2,737** | **-** | **221,112** |
| **Net carrying amount** | | | | | | | | |
| At cost | **-** | **-** | **-** | **42,793** | **48,154** | **3,168** | **4,275** | **98,390** |
| At valuation | **22,596** | **28,872** | **92,622** | **-** | **-** | **-** | **-** | **144,090** |
| At 31 December 2006 | **22,596** | **28,872** | **92,622** | **42,793** | **48,154** | **3,168** | **4,275** | **242,480** |
| **At 31 December 2005** | | | | | | | | |
| **Cost or valuation** | | | | | | | | |
| At 1 January 2005 | | | | | | | | |
| At cost | - | 1,300 | 2,552 | 106,761 | 135,224 | 5,333 | 99 | 251,269 |
| At valuation | 46,183 | 29,512 | 121,665 | - | - | - | - | 197,360 |
| | 46,183 | 30,812 | 124,217 | 106,761 | 135,224 | 5,333 | 99 | 448,629 |
| Additions | - | - | - | 6,037 | 20,859 | 446 | 1,360 | 28,702 |
| Disposals | (1,896) | - | (2,304) | (2,646) | (3,509) | (732) | - | (11,087) |
| At 31 December 2005 | 44,287 | 30,812 | 121,913 | 110,152 | 152,574 | 5,047 | 1,459 | 466,244 |
| Representing: | | | | | | | | |
| At cost | - | 1,300 | 2,552 | 110,152 | 152,574 | 5,047 | 1,459 | 273,084 |
| At valuation | 44,287 | 29,512 | 119,361 | - | - | - | - | 193,160 |
| At 31 December 2005 | 44,287 | 30,812 | 121,913 | 110,152 | 152,574 | 5,047 | 1,459 | 466,244 |

### 13. PROPERTY, PLANT AND EQUIPMENT (continued)

| Group (continued) | Freehold land RM'000 | Leasehold land RM'000 | Buildings RM'000 | Office furniture, fittings and equipment RM'000 | Computer equipment and software RM'000 | Motor vehicles RM'000 | Capital Work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| At 1 January 2005 | 3,288 | 820 | 12,297 | 71,176 | 95,083 | 1,698 | - | 184,362 |
| Depreciation charge | - | 560 | 4,860 | 6,179 | 15,631 | 901 | - | 28,131 |
| Disposals | - | - | (1,741) | (2,561) | (2,273) | (411) | - | (6,986) |
| Reversal of impairment loss | (596) | - | (404) | - | - | - | - | (1,000) |
| At 31 December 2005 | 2,692 | 1,380 | 15,012 | 74,794 | 108,441 | 2,188 | - | 204,507 |
| **Net carrying amount** | | | | | | | | |
| At cost | - | 1,254 | 2,431 | 35,358 | 44,133 | 2,859 | 1,459 | 87,494 |
| At valuation | 41,595 | 28,178 | 104,470 | - | - | - | - | 174,243 |
| At 31 December 2005 | 41,595 | 29,432 | 106,901 | 35,358 | 44,133 | 2,859 | 1,459 | 261,737 |

| Bank | Freehold land RM'000 | Leasehold land RM'000 | Buildings RM'000 | Office furniture, fittings and equipment RM'000 | Computer equipment and software RM'000 | Motor vehicles RM'000 | Capital Work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2006** | | | | | | | | |
| **Cost or valuation** | | | | | | | | |
| At 1 January 2006 | | | | | | | | |
| At cost | **-** | **1,300** | **2,552** | **109,675** | **151,946** | **5,047** | **1,459** | **271,979** |
| At valuation | **44,287** | **29,512** | **119,361** | **-** | **-** | **-** | **-** | **193,160** |
| | **44,287** | **30,812** | **121,913** | **109,675** | **151,946** | **5,047** | **1,459** | **465,139** |
| Additions | **-** | **-** | **-** | **15,283** | **21,194** | **1,342** | **2,816** | **40,635** |
| Disposals | **(20,968)** | **-** | **-** | **(3,465)** | **(8,052)** | **(484)** | **-** | **(32,969)** |
| Revaluation surplus | **-** | **-** | **55** | **-** | **-** | **-** | **-** | **55** |
| Transfer to investment property | **-** | **-** | **(10,782)** | **-** | **-** | **-** | **-** | **(10,782)** |
| At 31 December 2006 | **23,319** | **30,812** | **111,186** | **121,493** | **165,088** | **5,905** | **4,275** | **462,078** |
| Representing: | | | | | | | | |
| At cost | **-** | **1,300** | **2,552** | **121,493** | **165,088** | **5,905** | **4,275** | **300,613** |
| At valuation | **23,319** | **29,512** | **108,634** | **-** | **-** | **-** | **-** | **161,465** |
| At 31 December 2006 | **23,319** | **30,812** | **111,186** | **121,493** | **165,088** | **5,905** | **4,275** | **462,078** |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| At 1 January 2006 | **2,692** | **1,380** | **15,012** | **74,725** | **108,370** | **2,188** | **-** | **204,367** |
| Depreciation charge | **-** | **560** | **4,334** | **7,105** | **17,225** | **954** | **-** | **30,178** |
| Disposals | **-** | **-** | **-** | **(2,620)** | **(8,024)** | **(405)** | **-** | **(11,049)** |
| Reversal of impairment loss | **(1,969)** | **-** | **-** | **-** | **-** | **-** | **-** | **(1,969)** |
| Transfer to investment property | **-** | **-** | **(782)** | **-** | **-** | **-** | **-** | **(782)** |
| At 31 December 2006 | **723** | **1,940** | **18,564** | **79,210** | **117,571** | **2,737** | **-** | **220,745** |
| **Net carrying amount** | | | | | | | | |
| At cost | **-** | **-** | **-** | **42,283** | **47,517** | **3,168** | **4,275** | **97,243** |
| At valuation | **22,596** | **28,872** | **92,622** | **-** | **-** | **-** | **-** | **144,090** |
| At 31 December 2006 | **22,596** | **28,872** | **92,622** | **42,283** | **47,517** | **3,168** | **4,275** | **241,333** |

## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

| Bank (continued) | Freehold land RM'000 | Leasehold land RM'000 | Buildings RM'000 | Office furniture, fittings and equipment RM'000 | Computer equipment and software RM'000 | Motor vehicles RM'000 | Capital Work-in-progress RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|---|
| **At 31 December 2005** | | | | | | | | |
| **Cost/Valuation** | | | | | | | | |
| At 1 January 2005 | | | | | | | | |
| At cost | - | 1,300 | 2,552 | 106,634 | 135,224 | 5,333 | 99 | 251,142 |
| At valuation | 46,183 | 29,512 | 121,665 | - | - | - | - | 197,360 |
| | 46,183 | 30,812 | 124,217 | 106,634 | 135,224 | 5,333 | 99 | 448,502 |
| Additions | - | - | - | 5,687 | 20,231 | 446 | 1,360 | 27,724 |
| Disposals | (1,896) | - | (2,304) | (2,646) | (3,509) | (732) | - | (11,087) |
| At 31 December 2005 | 44,287 | 30,812 | 121,913 | 109,675 | 151,946 | 5,047 | 1,459 | 465,139 |
| Representing: | | | | | | | | |
| At cost | - | 1,300 | 2,552 | 109,675 | 151,946 | 5,047 | 1,459 | 271,979 |
| At valuation | 44,287 | 29,512 | 119,361 | - | - | - | - | 193,160 |
| At 31 December 2005 | 44,287 | 30,812 | 121,913 | 109,675 | 151,946 | 5,047 | 1,459 | 465,139 |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| At 1 January 2005 | 3,288 | 820 | 12,297 | 71,165 | 95,083 | 1,698 | - | 184,351 |
| Depreciation charge | - | 560 | 4,860 | 6,121 | 15,560 | 901 | - | 28,002 |
| Disposals | - | - | (1,741) | (2,561) | (2,273) | (411) | - | (6,986) |
| Reversal of impairment loss | (596) | - | (404) | - | - | - | - | (1,000) |
| At 31 December 2005 | 2,692 | 1,380 | 15,012 | 74,725 | 108,370 | 2,188 | - | 204,367 |
| **Net carrying amount** | | | | | | | | |
| At cost | - | - | - | 34,950 | 43,576 | 2,859 | 1,459 | 82,844 |
| At valuation | 41,595 | 29,432 | 106,901 | - | - | - | - | 177,928 |
| At 31 December 2005 | 41,595 | 29,432 | 106,901 | 34,950 | 43,576 | 2,859 | 1,459 | 260,772 |

Land and buildings were last revalued on 31 December 2002 by the following independent qualified valuers using the comparative and investment method to reflect the fair value:

(a) Henry Butcher, Lim & Long Sdn Bhd
(b) Knight Frank, Ooi & Zaharin Sdn Bhd
(c) CH Williams Talhar & Wong Sdn Bhd

The book values of land and buildings were adjusted to reflect the revaluations and the resultant surpluses were credited to revaluation reserve.

The net book values of land and buildings, had these assets been carried at cost less accumulated depreciation are as follows:

| | Group and Bank 2006 RM'000 | Group and Bank 2005 RM'000 |
|---|---|---|
| Freehold land | **12,295** | 33,261 |
| Leasehold land | **8,689** | 8,838 |
| Freehold building | **10,307** | 10,682 |
| Long leasehold building | **28,618** | 38,179 |
| | **59,909** | 90,960 |

## 14. DEFERRED TAX ASSETS

| | Group and Bank 2006 RM'000 | 2005 RM'000 |
|---|---|---|
| At 1 January | **35,691** | 33,129 |
| Recognised in the income statement (Note 29) | **14,805** | (437) |
| Recognised in equity | **3,580** | 2,999 |
| At 31 December | **54,076** | 35,691 |
| An analysis of the Group's and the Bank's deferred tax position is as follows: | | |
| - Deferred tax assets | **79,960** | 70,707 |
| - Deferred tax liabilities | **(25,884)** | (35,016) |
| | **54,076** | 35,691 |

The components and movements in deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

**Deferred tax assets - Group and Bank**

| | General allowance for losses on loans, advances and financing RM'000 | Others RM'000 | Total RM'000 |
|---|---|---|---|
| At 1 January 2005 | 70,529 | 255 | 70,784 |
| Charged to income statement | - | (77) | (77) |
| At 1 January 2006 | 70,529 | 178 | 70,707 |
| Charged to income statement | 9,023 | 230 | 9,253 |
| At 31 December 2006 | 79,552 | 408 | 79,960 |

**Deferred tax liabilities - Group and Bank**

| | Property, plant and equipment RM'000 | Net unrealised reserves on AFS securities RM'000 | Revaluation of land and buildings RM'000 | Total RM'000 |
|---|---|---|---|---|
| At 1 January 2005 | 8,968 | 4,278 | 24,409 | 37,655 |
| Charged to income statement | 1,083 | - | (723) | 360 |
| Recognised in equity | - | (2,426) | (573) | (2,999) |
| At 1 January 2006 | 10,051 | 1,852 | 23,113 | 35,016 |
| Charged to income statement | (4,772) | - | (780) | (5,552) |
| Recognised in equity | - | (1,865) | (1,715) | (3,580) |
| At 31 December 2006 | 5,279 | (13) | 20,618 | 25,884 |

Deferred tax assets have not been recognised in respect of the following items:

| | Group 2006 RM'000 | 2005 RM'000 |
|---|---|---|
| Unutilised tax losses | **64,920** | 64,170 |
| Unabsorbed capital allowances | **12,098** | 11,586 |
| | **77,018** | 75,756 |

The unutilised tax losses and unabsorbed capital allowances are available for offset against future taxable profits of the respective subsidiaries in which those items arose. Deferred tax assets have not been recognised in respect of those items as they may not be used to offset taxable profits of other subsidiaries in the Group. They have arisen in subsidiaries that have past losses of which the deferred tax assets are recognised to the extent that future taxable profits will be available.

## 15. DEPOSITS FROM CUSTOMERS

| | Group and Bank 2006 RM'000 | Group and Bank 2005 RM'000 |
|---|---|---|
| Demand deposits | **2,512,964** | 2,182,347 |
| Savings deposits | **1,358,215** | 1,262,496 |
| Fixed deposits | **13,600,014** | 11,728,219 |
| Negotiable instruments of deposits | **1,094,628** | 1,111,597 |
| Others | **695,859** | 354,946 |
| | **19,261,680** | 16,639,605 |

**(i) The maturity structure of fixed deposits and negotiable instruments of deposits is as follows:**

| | 2006 RM'000 | 2005 RM'000 |
|---|---|---|
| Due within six months | **11,332,755** | 9,601,584 |
| Six months to one year | **2,851,635** | 2,783,825 |
| One year to three years | **305,337** | 179,481 |
| Three years to five years | **98,216** | 111,135 |
| Over five years | **106,699** | 163,791 |
| | **14,694,642** | 12,839,816 |

**(ii) The deposits are sourced from the following customers:**

| | 2006 RM'000 | 2005 RM'000 |
|---|---|---|
| Business enterprises | **6,427,236** | 4,357,187 |
| Individuals | **11,292,149** | 10,558,877 |
| Others | **1,542,295** | 1,723,541 |
| | **19,261,680** | 16,639,605 |

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Licensed banks | **1,130,023** | 115,708 | **1,131,045** | 116,933 |
| Bank Negara Malaysia | **314,954** | 212,813 | **314,954** | 212,813 |
| Other financial institutions | **1,410,215** | 3,966,707 | **1,410,215** | 3,966,707 |
| | **2,855,192** | 4,295,228 | **2,856,214** | 4,296,453 |

## 17. AMOUNT DUE TO CAGAMAS

| | Group and Bank 2006 RM'000 | Group and Bank 2005 RM'000 |
|---|---|---|
| At 1 January | **1,302,529** | 1,361,055 |
| Amount sold during the year | **-** | 100,002 |
| Repayments | **(742,499)** | (158,528) |
| At 31 December | **560,030** | 1,302,529 |

In the normal course of banking operations, the Bank sells loans to Cagamas Berhad. The Bank is liable in respect of the loans sold directly to Cagamas Berhad under the condition that the Bank undertakes to administer the loans on behalf of Cagamas Berhad and to buy back any loans which are regarded as defective based on pre-determined prudent criteria. Such financing transactions and the obligation to buy back the loans are reflected as a liability on the balance sheet.

## 18. OTHER LIABILITIES

| | Group | | Bank | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Provision for commitments and contingencies (Note (i)) | **1,308** | 1,330 | **1,308** | 1,330 |
| Accrued interest payable | **165,169** | 157,596 | **165,169** | 157,595 |
| Accruals and provisions for operational expenses (Note (ii) | **54,567** | 66,436 | **54,467** | 43,265 |
| Other accruals and provisions | **230,449** | 245,497 | **230,365** | 268,595 |
| | **451,493** | 470,859 | **451,309** | 470,785 |

**(i) Movements in provision for commitments and contingencies are as follows:**

| | | | | |
|---|---|---|---|---|
| At 1 January | **1,330** | 2,105 | **1,330** | 2,105 |
| Provision made during the year | **88** | 89 | **88** | 89 |
| Amount written back in respect of recoveries | **(110)** | (864) | **(110)** | (864) |
| At 31 December | **1,308** | 1,330 | **1,308** | 1,330 |

(ii) Included in other accruals and provisions is an amount due to the ultimate holding company of RM86,828,000 (2005: RM156,223,000) in relation to precious metals on-loan to customers of the Bank as disclosed in Note 8.

## 19. SHARE CAPITAL

| | Group and Bank | |
|---|---|---|
| | **2006** | **2005** |
| | **RM'000** | **RM'000** |
| **Authorised:** | | |
| 2,000,000,000 ordinary shares of RM1 each | **2,000,000** | 2,000,000 |
| **Issued and fully paid-up:** | | |
| 470,000,000 ordinary shares of RM1 each | **470,000** | 470,000 |

## 20. RESERVES

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | **Note** | **2006** | **2005** | **2006** | **2005** |
| | | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Non-distributable** | | | | | |
| Share premium | | **322,555** | 322,555 | **322,555** | 322,555 |
| Statutory reserve | (a) | **470,000** | 470,000 | **470,000** | 470,000 |
| Revaluation reserves | | **37,504** | 35,737 | **52,556** | 50,789 |
| Net unrealised reserves on AFS securities | | **(37)** | 4,763 | **(37)** | 4,763 |
| | | **830,022** | 833,055 | **845,074** | 848,107 |
| **Distributable** | | | | | |
| Retained profits | (b) | **1,110,423** | 833,619 | **1,057,157** | 818,744 |
| **Total Reserves** | | **1,940,445** | 1,666,674 | **1,902,231** | 1,666,851 |

## 20. RESERVES (continued)

(a) The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989, and is not distributable as dividends.

(b) As at 31 December 2006, the Bank has tax exempt profits available for distribution of approximately RM248,764,724 (2005: RM248,764,724) before the proposed final dividend in respect of the current financial year ended 31 December 2006, subject to the agreement of the Inland Revenue Board.

The Bank has sufficient tax credit under Section 108 of the Income Tax Act, 1967 and tax exempt income under Section 12 of the Income Tax (Amendment) Act 1999 to frank the payment of net dividends out of its entire retained earnings as at 31 December 2006.

## 21. NEGATIVE GOODWILL

| | Group | |
|---|---|---|
| | **2006 RM'000** | **2005 RM'000** |
| At 1 January | **27,701** | 29,433 |
| Effects of adopting FRS 3 (Note 2.3(a)(ii)) | **(27,701)** | - |
| Amortisation | - | (1,732) |
| At 31 December | **-** | 27,701 |

## 22. OPERATING REVENUE

Operating revenue of the Group and the Bank comprise gross interest income after net interest suspended/recovered, fee and commission income, investment income, income from trading of dealing securities, income derived from investment securities, gross dividends, trustee and nominee services and other income derived from banking operations.

## 23. INTEREST INCOME

| | Group | | Bank | |
|---|---|---|---|---|
| | **2006 RM'000** | **2005 RM'000** | **2006 RM'000** | **2005 RM'000** |
| Loans and advances | | | | |
| - Interest income other than recoveries from NPLs | **1,043,490** | 883,015 | **1,043,490** | 883,021 |
| - Recoveries from NPLs | **77,811** | 93,198 | **77,811** | 93,195 |
| Money at call and deposit placements with financial institutions | **249,273** | 207,507 | **249,256** | 207,493 |
| Held-for-trading securities | **28,206** | 19,982 | **28,206** | 19,982 |
| Available-for-sale securities | **162,152** | 120,555 | **162,152** | 120,555 |
| Others | **24,857** | 8,450 | **24,857** | 8,450 |
| | **1,585,789** | 1,332,707 | **1,585,772** | 1,332,696 |
| Amortisation of premium less accretion of discount | **(3,768)** | (3,573) | **(3,768)** | (3,573) |
| Net interest suspended | **(10,441)** | (5,025) | **(10,441)** | (5,025) |
| | **1,571,580** | 1,324,109 | **1,571,563** | 1,324,098 |

## 24. INTEREST EXPENSE

| | Group | | Bank | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Deposits and placements of banks and other financial institutions | **185,077** | 115,904 | **185,077** | 115,904 |
| Deposits from other customers | **500,323** | 449,645 | **500,323** | 449,645 |
| Loans sold to Cagamas | **38,549** | 48,051 | **38,549** | 48,051 |
| Others | **142,784** | 104,248 | **142,784** | 104,248 |
| | **866,733** | 717,848 | **866,733** | 717,848 |

## 25. OTHER OPERATING INCOME

| | Group | | Bank | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Fee income | | | | |
| - Commission | **81,285** | 62,383 | **80,808** | 62,170 |
| - Guarantee fees | **23,396** | 16,149 | **23,396** | 16,149 |
| - Service charges and fees | **122,580** | 104,077 | **122,576** | 104,077 |
| - Commitment fee | **25,351** | 18,950 | **25,351** | 18,950 |
| - Arrangement and participation fees | **13,028** | 35,600 | **13,028** | 35,600 |
| | **265,640** | 237,159 | **265,159** | 236,946 |
| Investment income | | | | |
| - Gain from sale of held-for-trading securities | **1,339** | 31,625 | **1,339** | 31,625 |
| - Gain/(loss) from sale of available-for-sale securities | **4,078** | (5,357) | **4,078** | (5,357) |
| - Unrealised gain on held-for-trading securities | **53,967** | 6,860 | **53,967** | 6,860 |
| - Gross dividends from: | | | | |
| - available-for-sale securities quoted in Malaysia | **594** | 643 | **594** | 643 |
| - associate | **-** | - | **8,809** | 1,904 |
| | **59,978** | 33,771 | **68,787** | 35,675 |
| Other income | | | | |
| - Foreign exchange gain/(losses) | | | | |
| - realised | **73,748** | 39,306 | **73,748** | 39,306 |
| - unrealised | **(14,792)** | 7,453 | **(14,792)** | 7,453 |
| - Rental income from operating leases, other than those from investment properties | **492** | 576 | **492** | 576 |
| - Rental income from investment properties | **300** | - | **300** | - |
| - (Loss)/gain on disposal of property, plant and equipment | **(1,011)** | 422 | **(1,011)** | 422 |
| - Other operating income | **2,170** | 1,104 | **2,170** | 1,104 |
| - Others | **13,446** | 9,341 | **13,446** | 9,341 |
| | **74,353** | 58,202 | **74,353** | 58,202 |
| | **399,971** | 329,132 | **408,299** | 330,823 |

## 26. OTHER OPERATING EXPENSES

| | Group | | Bank | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Personnel expenses | **196,165** | 157,844 | **193,989** | 156,934 |
| Establishment related expenses | **77,309** | 65,566 | **76,784** | 65,339 |
| Promotion and marketing related expenses | **32,137** | 30,525 | **33,808** | 30,702 |
| General administrative expenses | **65,060** | 38,744 | **64,594** | 38,678 |
| | **370,671** | 292,679 | **369,175** | 291,653 |
| Personnel expenses | | | | |
| - Wages, salaries and bonus | **156,766** | 127,027 | **154,990** | 126,284 |
| - Defined contribution retirement plan | **23,010** | 19,815 | **22,736** | 19,696 |
| - Other employee benefits | **16,389** | 11,002 | **16,263** | 10,954 |
| | **196,165** | 157,844 | **193,989** | 156,934 |
| Establishment related expenses | | | | |
| - Depreciation of property, plant and equipment | **30,405** | 28,131 | **30,178** | 28,002 |
| - Hire of equipment | **37** | 54 | **29** | 47 |
| - Information technology costs | **8,205** | 5,851 | **8,168** | 5,850 |
| - Repair and maintenance | **11,565** | 10,752 | **11,515** | 10,743 |
| - Rental of premises | **4,603** | 3,078 | **4,451** | 3,007 |
| - Others | **22,494** | 17,700 | **22,443** | 17,690 |
| | **77,309** | 65,566 | **76,784** | 65,339 |
| Promotion and marketing related expenses | | | | |
| - Advertising and publicity | **16,162** | 17,782 | **16,144** | 17,773 |
| - Others | **15,975** | 12,743 | **17,664** | 12,929 |
| | **32,137** | 30,525 | **33,808** | 30,702 |
| General administrative expenses | | | | |
| - Fees and commissions paid | **27,473** | 16,748 | **27,209** | 16,725 |
| - Auditors' remuneration | **449** | 397 | **441** | 386 |
| - Others | **37,138** | 21,599 | **36,944** | 21,567 |
| | **65,060** | 38,744 | **64,594** | 38,678 |
| **The above expenditure includes the following:** | | | | |
| Directors' remuneration (Note 27) | **1,329** | 1,240 | **1,329** | 1,240 |

## 27. CEO AND DIRECTORS' REMUNERATION

Remuneration in aggregate for all directors charged to the income statement for the year is as follows:

| | Group and Bank | |
|---|---|---|
| | **2006** | **2005** |
| | **RM'000** | **RM'000** |
| CEO | | |
| - Salary and other remuneration | **625** | 533 |
| - Bonus | **350** | 352 |
| - Fees | **15** | - |
| - Benefits-in-kind | **10** | 6 |
| Non-executive Directors | | |
| - Fees | **329** | 349 |
| Total | **1,329** | 1,240 |

### 27. CEO AND DIRECTORS' REMUNERATION (continued)

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

| | No of Directors | |
|---|---|---|
| | 2006 | 2005 |
| | RM'000 | RM'000 |
| Executive director: | | |
| RM500,000 to RM1,000,000 | **1** | - |
| Non-executive directors: | | |
| RM1 to RM50,000 | **8** | 8 |
| RM50,001 to RM100,000 | **1** | 1 |

### 28. ALLOWANCE FOR LOSSES ON LOANS, ADVANCES AND FINANCING

| | Group | | Bank | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Allowance for losses on loans, advances and financing: | | | | |
| (a) Specific allowance | | | | |
| - made in the financial year | **211,012** | 241,993 | **211,009** | 241,992 |
| - written back in the financial year | **(61,826)** | (63,602) | **(61,826)** | (63,587) |
| (b) General allowance | | | | |
| - made in the financial year | **54,081** | - | **54,081** | - |
| - written back in the financial year | **-** | (6) | **-** | - |
| Bad debts on loans, advances and financing: | | | | |
| - written off | **887** | (23) | **887** | (23) |
| - recovered | **(37,568)** | (19,513) | **(37,568)** | (19,513) |
| | **166,586** | 158,849 | **166,583** | 158,869 |

### 29. INCOME TAX EXPENSE

| | Group | | Bank | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Income tax: | | | | |
| Malaysian income tax in respect of current financial year | **181,963** | 132,691 | **184,430** | 133,224 |
| Under provided in prior years | **158** | 6,566 | **158** | 6,566 |
| | **182,121** | 139,257 | **184,588** | 139,790 |
| Deferred tax (Note 14): | | | | |
| Relating to origination and reversal of temporary differences | **(14,050)** | 437 | **(14,050)** | 437 |
| Deferred tax recognised at different tax rates | **(755)** | - | **(755)** | - |
| | **(14,805)** | 437 | **(14,805)** | 437 |
| Share of taxation of associates (Note 2.3(c)) | **-** | - | **-** | - |
| | **167,316** | 139,694 | **169,783** | 140,227 |

## 29. INCOME TAX EXPENSE (continued)

Domestic income tax is calculated at the Malaysian statutory tax rate of 28% (2005:28%) of the estimated assessable profit for the year. The domestic statutory rate will be reduced to 27% from the current year's rate of 28%, effective year of assessment 2007 and to 26% effective year of assessment 2008. The computation of deferred tax as at 31 December have reflected these changes.

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Bank is as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | **2006 RM'000** | **2005 RM'000** | **2006 RM'000** | **2005 RM'000** |
| Profit before taxation | **585,616** | 496,737 | **577,393** | 487,326 |
| Taxation at Malaysian statutory tax rate of 28% (2005: 28%) | **163,972** | 139,086 | **161,670** | 136,451 |
| Changes in tax rates on opening deferred tax | **-** | - | **-** | - |
| Deferred tax recognised at different tax rates | **(755)** | - | **(755)** | - |
| Income not subject to tax | **(4,771)** | (6,756) | **-** | (4,903) |
| Expenses not deductible for tax purposes | **10,810** | 3,036 | **8,710** | 2,113 |
| Effects of share of associates' post-tax profits included in Group's profit before taxation | **(2,098)** | (2,460) | **-** | - |
| Deferred tax assets not recognised | **-** | 335 | **-** | - |
| Under provision of tax expense in prior years | **158** | 6,566 | **158** | 6,566 |
| Underprovision of deferred tax in prior years | **-** | (113) | **-** | - |
| Tax expense for the year | **167,316** | 139,694 | **169,783** | 140,227 |

## 30. EARNINGS PER SHARE

The earnings per ordinary share of the Group and the Bank have been calculated based on the net profit after taxation of RM418,300,000 (2005: RM357,043,000) and RM407,610,000 (2005: RM347,099,000) respectively and on the number of ordinary shares of RM1.00 each in issue during the year of 470,000,000 (2005: 470,000,000).

## 31. DIVIDENDS

| | Group and Bank | | | |
|---|---|---|---|---|
| | 2006 | | 2005 | |
| | **Net dividend per share sen** | **Amount of dividend, net of tax RM'000** | **Net dividend per share sen** | **Amount of dividend, net of tax RM'000** |
| Proposed final dividend | **36.5** | **171,550** | 36.0 | 169,200 |

At the forthcoming Annual General Meeting, a final gross dividend in respect of the financial year ended 31 December 2006, of 50% (2005: 50%) less 27% (2005: 28%) taxation on 470,000,000 (2005: 470,000,000) ordinary shares, amounting to dividend payable of RM171,550,000 (2005: RM169,200,000) (36.5 sen net per ordinary share) will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 December 2007.

## 32. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

### Related parties and relationships

The related parties of and their relationship (other than those disclosed in Notes 10 and 11 to the financial statements) with the Bank are as follows:

| Related parties | Relationship |
|---|---|
| United Overseas Bank Limited | Ultimate holding company |
| Chung Khiaw Bank (Malaysia) Bhd | Holding company |
| UOB London Ltd | Ultimate holding company branch |
| UOB New York Ltd | Ultimate holding company branch |
| UOB Tokyo Ltd | Ultimate holding company branch |
| UOB Canada Ltd | Ultimate holding company branch |
| UOB Labuan | Ultimate holding company branch |
| Chung Khiaw Realty Limited | Other related parties |

### Significant related party transactions and balances

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These signficant related party transactions were carried out on commercial terms and at market rates. In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions and balances. The related party transactions described below were carried out on terms and conditions obtainable in transactions with unrelated parties unless otherwise stated.

| | Ultimate holding company RM'000 | Subsidiaries RM'000 | Associates RM'000 | Other related companies RM'000 |
|---|---|---|---|---|
| **2006** | | | | |
| Income | | | | |
| - Interest on deposits | **9,108** | **-** | **-** | **-** |
| - Rental income | **34** | **67** | **113** | **-** |
| - Dividend income | **-** | **-** | **-** | **8,809** |
| | **9,142** | **67** | **113** | **8,809** |
| Expenditure | | | | |
| - Interest on deposits | **152,282** | **16** | **228** | **104** |
| - Rental expense | **-** | **-** | **131** | **-** |
| | **152,282** | **16** | **359** | **104** |
| Amount due from | | | | |
| - Cash and short-term funds | **1,637,794** | **-** | **371** | **-** |
| - Deposits and placements with financial institution | **74,334** | **-** | **-** | **-** |
| - Other assets | **10,327** | **4,090** | **-** | **-** |
| | **1,722,455** | **4,090** | **371** | **-** |
| Amount due to | | | | |
| - Deposits from customers | **-** | **748** | **-** | **1,303** |
| - Deposits and placements | **1,090,972** | **272** | **8,696** | **3,057** |
| - Other liabilities | **100,556** | **-** | **-** | **-** |
| | **1,191,528** | **1,020** | **8,696** | **4,360** |

## 32. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

| | Ultimate holding company RM'000 | Subsidiaries RM'000 | Associates RM'000 | Other related companies RM'000 |
|---|---|---|---|---|
| **2005** | | | | |
| Income | | | | |
| - Interest on deposits | 5,335 | - | - | - |
| - Rental income | 34 | 67 | 113 | - |
| - Dividend income | - | - | - | 1,904 |
| | 5,369 | 67 | 113 | 1,904 |
| Expenditure | | | | |
| - Interest on deposits | 94,162 | 14 | 149 | 425 |
| - Rental expense | - | - | 131 | - |
| | 94,162 | 14 | 280 | 425 |
| Amount due from | | | | |
| - Cash and short-term funds | 68,013 | - | 176 | - |
| - Deposits and placements with financial institution | 17,060 | - | - | - |
| - Other assets | 9,960 | 3,190 | - | - |
| | 95,033 | 3,190 | 176 | - |
| Amount due to | | | | |
| - Deposits from customers | - | 517 | - | 1,618 |
| - Deposits and placements | 3,938,152 | 709 | 8,250 | 3,192 |
| - Other liabilities | 183,310 | - | - | - |
| | 4,121,462 | 1,226 | 8,250 | 4,810 |

## 33. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the 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.

| | | Group and Bank | |
|---|---|---|---|
| **2006** | Principal amount RM'000 | Credit equivalent amount RM'000 | Risk weighted amount RM'000 |
| Direct credit substitutes | **1,903,084** | **1,903,084** | **1,841,475** |
| Transaction-related contingent items | **968,673** | **484,337** | **407,670** |
| Short-term self-liquidating trade-related contingencies | **444,264** | **88,853** | **82,567** |
| Irrevocable commitments to extend credit | | | |
| - maturity more than one year | **1,521,938** | **760,969** | **668,566** |
| - maturity less than one year | **14,079,937** | **-** | **-** |
| Foreign exchange related contracts | | | |
| - less than one year | **6,049,186** | **147,877** | **31,412** |
| - more than one year to less than five years | **652,680** | **53,096** | **10,619** |
| - five years and above | **35,280** | **3,528** | **1,764** |
| Interest rate related contracts | | | |
| - less than one year | **8,078,211** | **6,125** | **1,225** |
| - more than one year to less than five years | **14,821,181** | **275,833** | **53,331** |
| - five years and above | **622,836** | **85,606** | **17,121** |
| Others | **289,904** | **-** | **-** |
| Total | **49,467,174** | **3,809,308** | **3,115,750** |

**33. COMMITMENTS AND CONTINGENCIES (continued)**

| **2005** | **Group and Bank**<br>**Principal amount RM'000** | **Credit equivalent amount RM'000** | **Risk weighted amount RM'000** |
|---|---|---|---|
| Direct credit substitutes | 1,495,751 | 1,495,751 | 1,431,303 |
| Transaction-related contingent items | 746,966 | 373,483 | 308,176 |
| Short-term self-liquidating trade-related contingencies | 339,396 | 67,879 | 61,712 |
| Irrevocable commitments to extend credit | | | |
| - maturity more than one year | 1,494,850 | 747,425 | 655,643 |
| - maturity less than one year | 11,951,082 | - | - |
| Foreign exchange related contracts | | | |
| - less than one year | 5,327,400 | 91,185 | 19,626 |
| - more than one year | 604,640 | 59,227 | 11,845 |
| Interest rate related contracts | | | |
| - less than one year | 4,773,651 | 4,219 | 700 |
| - more than one year to less than five years | 15,465,387 | 169,695 | 38,437 |
| - 5 years and above | 568,445 | 91,054 | 18,211 |
| Others | 221,846 | - | - |
| Total | 42,989,414 | 3,099,918 | 2,545,653 |

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

Foreign exchange and interest rate related contracts for the Group and the Bank are subject to market risk and credit risk.

Analysis of foreign exchange contracts and interest rate contracts is as follows:

| | **2006 Principal amount RM'000** | **2005 Principal amount RM'000** |
|---|---|---|
| **The Group and Bank** | | |
| Foreign exchange contract | | |
| - forward and futures contracts | **901,834** | 573,418 |
| - cross currency interest rate swaps | **5,835,312** | 5,358,622 |
| Interest rate contracts | | |
| - forward and futures contracts | **10,829,000** | 12,918,000 |
| - swaps | **12,693,228** | 7,889,483 |

**Market risk**

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off balance sheet positions. As at end of 31 December 2006 the amounts of contracts which were not hedged and hence, exposed to market risk was RM14,010,000 (2005: RM18,590,000).

**Credit risk**

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the Bank has a gain position. As at end of 31 December 2006, the amounts of credit risk, measured in terms of the cost to replace the profitable contracts, was RM63,025,690 (2005: RM20,734,475). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates of prices.

## 34. CAPITAL COMMITMENTS

| | Group and Bank 2006 RM'000 | Group and Bank 2005 RM'000 |
|---|---|---|
| Capital expenditure for property, plant and equipment: | | |
| - authorised and contracted for | **27,428** | 10,377 |
| - authorised but not contracted for | **28,285** | 15,462 |
| | **55,713** | 25,839 |

## 35. LEASE COMMITMENTS

### (a) The Group as Lessee

The Group and the Bank has non-cancellable long term lease commitments in respect of related premises and equipment on hire, all of which are classified as operating leases.

A summary of the non-cancellable long term commitments, net of sub-leases is as follows:

| | Group | | Bank | |
|---|---|---|---|---|
| | 2006 RM'000 | 2005 RM'000 | 2006 RM'000 | 2005 RM'000 |
| Future minimum rentals payments: | | | | |
| Not later than 1 year | **5,599** | 2,829 | **5,483** | 2,781 |
| Later than 1 year and not later than 5 years | **7,121** | 4,499 | **6,919** | 4,406 |
| Later than 5 years | **24** | 121 | **24** | 121 |
| | **12,744** | 7,449 | **12,426** | 7,308 |

## 36. CAPITAL ADEQUACY

| | 2006 RM'000 | 2005 RM'000 |
|---|---|---|
| **Bank** | | |
| Tier I capital | | |
| - paid-up share capital | **470,000** | 470,000 |
| - share premium | **322,555** | 322,555 |
| Retained profits | **1,057,157** | 818,744 |
| Statutory reserve | **470,000** | 470,000 |
| Less: | | |
| - deferred tax assets | **(54,076)** | (35,691) |
| | **2,265,636** | 2,045,608 |
| Tier II capital | | |
| - property revaluation reserve | **26,278** | 25,395 |
| - general allowance for losses on loans, advances and financing | **305,969** | 251,888 |
| | **332,247** | 277,283 |
| Total capital | **2,597,883** | 2,322,891 |
| Less: Investment in subsidiaries | **(151)** | (151) |
| Capital base | **2,597,732** | 2,322,740 |

## 36. CAPITAL ADEQUACY (continued)

### (a) The capital adequacy ratios of the Bank are as follows:

| | 2006 RM'000 | 2005 RM'000 |
|---|---|---|
| Core capital ratio | **10.45%** | 11.16% |
| Risk-weighted capital ratio | **11.98%** | 12.67% |
| Core capital ratio (net of proposed dividends) | **9.65%** | 10.24% |
| Risk-weighted capital ratio (net of proposed dividends) | **11.19%** | 11.75% |

### (b) Analysis of gross risk-weighted assets in the various categories of risk-weights is as follows:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Principal RM'000 | Risk-weighted RM'000 | Principal RM'000 | Risk-weighted RM'000 |
| 0% | **5,830,869** | **-** | 8,301,359 | - |
| 10% | **-** | **-** | 60,936 | 6,094 |
| 20% | **5,595,859** | **1,119,172** | 6,072,394 | 1,214,479 |
| 50% | **6,662,896** | **3,331,448** | 5,094,118 | 2,547,059 |
| 100% | **16,410,973** | **16,410,973** | 13,847,435 | 13,847,435 |
| | **34,500,597** | **20,861,593** | 33,376,242 | 17,615,067 |
| Market Risk | **31,137,586** | **828,739** | 28,562,437 | 717,032 |
| | **65,638,183** | **21,690,332** | 61,938,679 | 18,332,099 |

## 37. FINANCIAL RISK MANAGEMENT

The Bank's activities are principally related to transacting in and the use of financial instruments, including derivatives. Transactions in, and the use of, financial instruments expose the Bank to a variety of financial risks, mainly credit risk, foreign exchange risk, interest rate risk and liquidity risk.

Managing financial risks is an integral part of the Bank's business and it is carried out centrally by the various specialist committees of the Bank under policies approved by the directors of the Bank. These policies not only include the parameters for the risks that the Bank may undertake for the various financial instruments, but also directions on the types of business that the Bank may engage in, guidelines for accepting customers for all types of financial instruments and the terms under which customer business is conducted.

The Risk Management Division, which is independent of the business units, performs the role of implementing the risk management policies and procedures. Compliance officers in the business units ensure that each business unit puts in place the proper control procedures to ensure regulatory and operational compliance while the Middle Office (under Finance Division) enforces compliance of trading policies and limits by the trading desks at Treasury. This is further enhanced by the periodic risk assessment audit carried out by the Bank's Internal Audit.

Discussions on the main financial risks that the Bank is exposed to and how it manages these risks are set out below.

**37. FINANCIAL RISK MANAGEMENT (continued)**

**(a) Foreign exchange risk**

Foreign exchange risk is the risk to earnings and value of financial instruments arising from adverse fluctuations in foreign exchange rates, caused by fundamental and economic factors.

The Bank's foreign exchange exposures arise mainly from its foreign exchange position-taking or proprietary business, and customer facilitation business. To mitigate foreign currency risk, the Bank predominately uses foreign currency outright forward, foreign exchange options and swap contracts to hedge its foreign exchange exposures.

Foreign exchange open positions are mark-to-market and monitored against pre-determined position limits. The mark-to-market valuations are then monitored against pre-determined cut-loss limits and regularly reported to management.

Foreign exchange risk is managed through market risk processes, risk limits and policies as approved by the Group Asset-Liability Committee (ALCO). The limits, procedures and policies, such as the level of exposure by currency in total for both overnight and intra-day positions, are independently monitored on a daily basis by the Risk Management Division. This is performed through the Market Risk Management Department and the Settlement Department.

**(b) Credit risk**

Credit risk is the potential loss arising from any failure by the Bank's customers or counter parties to fulfill their obligations as and when these obligations fall due. These obligations may arise from lending, trade finance, investments, receivables under derivative contracts and other credit-related activities undertaken by the Bank.

The Executive Committee is responsible for the management of credit risk of the Bank. Apart from direct credit management, such as approval of significant loans, it is also responsible for providing directions and timely guidance on lending to different geographical sectors, industries and products.

In general, the Bank monitors the levels of credit risk it undertakes through regular reviews by management, with independent oversight of its credit concentration and portfolio quality.

In respect of its lending-related activities, management regularly reviews the amount of risk accepted in relation to one borrower or groups of borrowers, geographical and industry segments, types of acceptable security, level of non-performing loans and adequacy of provisioning requirements.

In respect of other credit risk activities such as money market transactions and derivative financial instruments, the Bank has counter-party risk policies that set out approved counter-parties with which the Bank may transact and their respective transaction limits.

Exposure to credit risk is also managed in part by obtaining collateral or right to call for collateral when certain exposure thresholds are exceeded, the right to terminate transactions upon the occurrence of unfavourable events, the right to reset the terms of transactions after specified time periods or upon the occurrence of unfavourable events, and entering into netting agreements with counter-parties that permit the Bank to offset receivables and payables with such counter-parties.

The following table set out the credit risk concentration by economic sectors of the Group and the Bank:

## 37. FINANCIAL RISK MANAGEMENT (continued)

### (b) Credit Risk (continued)

| Group 2006 | Short term funds and placements with financial institutions RM'000 | Held-for-trading securities RM'000 | Available-for-sale securities RM'000 | Loans, advances and financing RM'000 | Specific provision and general provision RM'000 | Other assets RM'000 | On balance sheet total RM'000 | Commitment and contingencies RM'000 |
|---|---|---|---|---|---|---|---|---|
| Agriculture and mining | - | 21,342 | - | 132,311 | (2,478) | - | 151,175 | 194,757 |
| Manufacturing | - | 43,842 | 342,101 | 4,396,532 | (189,379) | - | 4,593,096 | 6,200,137 |
| Electricity, gas and water | - | 59,723 | - | 29,220 | (435) | - | 88,508 | 398,768 |
| Construction | - | 41,972 | - | 1,158,286 | (37,602) | - | 1,162,656 | 3,116,188 |
| Real estate | - | - | - | 715,144 | (37,359) | - | 677,785 | 321,564 |
| General commerce | - | - | - | 3,103,397 | (107,129) | - | 2,996,268 | 3,485,208 |
| Transport, infrastructure, storage and communication | - | 179,382 | 155,846 | 518,209 | (9,593) | 18,788 | 862,632 | 218,556 |
| Finance, insurance, business services and government agencies | 5,906,430 | 893,359 | 2,805,000 | 1,104,978 | (56,522) | 692,383 | 11,345,628 | 31,629,466 |
| Residental landed property, securities and transport vehicles | - | 9,638 | 1,260 | 7,478,368 | (129,736) | - | 7,359,530 | 3,747,077 |
| Others | - | - | - | 2,253,935 | (87,976) | 302,156 | 2,468,115 | 155,453 |
| | 5,906,430 | 1,249,258 | 3,304,207 | 20,890,380 | (658,209) | 1,013,327 | 31,705,393 | 49,467,174 |
| Other assets not subject to credit risk | - | - | - | - | - | 310,290 | 310,290 | - |
| | 5,906,430 | 1,249,258 | 3,304,207 | 20,890,380 | (658,209) | 1,323,617 | 32,015,683 | 49,467,174 |

| Group 2005 | Short term funds and placements with financial institutions RM'000 | Held-for-trading securities RM'000 | Available-for-sale securities RM'000 | Loans, advances and financing RM'000 | Specific provision and general provision RM'000 | Other assets RM'000 | On balance sheet total RM'000 | Commitment and contingencies RM'000 |
|---|---|---|---|---|---|---|---|---|
| Agriculture and mining | - | - | - | 110,763 | (1,874) | - | 108,889 | 79,977 |
| Manufacturing | - | 97,691 | 359,291 | 3,570,086 | (159,116) | - | 3,867,952 | 3,710,963 |
| Electricity, gas and water | - | 179,727 | - | 21,171 | (306) | - | 200,592 | 351,217 |
| Construction | - | 100,127 | - | 779,883 | (37,048) | - | 842,962 | 2,119,432 |
| Real estate | - | - | - | 385,429 | (59,966) | - | 325,463 | 155,535 |
| General commerce | - | 5,388 | - | 2,431,595 | (94,658) | - | 2,342,325 | 2,369,010 |
| Transport, infrastructure, storage and communication | - | 152,985 | 149,154 | 517,377 | (9,588) | 16,111 | 826,039 | 164,923 |
| Finance, insurance, business services and government agencies | 7,257,241 | 327,889 | 3,977,910 | 1,349,287 | (50,603) | 670,903 | 13,532,627 | 28,196,678 |
| Residental landed property, securities and transport vehicles | - | - | 17,409 | 6,807,703 | (112,094) | - | 6,713,018 | 3,011,419 |
| Others | - | - | - | 1,816,906 | (63,925) | 266,680 | 2,019,661 | 2,830,260 |
| | 7,257,241 | 863,807 | 4,503,764 | 17,790,200 | (589,178) | 953,694 | 30,779,528 | 42,989,414 |
| Other assets not subject to credit risk | - | - | - | - | - | 301,235 | 301,235 | - |
| | 7,257,241 | 863,807 | 4,503,764 | 17,790,200 | (589,178) | 1,254,929 | 31,080,763 | 42,989,414 |

## 37. FINANCIAL RISK MANAGEMENT (continued)

### (b) Credit Risk (continued)

| Bank 2006 | Short term funds and placements with financial institutions RM'000 | Held-for-trading securities RM'000 | Available-for-sale securities RM'000 | Loans, advances and financing RM'000 | Specific provision and general provision RM'000 | Other assets RM'000 | On balance sheet total RM'000 | Commitment and contingencies RM'000 |
|---|---|---|---|---|---|---|---|---|
| Agriculture and mining | - | 21,342 | - | 132,311 | (2,478) | - | 151,175 | 194,757 |
| Manufacturing | - | 43,842 | 342,101 | 4,396,532 | (189,379) | - | 4,593,096 | 6,200,137 |
| Electricity, gas and water | - | 59,723 | - | 29,220 | (435) | - | 88,508 | 398,768 |
| Construction | - | 41,972 | - | 1,158,286 | (37,602) | - | 1,162,656 | 3,116,188 |
| Real estate | - | - | - | 715,144 | (37,359) | - | 677,785 | 321,564 |
| General commerce | - | - | - | 3,103,397 | (107,129) | - | 2,996,268 | 3,485,208 |
| Transport, infrastructure, storage and communication | - | 179,382 | 155,846 | 518,209 | (9,593) | 18,788 | 862,632 | 218,556 |
| Finance, insurance, business services and government agencies | 5,906,430 | 893,359 | 2,805,000 | 1,104,978 | (56,522) | 651,974 | 11,305,219 | 31,629,466 |
| Residental landed property, securities and transport vehicles | - | 9,638 | 1,260 | 7,478,368 | (129,736) | - | 7,359,530 | 3,747,077 |
| Others | - | - | - | 2,253,935 | (87,976) | 306,336 | 2,472,295 | 155,453 |
| | 5,906,430 | 1,249,258 | 3,304,207 | 20,890,380 | (658,209) | 977,098 | 31,669,164 | 49,467,174 |
| Other assets not subject to credit risk | - | - | - | - | - | 309,143 | 309,143 | - |
| | 5,906,430 | 1,249,258 | 3,304,207 | 20,890,380 | (658,209) | 1,286,241 | 31,978,307 | 49,467,174 |
| **Bank 2005** | | | | | | | | |
| Agriculture and mining | - | - | - | 110,763 | (1,874) | - | 108,889 | 79,977 |
| Manufacturing | - | 97,691 | 359,291 | 3,569,668 | (158,698) | - | 3,867,952 | 3,710,963 |
| Electricity, gas and water | - | 179,727 | - | 21,171 | (306) | - | 200,592 | 351,217 |
| Construction | - | 100,127 | - | 779,883 | (37,048) | - | 842,962 | 2,119,432 |
| Real estate | - | - | - | 385,429 | (59,967) | - | 325,462 | 155,535 |
| General commerce | - | 5,388 | - | 2,431,594 | (94,658) | - | 2,342,324 | 2,369,010 |
| Transport, infrastructure, storage and communication | - | 152,985 | 149,154 | 517,377 | (9,588) | 16,111 | - 826,039 | 164,923 |
| Finance, insurance, business services and government agencies | 7,257,241 | 327,889 | 3,977,910 | 1,349,287 | (50,603) | 642,183 | 13,503,907 | 28,196,678 |
| Residental landed property, securities and transport vehicles | - | - | 17,409 | 6,807,703 | (112,094) | - | 6,713,018 | 3,011,419 |
| Others | - | - | - | 1,816,877 | (63,894) | 269,993 | 2,022,976 | 2,830,260 |
| | 7,257,241 | 863,807 | 4,503,764 | 17,789,752 | (588,730) | 928,287 | 30,754,121 | 42,989,414 |
| Other assets not subject to credit risk | - | - | - | - | - | 300,269 | 300,269 | - |
| | 7,257,241 | 863,807 | 4,503,764 | 17,789,752 | (588,730) | 1,228,556 | 31,054,390 | 42,989,414 |

## 37. FINANCIAL RISK MANAGEMENT (continued)

### (c) Interest rate risk

Interest rate risk is the risk to earnings and value of financial instruments caused by fluctuations in interest rates.

Interest rate exposure arises from the differences in the maturities and repricing dates of assets, liabilities and off-balance sheet items. These mismatches are actively monitored and managed as part of the overall interest rate risk management process which is conducted in accordance with the Bank's policies as approved by the Asset Liability Committee.

The following table shows the interest rate sensitivity gap, by time bands based on the earlier of contractual repricing date and maturity date. Actual repricing dates may differ from contractual dates due to prepayments.

| Group 2006 | Up to 1 month RM'000 | 1 to 3 months RM'000 | 3 to 12 months RM'000 | 1 to 5 years RM'000 | Over 5 years RM'000 | Non interest sensitive RM'000 | Trading book RM'000 | Total RM'000 | Effective interest rate % |
|---|---|---|---|---|---|---|---|---|---|
| | <---------- Non-trading book | | | | | ----------> | | | |
| **Assets** | | | | | | | | | |
| Cash and short term funds | 2,190,266 | - | - | - | - | 236,775 | - | 2,427,041 | 4.90 |
| Securities purchased under resale agreements | 252,980 | 2,548,982 | 303,093 | - | - | - | - | 3,105,055 | 3.57 |
| Deposits and placement with financial institutions | - | 358,532 | 15,802 | - | - | - | - | 374,334 | 4.22 |
| Held-for-trading securities | - | - | - | - | - | - | 1,249,258 | 1,249,258 | 5.81 |
| Available-for-sale securities | 170,001 | 1,850,113 | 559,984 | 376,047 | 327,747 | 20,315 | - | 3,304,207 | 3.10 |
| Loans, advances and financing | | | | | | | | | |
| - performing | 13,042,825 | 1,589,360 | 953,306 | 971,509 | 366,610 | 2,446,119 | - | 19,369,729 | 7.03 |
| - non performing | - | - | - | - | - | 862,442 | - | 862,442 | |
| Other assets | - | - | - | - | - | 1,323,617 | - | 1,323,617 | |
| | 15,656,072 | 6,346,987 | 1,832,185 | 1,347,556 | 694,357 | 4,889,268 | 1,249,258 | 32,015,683 | |
| **Liabilities** | | | | | | | | | |
| Deposits from customers | 8,531,389 | 2,655,981 | 4,825,856 | 913,019 | 106,700 | 2,228,735 | - | 19,261,680 | 2.89 |
| Deposits and placement of banks and financial institutions | 1,743,708 | 776,647 | 315,277 | - | - | 19,560 | - | 2,855,192 | 4.14 |
| Obligations on securities sold under repurchase agreements | 3,579,557 | 117,239 | 12,999 | - | - | - | - | 3,709,795 | 3.80 |
| Bills and acceptances payable | 15,112 | 21,082 | 11,049 | - | - | 2,650,387 | - | 2,697,630 | 2.82 |
| Amount due to Cagamas | 3,825 | 7,686 | 231,603 | 316,916 | - | - | - | 560,030 | 3.78 |
| Other liabilities | - | - | - | - | - | 520,911 | - | 520,911 | |
| | 13,873,591 | 3,578,635 | 5,396,784 | 1,229,935 | 106,700 | 5,419,593 | - | 29,605,238 | |
| On-balance sheet interest sensitivity gap | 1,782,481 | 2,768,352 | (3,564,599) | 117,621 | 587,657 | | | | |
| Off-balance sheet interest sensitivity gap | 123,972 | 415,006 | 1,075,601 | (1,577,579) | (37,000) | | | | |
| Total interest sensitivity gap | 1,906,453 | 3,183,358 | (2,488,998) | (1,459,958) | 550,657 | | | | |

## 37. FINANCIAL RISK MANAGEMENT (continued)

### (c) Interest rate risk (continued)

| Group 2005 | <---- Non-trading book | | | | | ----> | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Up to 1 month RM'000 | 1 to 3 months RM'000 | 3 to 12 months RM'000 | 1 to 5 years RM'000 | Over 5 years RM'000 | Non interest sensitive RM'000 | Trading book RM'000 | Total RM'000 | Effective interest rate % |
| **Assets** | | | | | | | | | |
| Cash and short term funds | 2,632,515 | - | - | - | - | 182,774 | - | 2,815,289 | 3.15 |
| Securities purchased under resale agreements | 998,177 | 753,925 | - | - | - | - | - | 1,752,102 | 3.04 |
| Deposits and placement with financial institutions | - | 2,682,002 | 7,848 | - | - | - | - | 2,689,850 | 3.06 |
| Held-for-trading securities | - | - | - | - | - | - | 863,807 | 863,807 | 4.00 |
| Available-for-sale securities | 1,018,702 | 2,375,696 | 575,618 | 173,939 | 336,772 | 23,037 | - | 4,503,764 | 2.88 |
| Loans, advances and financing | | | | | | | | | |
| - performing | 10,975,879 | 1,370,574 | 1,457,807 | 775,800 | 281,102 | 1,489,499 | - | 16,350,661 | 6.06 |
| - non performing | - | - | - | - | - | 850,361 | - | 850,361 | |
| Other assets | - | - | - | - | - | 1,254,929 | - | 1,254,929 | |
| | 15,625,273 | 7,182,197 | 2,041,273 | 949,739 | 617,874 | 3,800,600 | 863,807 | 31,080,763 | |
| **Liabilities** | | | | | | | | | |
| Deposits from customers | 6,136,735 | 3,342,269 | 4,378,812 | 632,516 | 163,790 | 1,985,483 | - | 16,639,605 | 2.63 |
| Deposits and placement of banks and financial institutions | 2,611,152 | 838,938 | 802,509 | - | - | 42,629 | - | 4,295,228 | 4.16 |
| Obligations on securities sold under repurchase agreements | 4,135,474 | 209,811 | 165,620 | - | - | - | - | 4,510,905 | 2.46 |
| Bills and acceptances payable | 6,436 | 19,550 | 9,523 | - | - | 1,623,443 | - | 1,658,952 | 2.19 |
| Amount due to Cagamas | 68,177 | 18,389 | 503,876 | 680,265 | 31,822 | - | | 1,302,529 | 3.42 |
| Other liabilities | - | - | - | - | - | 509,169 | - | 509,169 | |
| | 12,957,974 | 4,428,957 | 5,860,340 | 1,312,781 | 195,612 | 4,160,724 | - | 28,916,388 | |
| On-balance sheet interest sensitivity gap | 2,667,299 | 2,753,240 | (3,819,067) | (363,042) | 422,262 | | | | |
| Off-balance sheet interest sensitivity gap | 376,000 | (462,000) | 1,409,000 | (945,000) | (378,000) | | | | |
| Total interest sensitivity gap | 3,043,299 | 2,291,240 | (2,410,067) | (1,308,042) | 44,262 | | | | |

## 37. FINANCIAL RISK MANAGEMENT (continued)

### (c) Interest rate risk (continued)

| Bank 2006 | <--- Non-trading book | | | | | ---> | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Up to 1 month RM'000 | 1 to 3 months RM'000 | 3 to 12 months RM'000 | 1 to 5 years RM'000 | Over 5 years RM'000 | Non interest sensitive RM'000 | Trading book RM'000 | Total RM'000 | Effective interest rate % |
| **Assets** | | | | | | | | | |
| Cash and short term funds | 2,190,266 | - | - | - | - | 236,775 | - | 2,427,041 | 4.90 |
| Securities purchased under resale agreements | 252,980 | 2,548,982 | 303,093 | - | - | - | - | 3,105,055 | 3.57 |
| Deposits and placement with financial institutions | - | 358,532 | 15,802 | - | - | - | - | 374,334 | 4.22 |
| Held-for-trading securities | - | - | - | - | - | - | 1,249,258 | 1,249,258 | 5.81 |
| Available-for-sale securities | 170,001 | 1,850,113 | 559,984 | 376,047 | 327,747 | 20,315 | - | 3,304,207 | 3.10 |
| Loans, advances and financing | | | | | | | | | |
| - performing | 13,042,825 | 1,589,360 | 953,306 | 971,509 | 366,610 | 2,446,119 | - | 19,369,729 | 7.03 |
| - non performing | - | - | - | - | - | 862,442 | - | 862,442 | |
| Other assets | - | - | - | - | - | 1,286,241 | - | 1,286,241 | |
| | 15,656,072 | 6,346,987 | 1,832,185 | 1,347,556 | 694,357 | 4,851,892 | 1,249,258 | 31,978,307 | |
| **Liabilities** | | | | | | | | | |
| Deposits from customers | 8,531,389 | 2,655,981 | 4,825,856 | 913,019 | 106,700 | 2,228,735 | - | 19,261,680 | 2.89 |
| Deposits and placement of banks and financial institutions | 1,744,730 | 776,647 | 315,277 | - | - | 19,560 | - | 2,856,214 | 4.14 |
| Obligations on securities sold under repurchase agreements | 3,579,557 | 117,239 | 12,999 | - | - | - | - | 3,709,795 | 3.80 |
| Bills and acceptances payable | 15,112 | 21,082 | 11,049 | - | - | 2,650,387 | - | 2,697,630 | 2.82 |
| Amount due to Cagamas | 3,825 | 7,686 | 231,603 | 316,916 | - | - | - | 560,030 | 3.78 |
| Other liabilities | - | - | - | - | - | 520,727 | - | 520,727 | |
| | 13,874,613 | 3,578,635 | 5,396,784 | 1,229,935 | 106,700 | 5,419,409 | - | 29,606,076 | |
| On-balance sheet interest sensitivity gap | 1,781,459 | 2,768,352 | (3,564,599) | 117,621 | 587,657 | | | | |
| Off-balance sheet interest sensitivity gap | 123,972 | 415,006 | 1,075,601 | (1,577,579) | (37,000) | | | | |
| Total interest sensitivity gap | 1,905,431 | 3,183,358 | (2,488,998) | (1,459,958) | 550,657 | | | | |

**37. FINANCIAL RISK MANAGEMENT (continued)**

**(c) Interest rate risk (continued)**

| Bank 2005 | <--- Up to 1 month RM'000 | 1 to 3 months RM'000 | Non-trading book 3 to 12 months RM'000 | 1 to 5 years RM'000 | Over 5 years RM'000 | Non interest sensitive RM'000 ---> | Trading book RM'000 | Total RM'000 | Effective interest rate % |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Cash and short term funds | 2,632,515 | - | - | - | - | 182,774 | - | 2,815,289 | 3.15 |
| Securities purchased under resale agreements | 998,177 | 753,925 | - | - | - | - | - | 1,752,102 | 3.04 |
| Deposits and placement with financial institutions | - | 2,682,002 | 7,848 | - | - | - | - | 2,689,850 | 3.06 |
| Held-for-trading securities | - | - | - | - | - | - | 863,807 | 863,807 | 4.00 |
| Available-for-sale securities | 1,018,702 | 2,375,696 | 575,618 | 173,939 | 336,772 | 23,037 | - | 4,503,764 | 2.88 |
| Loans, advances and financing | | | | | | | | | |
| - performing | 10,975,879 | 1,370,574 | 1,457,807 | 775,800 | 281,102 | 1,489,499 | - | 16,350,661 | 6.06 |
| - non performing | - | - | - | - | - | 850,361 | - | 850,361 | |
| Other assets | - | - | - | - | - | 1,228,556 | - | 1,228,556 | |
| | 15,625,273 | 7,182,197 | 2,041,273 | 949,739 | 617,874 | 3,774,227 | 863,807 | 31,054,390 | |
| **Liabilities** | | | | | | | | | |
| Deposits from customers | 6,136,735 | 3,342,269 | 4,378,812 | 632,516 | 163,790 | 1,985,483 | - | 16,639,605 | 2.63 |
| Deposits and placement of banks and financial institutions | 2,612,377 | 838,938 | 802,509 | - | - | 42,629 | - | 4,296,453 | 4.16 |
| Obligations on securities sold under repurchase agreements | 4,135,474 | 209,811 | 165,620 | - | - | - | - | 4,510,905 | 2.46 |
| Bills and acceptances payable | 6,436 | 19,550 | 9,523 | - | - | 1,623,443 | - | 1,658,952 | 2.19 |
| Amount due to Cagamas | 68,177 | 18,389 | 503,876 | 680,265 | 31,822 | - | - | 1,302,529 | 3.42 |
| Other liabilities | - | - | - | - | - | 509,095 | - | 509,095 | |
| | 12,959,199 | 4,428,957 | 5,860,340 | 1,312,781 | 195,612 | 4,160,650 | - | 28,917,539 | |
| On-balance sheet interest sensitivity gap | 2,666,074 | 2,753,240 | (3,819,067) | (363,042) | 422,262 | | | | |
| Off-balance sheet interest sensitivity gap | 376,000 | (462,000) | 1,409,000 | (945,000) | (378,000) | | | | |
| Total interest sensitivity gap | 3,042,074 | 2,291,240 | (2,410,067) | (1,308,042) | 44,262 | | | | |

Actual repricing dates may differ from contractual dates because prepayments and contractual terms do not reflect the actual behavioural patterns of assets and liabilities. Therefore, the Bank manages its interest rate risk by applying dynamic simulation modelling techniques on the above information, which is based on contractual terms.

## 37. FINANCIAL RISK MANAGEMENT (continued)

### (d) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its cash flow obligations as and when they fall due, such as upon the maturity of deposits and loan draw-downs.

The Bank manages liquidity risk in accordance with a framework of liquidity policies, controls and limits that is approved by the Asset Liability Committee. The main objectives are honouring all cash outflow commitments on an on-going basis, satisfying statutory liquidity and reserve requirements under the guidelines issued by Bank Negara Malaysia, and avoiding raising funds at market premiums or through forced sale of assets.

These controls and policies include the setting of limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

| Group 2006 | Up to 3 months RM'000 | 3 to 6 months RM'000 | 6 to 12 months RM'000 | 1 to 5 years RM'000 | Over 5 years RM'000 | Non-specific maturity RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and short term funds | 2,335,562 | - | - | - | - | 91,479 | 2,427,041 |
| Securities purchased under resale agreement | 2,801,962 | 303,093 | - | - | - | - | 3,105,055 |
| Deposits and placement with financial institutions | 358,532 | 8,828 | 6,974 | - | - | - | 374,334 |
| Held-for-trading securities | 3,134 | 202,119 | 627,725 | 101,458 | 314,822 | - | 1,249,258 |
| Available-for-sale securities | 2,020,114 | 550,004 | 9,980 | 376,047 | 327,747 | 20,315 | 3,304,207 |
| Loans, advances and financing | 7,401,229 | 1,179,075 | 423,355 | 3,393,989 | 7,834,523 | - | 20,232,171 |
| Other assets | - | - | - | - | - | 1,323,617 | 1,323,617 |
| | 14,920,533 | 2,243,119 | 1,068,034 | 3,871,494 | 8,477,092 | 1,435,411 | 32,015,683 |
| **Liabilities** | | | | | | | |
| Deposits from customers | 13,524,450 | 1,816,143 | 2,883,184 | 913,019 | 106,699 | 18,185 | 19,261,680 |
| Deposits and placement of banks and financial institutions | 2,224,961 | 311,088 | 4,190 | - | - | 314,953 | 2,855,192 |
| Obligations on securities sold under repurchase agreements | 3,696,796 | 12,999 | - | - | - | - | 3,709,795 |
| Bills and acceptances payables | 2,236,340 | 302,341 | - | - | - | 158,949 | 2,697,630 |
| Amount due to Cagamas | 11,511 | 171,701 | 59,902 | 316,916 | - | - | 560,030 |
| Other liabilities | - | - | - | - | - | 520,911 | 520,911 |
| | 21,694,058 | 2,614,272 | 2,947,276 | 1,229,935 | 106,699 | 1,012,998 | 29,605,238 |
| Net maturity mismatches | (6,773,525) | (371,153) | (1,879,242) | 2,641,559 | 8,370,393 | | |

**37. FINANCIAL RISK MANAGEMENT (continued)**

**(d) Liquidity risk (continued)**

| Group<br>2005 | Up to 3 months RM'000 | 3 to 6 months RM'000 | 6 to 12 months RM'000 | 1 to 5 years RM'000 | Over 5 years RM'000 | Non-specific maturity RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and short term funds | 2,815,289 | - | - | - | - | - | 2,815,289 |
| Securities purchased under resale agreement | 1,752,102 | - | - | - | - | - | 1,752,102 |
| Deposits and placement with financial institutions | 2,682,003 | 6,297 | 1,550 | - | - | - | 2,689,850 |
| Held-for-trading securities | 382,665 | - | 65,000 | 46,236 | 369,906 | - | 863,807 |
| Available-for-sale securities | 3,394,399 | 515,518 | 60,100 | 173,939 | 336,772 | 23,036 | 4,503,764 |
| Loans, advances and financing | 6,710,971 | 839,419 | 1,282,197 | 2,979,196 | 5,389,239 | - | 17,201,022 |
| Other assets | - | - | - | - | - | 1,254,929 | 1,254,929 |
| | 17,737,429 | 1,361,234 | 1,408,847 | 3,199,371 | 6,095,917 | 1,277,965 | 31,080,763 |
| **Liabilities** | | | | | | | |
| Deposits from customers | 11,451,441 | 1,588,604 | 2,790,208 | 632,517 | 163,790 | 13,045 | 16,639,605 |
| Deposits and placement of banks and financial institutions | 3,279,906 | 802,509 | - | - | - | 212,813 | 4,295,228 |
| Obligations on securities sold under repurchase agreements | 4,345,285 | 165,620 | - | - | - | - | 4,510,905 |
| Bills and acceptances payables | 1,541,348 | 14,942 | - | - | - | 102,662 | 1,658,952 |
| Amount due to Cagamas | 86,566 | 107,562 | 396,314 | 680,265 | 31,822 | - | 1,302,529 |
| Other liabilities | - | - | - | - | - | 509,169 | 509,169 |
| | 20,704,546 | 2,679,237 | 3,186,522 | 1,312,782 | 195,612 | 837,689 | 28,916,388 |
| Net maturity mismatches | (2,967,117) | (1,318,003) | (1,777,675) | 1,886,589 | 5,900,305 | | |

## 37. FINANCIAL RISK MANAGEMENT (continued)

### (d) Liquidity risk (continued)

| Bank 2006 | Up to 3 months RM'000 | 3 to 6 months RM'000 | 6 to 12 months RM'000 | 1 to 5 years RM'000 | Over 5 years RM'000 | Non-specific maturity RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and short term funds | 2,335,562 | - | - | - | - | 91,479 | 2,427,041 |
| Securities purchased under resale agreement | 2,801,962 | 303,093 | - | - | - | - | 3,105,055 |
| Deposits and placement with financial institutions | 358,532 | 8,828 | 6,974 | - | - | - | 374,334 |
| Held-for-trading securities | 3,134 | 202,119 | 627,725 | 101,458 | 314,822 | - | 1,249,258 |
| Available-for-sale securities | 2,020,114 | 550,004 | 9,980 | 376,047 | 327,747 | 20,315 | 3,304,207 |
| Loans, advances and financing | 7,401,229 | 1,179,075 | 423,355 | 3,393,989 | 7,834,523 | - | 20,232,171 |
| Other assets | - | - | - | - | - | 1,286,241 | 1,286,241 |
| | 14,920,533 | 2,243,119 | 1,068,034 | 3,871,494 | 8,477,092 | 1,398,035 | 31,978,307 |
| **Liabilities** | | | | | | | |
| Deposits from customers | 13,524,450 | 1,816,143 | 2,883,184 | 913,019 | 106,699 | 18,185 | 19,261,680 |
| Deposits and placement of banks and financial institutions | 2,225,983 | 311,088 | 4,190 | - | - | 314,953 | 2,856,214 |
| Obligations on securities sold under repurchase agreements | 3,696,796 | 12,999 | - | - | - | - | 3,709,795 |
| Bills and acceptances payables | 2,236,340 | 302,341 | - | - | - | 158,949 | 2,697,630 |
| Amount due to Cagamas | 11,511 | 171,701 | 59,902 | 316,916 | - | - | 560,030 |
| Other liabilities | - | - | - | - | - | 520,727 | 520,727 |
| | 21,695,080 | 2,614,272 | 2,947,276 | 1,229,935 | 106,699 | 1,012,814 | 29,606,076 |
| Net maturity mismatches | (6,774,547) | (371,153) | (1,879,242) | 2,641,559 | 8,370,393 | | |

**37. FINANCIAL RISK MANAGEMENT (continued)**

**(d) Liquidity risk (continued)**

| Bank 2005 | Up to 3 months RM'000 | 3 to 6 months RM'000 | 6 to 12 months RM'000 | 1 to 5 years RM'000 | Over 5 years RM'000 | Non-specific maturity RM'000 | Total RM'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and short term funds | 2,815,289 | - | - | - | - | - | 2,815,289 |
| Securities purchased under resale agreement | 1,752,102 | - | - | - | - | - | 1,752,102 |
| Deposits and placement with financial institutions | 2,682,003 | 6,297 | 1,550 | - | - | - | 2,689,850 |
| Held-for-trading securities | 382,665 | - | 65,000 | 46,236 | 369,906 | - | 863,807 |
| Available-for-sale securities | 3,394,399 | 515,518 | 60,100 | 173,939 | 336,772 | 23,036 | 4,503,764 |
| Loans, advances and financing | 6,710,971 | 839,419 | 1,282,197 | 2,979,196 | 5,389,239 | - | 17,201,022 |
| Other assets | - | - | - | - | - | 1,228,556 | 1,228,556 |
| | 17,737,429 | 1,361,234 | 1,408,847 | 3,199,371 | 6,095,917 | 1,251,592 | 31,054,390 |
| **Liabilities** | | | | | | | |
| Deposits from customers | 11,451,441 | 1,588,604 | 2,790,208 | 632,517 | 163,790 | 13,045 | 16,639,605 |
| Deposits and placement of banks and financial institutions | 3,281,131 | 802,509 | - | - | - | 212,813 | 4,296,453 |
| Obligations on securities sold under repurchase agreements | 4,345,285 | 165,620 | - | - | - | - | 4,510,905 |
| Bills and acceptances payables | 1,541,348 | 14,942 | - | - | - | 102,662 | 1,658,952 |
| Amount due to Cagamas | 86,566 | 107,562 | 396,314 | 680,265 | 31,822 | - | 1,302,529 |
| Other liabilities | - | - | - | - | - | 509,095 | 509,095 |
| | 20,705,771 | 2,679,237 | 3,186,522 | 1,312,782 | 195,612 | 837,615 | 28,917,539 |
| Net maturity mismatches | (2,968,342) | (1,318,003) | (1,777,675) | 1,886,589 | 5,900,305 | | |

The contractual maturity analysis often does not reflect the actual behavioural patterns. In particular, the Bank has a significant amount of "core" deposits of non-bank customers which are contractually at call and thus, included in the "Up To 3 months" time band, but history shows that such deposits provide a stable source of long-term funding for the Bank.

In addition to the above, the Bank is also subject to liquidity requirements to support calls under outstanding contingent liabilities and undrawn credit facility commitments. The total outstanding contractual amounts do not represent future cash requirements since the Bank expects many of these contingent liabilities and commitments (such as direct credit substitutes and undrawn credit facilities) to expire without being called or drawn upon, and many of the commitments to pay third parties (such as letters of credit) are reimbursed immediately by customers.

## 37. FINANCIAL RISK MANAGEMENT (continued)

### (e) Compliance & Operational Risk Management

Operational risk is defined as the potential loss arising from a breakdown in the Bank's internal control or corporate governance that results in error, fraud, failure/delay to perform, or compromise of the Bank's interests by employees. Operational risk also includes the potential loss arising from a major failure of computer systems and from disasters. Potential loss may be in the form of financial loss or other damages, for example, loss of reputation and public confidence that will impact the Bank's credibility and ability to transact, maintain liquidity and obtain new business.

Operational risk is managed through a framework of approved policies, techniques and procedures. There are periodic risk management reports submitted and reviewed by Risk Management Committee.

This framework of techniques and procedures encompasses the following:

- the building of Operational Risk Profiles (ORPs);
- conduct of Operational Risk Self Assessment (ORSA) based on the ORPs;
- development of an Operational Risk Action Plan (ORAP);
- the monitoring of Key Operational Risk Indicators (KORIs);
- the collection and analysis of risk events/loss data; and
- the process for monitoring and reporting operational risk issues.

Included in the overall framework of operational risk is the disciplined product programme process. This process aims to ensure that the risks associated with each new product/service are identified, analysed and managed.

As part of the Bank's comprehensive operational risk framework, Business Contingency Plan has been developed. In addition, in line with the increasing need to outsource internal operations in order to achieve cost efficiency, policy has been established to regulate the outsourcing of services to third parties.

Risk transfer mechanisms, such as insurance, to mitigate the risk of high loss events also form part of this framework. Identified operational risks with relatively high residual risk assessment ratings and new risks that are beyond the control of the Bank will be scrutinised for insurability.

Legal risk is part of operational risk. Legal risk arises from inadequate documentation, legal or regulatory incapacity or insufficient authority of customers and uncertainty in the enforcement of contracts forms part of operational risk. This is managed through consultation with the Bank's legal counsel and external counsel to ensure that legal advice is appropriately taken where necessary.

The Bank has put in place Compliance Officers to monitor and enforce compliance with the relevant laws, regulations, policies and procedures in their respective areas.

## 38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Financial instruments comprise financial assets, financial liabilities and also off-balance sheet derivatives. 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 best estimates of fair values of financial instruments at the balance sheet date.

## 38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Quoted and observable market prices, where available, are used as the measure of fair values. However, for a significant portion of the Group's and the Bank's financial instruments, including loans, advances and financing to customers, where such market prices are not available, various methodologies have been used to estimate the approximate fair values of such instruments. These methodologies 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 assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Group's and the Bank's financial instruments, including loans, advances and financing to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amounts that the Group and the Bank could realise in a sale transaction at the balance sheet date. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Group and the Bank as a going concern.

The on-balance sheet financial assets and liabilities of the Group and the Bank whose fair values are required to be disclosed in accordance with FRS 132 comprise all its assets and liabilities with the exception of investments in subsidiaries, investments in associates, fixed assets and provision for current and deferred taxation. The estimated fair values of those on-balance sheet financial assets and financial liabilities as at the balance sheet date approximate their carrying amounts as shown in the balance sheets, except for the following financial assets and liabilities:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| **Group** | **Carrying amount RM'000** | **Estimated fair value RM'000** | **Carrying amount RM'000** | **Estimated fair value RM'000** |
| **Financial assets** | | | | |
| Loan, advances and financing* | **20,538,140** | **20,538,140** | 17,452,966 | 17,452,966 |
| **Financial liabilities** | | | | |
| Deposits from customers | **19,261,680** | **19,281,413** | 16,639,605 | 16,636,641 |
| Deposits and placements of banks and other financial institutions | **2,855,192** | **2,854,885** | 4,295,228 | 4,294,810 |
| Recourse obligation on loans sold to Cagamas | **560,030** | **558,505** | 1,302,529 | 1,292,585 |
| **Bank** | | | | |
| **Financial assets** | | | | |
| Loan, advances and financing* | **20,538,140** | **20,538,140** | 17,452,910 | 17,452,910 |
| **Financial liabilities** | | | | |
| Deposits from customers | **19,261,680** | **19,281,413** | 16,639,605 | 16,642,569 |
| Deposits and placements of banks and other financial institutions | **2,856,214** | **2,855,907** | 4,296,453 | 4,296,035 |
| Recourse obligation on loans sold to Cagamas | **560,030** | **558,505** | 1,302,529 | 1,292,585 |

* The general provisions for the Group and the Bank amounting to RM305,969,000 (2005: RM251,944,000) and RM305,969,000 (2005: RM251,888,000) respectively have been added back to arrive at the carrying value of the loans, advances and financing.

## 38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Off-balance sheet derivatives are instruments whose values change in response to the change in one or more "underlying", such as foreign exchange rate, security price and credit index. They include forwards, swaps, futures, options and credit derivatives. In the normal course of business, the Group and the Bank customise derivatives to meet specific needs of their customers. The Group and the Bank also transact in these derivatives for proprietary trading purposes as well as to manage its assets/liabilities and structural positions. The fair values of the derivatives are as follows:

| | Group and Bank | | |
|---|---|---|---|
| | **Contract or underlying Principal amount RM'000** | **Positive fair value RM'000** | **Negative fair value RM'000** |
| **2006** | | | |
| Foreign exchange contracts | | | |
| - forwards | **901,834** | **2,277** | **2,235** |
| - swaps | **5,835,312** | **686,594** | **68,216** |
| Interest rate related contracts | | | |
| - forwards | **10,829,000** | **17,222** | **1,688** |
| - swaps | **12,693,228** | **92,360** | **759,814** |
| **2005** | | | |
| Foreign exchange contracts | | | |
| - forwards | 573,418 | 1,686 | 228 |
| - swaps | 5,358,622 | 619,207 | 11,775 |
| Interest rate related contracts | | | |
| - forwards | 12,918,000 | 7,860 | 9,226 |
| - swaps | 7,889,483 | 61,774 | 692,191 |

The table above analyses the notional principal amounts and the positive and negative fair values of the Group's and Banks' off-balance sheet derivatives. The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date for both trading and hedging instruments. They do not necessarily indicate the amounts of future cash flows or the fair value of the derivatives and therefore, do not represent total amount of risk. The positive and negative fair values represent the favourable and unfavourable fair values respectively of hedging and trading derivatives as a result of fluctuations in the value of the underlying relative to their contractual terms as at balance sheet date.

The fair values of contingent liabilities and undrawn credit facilities are not readily ascertainable. These financial instruments are presently not sold or traded. The estimated fair value may be represented by the present value of the fees expected to be received, less associated costs. The Group and Bank assess that their respective fair values are unlikely to be significant given that the overall level of fees involved is not significant. Where available, quoted and observable market prices are used as the measure of fair values, such as for government treasury bills and securities and quoted securities. Where quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions, the principal ones being as follows:

(a) The fair values of cash and balances with Bank Negara Malaysia and placements and balances with banks, agents and related companies are considered to approximate their carrying values because most of these are of negligible credit risk and either short term in nature or repriced frequently.

**38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)**

(b) Fair values of securities that are actively traded is determined by quoted bid prices. For non-actively traded securities, independent broker quotations are obtained. Fair values of equity securities are estimated using a number of methods, including net tangible assets, earnings multiples and discounted cash flow analysis. Where discounted cash flow technique is used, the estimated future cash flows are discounted using applicable prevailing market or indicative rates of similar instruments at the balance sheet date.

(c) The fair values of variable rate loans are estimated to approximate their carrying values. For fixed rate loans, the fair values are estimated based on expected future cash flows of contractual instalment payments, discounted at applicable and prevailing rates at balance sheet date offered for similar facilities to new borrowers with similar credit profiles. In respect of non-performing loans, the fair values are deemed to approximate the carrying values which are net of interest/income-in-suspense and specific provision for bad and doubtful debts and financing.

(d) The Group and the Bank consider the carrying amount of its deposits, such as non bank customers' deposits and deposits and balances of banks, agents and related companies with maturities of less than one year to approximate their fair values due to the relatively short maturity of these instruments. The fair values of fixed deposits and placements with remaining maturities of more than one year are estimated based on discounted cash flows using applicable rates currently offered for deposits and placements with similar remaining maturities.

(e) The fair values of amount due to Cagamas are determined based on the discounted cash flows of future instalment payments at applicable prevailing Cagamas rates as at balance sheet date.

(f) For off-balance sheet derivatives, where quoted and observable market prices are not available, fair values are arrived at using internal pricing models. As assumptions were made regarding risk characteristics of the various financial instruments, discount rates, future expected loss and other factors, changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

**39. CHANGES IN ACCOUNTING POLICIES AND COMPARATIVES**

The presentation and classification of items in the current year financial statements have been consistent with the previous financial year except that certain comparative amounts have been adjusted as a result of the following:

(a) the adoption of new and revised FRSs as disclosed in Note 2.3(d); and

(b) reclassification of certain investments from held-for-trading securities to available-for-sale securities. In the current financial year, the Group and the Bank had reclassified certain private debt securities amounting to RM508,445,000 as at 31 December 2005 from held-for-trading securities to available-for-sale securities to meet the reporting requirements of local regulators. This reclassification had resulted in the following comparative amounts as at 31 December 2005 to be restated as follows:

| **Description of change** | | **Group and Bank** | |
|---|---|---|---|
| | **As previously stated RM'000** | **Increase/ (Decrease) RM'000** | **Restated RM'000** |
| **At 31 December 2005** | | | |
| Held-for-trading securities | 1,372,252 | (508,445) | 863,807 |
| Available-for-sale securities | 3,995,319 | 508,445 | 4,503,764 |

This reclassification of securities has no material effects on the income statement of the Group and the Bank for the financial year ended 31 December 2005.