UNITED OVERSEAS BANK (MALAYSIA) BHD

(INCORPORATED IN MALAYSIA)

CO NO : 271809K

CONTENTS

Brief Profile

Incorporated in 1993, United Overseas Bank (Malaysia) Bhd ["UOB Malaysia"] is a subsidiary of United Overseas Bank Limited ("UOB"), a leading bank in Singapore with an international network of 500 offices in 18 countries and territories in Asia-Pacific, Western Europe and North America.

UOB has a presence in Malaysia since 1951. Today, UOB Malaysia operates 37 branches throughout Malaysia, making it the foreign bank with the largest branch network.

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

UOB Malaysia is rated AA1 by Rating Agency of Malaysia (RAM). For further information, please visit www.uob.com.my

Chairman's Statement

Wee Cho Yaw
Chairman & Chief Executive Officer

2005 PERFORMANCE

In a year characterized by continued intense competition in the banking industry, new entrants like the first non-bank credit card issuer and new Islamic banks allowed by Bank Negara in line with the Financial Sector Master Plan, and in the face of a moderating economy from a GDP growth of 7.1% in 2004 down to a forecast 5% GDP growth in 2005, United Overseas Bank (Malaysia) Bhd (UOBM) Group continued to achieve satisfying results in 2005.

Profit before loan losses and provisions for the Group was RM643 million, representing a 21% growth over 2004's RM529 million. This was mainly attributable to higher net interest income of RM606 million (2004: RM556 million) and higher fee income of RM347 million (2004: RM256 million). This was partially offset by higher overhead expenses of RM311 million (2004: RM284 million). However, the Group recorded a lower profit before taxation of RM500 million (2004: RM524 million) due to higher provisions of RM159 million compared with RM41 million provided for in 2004.

During the year under review, the Group's shareholders' funds rose by 9% to RM2.1 billion (2004: RM1.9 billion). Total assets grew from RM28.9 billion to RM31.1 billion. Total non-bank loans increased from RM16.2 biliion to RM17.2 billion, while total non-bank deposits rose to RM16.6 billion from RM15.9 billion. The Group's Non-Performing Loans (NPLs) were reduced by 20% to RM1.2 billion and our net NPL ratio improved from 6.4% to 5.0%.

To cater to the growing consumer demand for more sophisticated wealth protection and investment products, the Bank has successfully launched a series of investment-linked insurance products as well as several structured investment products to its affluent customers. Our housing loans also registered a healthy growth rate of 22% as the Bank continues to offer innovative mortgage packages to our customers.

During the year, the Bank introduced the UOB VOX card, the first lenticular credit card in Malaysia with benefits tailored specifically to the youth segment. The UOB VOX card also allows its card members to use the contactless Visa Wave technology to conduct certain types of transactions.

Since its inception six years ago, the investment banking unit has gained rapid success in establishing UOBM as a significant player in the local capital market. The Bank bagged two awards in the Rating Agency Malaysia (RAM) League Awards 2005 for the second consecutive year. The Bank won Second Placing for Top Lead Managers 2004 – Islamic (by issue value) and also Third Placing for Top Lead Managers 2004 – Islamic (by number of deals). These awards recognise the Bank's growing stature in the Malaysian debt capital market.

2006 PROSPECTS AND PLANS

Fuelled by the buoyant economies of China, Japan and India, Asia is expected to enjoy good growth in 2006. The Malaysian economy is expected to maintain a healthy growth rate of 5%, driven by exports and resilient domestic demand.

Competitive pressures are expected to intensify in the banking industry, further eroding the net interest margins of banks. The Bank will look to supplement its product offerings with value added services in order to gain market share. The Bank will continue to invest in its human capital, increase benchstrength and deliver innovative products and services to its customers.

The Bank will also continue to utilise information technology to drive process improvements so as to sustain profitability in the face of thinning margins.

With liberalization of the Malaysian banking industry gathering pace, the Bank intends to expand its delivery channels to better serve a more sophisticated customer base. In 2006, the Bank plans to branch out to four new locations and to further upgrade its electronic banking services. UOBM's extensive local banking network is augmented by the Group's rapidly growing regional presence in South East Asia and Greater China. The improvement in delivery channels supported by a dedicated workforce imbued with the UOB's entrepreneurial spirit and service culture, will put the Bank in good stead to meet the challenges ahead.

ACKNOWLEDGEMENT

I would like to thank the Board of Directors for their wise counsel and guidance, our staff members and management 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
Poon Hon Thang Samuel
Ong Sea Eng Terence
Lee Chin Yong Francis
YABhg Tun Dato' Seri Dr Lim Chong Eu
Ng Kee Wei
Lim Kean Chye

EXECUTIVE COMMITTEE

Wee Cho Yaw
Chairman

Wee Ee Cheong
Poon Hon Thang Samuel
Lee Chin Yong Francis

AUDIT COMMITTEE

YABhg Tun Dato' Seri Dr Lim Chong Eu
Chairman

Poon Hon Thang Samuel
Ng Kee Wei

NOMINATING COMMITTEE

Lim Kean Chye
Chairman

Wee Cho Yaw
Poon Hon Thang Samuel
Lee Chin Yong Francis
Ng Kee Wei

REMUNERATION COMMITTEE

Lim Kean Chye
Chairman

Wee Cho Yaw
Lee Chin Yong Francis

RISK MANAGEMENT COMMITTEE

Ng Kee Wei
Chairman

Poon Hon Thang Samuel
Lee Chin Yong Francis

SENIOR MANAGEMENT

Chan Kok Seong
Chief Executive Officer

Chew Seong Aun
Head of Division / Chief Financial Officer
Corporate Services

Khoo Chock Seang
Head of Division
Personal Financial Services – Sales Management

Phee Chiew Tee
Head of Division
Institutional Financial Services
– Commercial Credit/Retail

Foong Kien Mun
Head of Division
Credit Management

Lee Jim Leng
Head of Division
Investment Banking Services - Investment Banking

Lee Voon Seng
Head of Division
Human Resources

Leong Sow Yoke
Head of Division
Internal Audit

Lin Kok Hoi
Head of Division
Operations & Delivery Channels

Ng Ling Tee, Steven
Head of Division
Investment Banking Services - Specialised Financing

Ong Siew Wee, Arnie
Head of Division
Institutional Financial Services – Corporate Banking

Por Peng Seong, Alex
Head of Division
Risk Management

Yong Chow Kung, Lawrence
Head of Division
International Trade Services & Remittances

Lum Chee Onn
Head of Division
Information Technology

Beh Soo Heng, Michael
Assistant Division Head
Treasury

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

Authorized: 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: UOBMMP MA 31877
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

Bukit Bintang Branch
136, Ground Floor, Jalan Bukit Bintang
55100 Kuala Lumpur
Tel: 03-2142 8828
Fax: 03-2141 1212
Sales & Services Manager: Mr How Boon Seong

SELANGOR

Jalan Tengah Branch, Petaling Jaya
2-6, Jalan Tengah, 46200 Petaling Jaya
Tel: 03-7956 9143 / 7958 2282
Fax: 03-7955 9110
Manager: Mr Christopher Quah Boo Lek

Jalan Othman Branch, Petaling Jaya
39-45, Jalan Othman, 46000 Petaling Jaya
Tel: 03-7788 3333 / 03-7782 9696
Fax: 03-7783 8131
Manager: Mr Tay Wei Khang

Damansara Uptown Branch, Petaling Jaya
Ground Floor, Uptown 1
1 Jalan SS21/58 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
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: Mr Fong Kok Meng

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 Yeap Boon Loon

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 Malacca
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 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 Teo Kang Seng

Raub Branch
14 & 16 Jalan Tun Razak
27600 Raub
Tel: 09-355 1187 / 09-355 3766
Fax: 09-355 5955
Manager: Mr Teo Kang Seng

NEGERI SEMBILAN

Seremban Branch
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 Center
4072, Jalan Bagan Luar
12000 Butterworth
Tel: 04-324 0075
Fax: 04-323 0467
Regional Manager: Mr Tan Kian Huat

PULAU PINANG

Lebuh Bishop Branch
64E-H Lebuh Bishop, 10200 Pulau Pinang
Tel: 04-262 2386 / 04-262 2587
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 Richard Liew Hiong Kong

Butterworth Branch
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
Fax: 04-530 3818
Manager: Ms Peggy Chong Yin Leng

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: Ms Jean Koay Jin Hee

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 Siow Chat Ming

SOUTHERN REGION

South Regional Center
No 2, Jalan Wong Ah Fook, 80000 Johor Bahru
Tel: 07-223 4241
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 Captain Ahmad
86000 Kluang
Tel: 07-772 1967 / 07-772 5968
Fax: 07-772 1977
Manager: Mr Leong Yew Fook

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 Daniel Woon Siong Huai

SARAWAK

Kuching Branch
No. 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: Mr Ronny Yii See Chieng

Bintulu Branch
No. 207 & 208, Parkcity Commerce Square (Phase III)
Jalan Tun Ahmad Zaidi, 97000 Bintulu, Sarawak
Tel: 086-312 232
Fax: 086-338 381
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 8 distinguished members of whom five (5) are Non-Independent Non-Executive Directors and three (3) are Independent Non-Executive Directors. The directors have distinguished careers in the banking, finance, law, public, business and management sectors. YM Tunku Dato' Seri Shahabuddin Bin Tunku Besar Burhanuddin was an Independent Non-Executive Director before his resignation from the Board on 5 July 2005.

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 2005					
	Board of Directors	Executive Committee	Audit Committee	Risk Management Committee	Remuneration Committee	Nominating Committee
Wee Cho Yaw	6	40	-	-	1	1
Wee Ee Cheong	6	41	-	-	-	-
Poon Hon Thang, Samuel	6	41	4	4	-	1
Ong Sea Eng, Terence	5	-	-	-	-	-
Lee Chin Yong, Francis	6	36	-	4	1	1
YABhg Tun Dato' Seri Dr Lim Chong Eu	6	-	4	-	-	-
YM Tunku Dato' Seri Shahabuddin bin Tunku Besar Burhanuddin	1	-	1	-	-	-
Ng Kee Wei	6	-	4	4	-	1
Lim Kean Chye	6	-	-	-	1	1
Number of meetings held in 2005	6	44	4	4	1	1

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 6.

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.

Board Committees (continued)

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.

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 met once.

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 25.

Internal Controls

The Bank has a well-established internal audit function. The Bank's Internal Audit reports to the AC and to the Group Chief Internal Auditor and administratively, to the Chairman and CEO. It 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. The Group Chief Internal Auditor and external auditors also attend the AC Meetings by invitation.

The scope of Internal Audit covers the audit of the Bank's main units and operations. The audits carried out on the Bank's units and operations 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 is prioritized based on a comprehensive audit risk assessment of all significant 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 system in production, data centres, network security and the Information Technology Division.

Risk Management

Risk management is an integral part of the Bank's strategic decision-making process which ensures that the Bank's corporate objectives are consistent with the appropriate risk return trade-off. 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 return 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 risk exposures in the areas under their respective supervision. The key risks are credit risk, balance sheet risk, liquidity risk, market risk and operational 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.

Credit Risk Management

Counterparty and credit risk is defined as the potential loss arising from any failure by customers to fulfil their obligations, as and when they fall due. All credit exposures, whether on-balance sheet or off-balance sheet, are assessed. These obligations may arise from lending, trade finance, investment, receivables under derivative and foreign exchange contracts 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.

Credit discretionary limits are delegated to officers of individual business units, depending on their levels of experience. Approval of all credits is granted in accordance with credit policies and guidelines. Defined credit risk parameters include single borrower, obligor, security concentrations, identified high-risk areas, maximum tenor and acceptable structures and collateral types.

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 Risk Management (continued)

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.

A comprehensive set of limits (industry and counter party) is in place to address concentration issues in the Bank’s portfolio. A rigorous process is established to regularly review and report asset concentrations and portfolio quality so that risks are accurately assessed, properly approved and monitored. These cover large credit exposures by obligor group, collateral type, industry, product, level of non-performing loans (NPLs) and adequacy of provisioning requirements.

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.

Credit audits and reviews are regularly carried out to proactively identify and address potential weaknesses in the credit process and to pre-empt any unexpected deterioration in the credit quality.

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.

Management Of Performing Loans, Non-Performing Loans And Cumulative Provisions (continued)

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 2004 and 31 December 2005:

	The Bank	
	Dec 2005 RM'000	**Dec 2004 RM'000**
Total non-performing loans	**1,200,338**	1,506,121
General provision	**251,888**	251,888
Total specific provision	**336,842**	455,821
Cumulative provisions	**588,730**	707,709
Ratios (%)		
NPLs/Gross total loans	**6.7%**	8.9%
Net NPLs/Net total loans	**4.9%**	6.4%
Cumulative provision/NPLs	**49.0%**	47.0%

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.

Rescheduled And Restructured Accounts (continued)

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 the policies and limits for balance sheet risk. 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.

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 36 to the financial statements represents the Bank’s interest rate risk sensitivity based on repricing mismatches as at 31 December 2005. 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 2005, the Bank had an overall positive interest rate sensitivity gap of RM 2,523 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 under 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 Risk Management (continued)

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, namely, interest rate risk, foreign currency risk , equity risk, credit spreads and option volatility relating to all the above rates or prices.

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 appetite 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.

Market risk is measured using VaR methodologies, namely, historical simulation models based on historical market data changes for the past 260 days within a 97.7% confidence level as required by regulations. In addition, VaR Stress test are also performed in accordance with the Group's Stress Testing Policy. The risk taken are measured against corresponding rewards to ensure that returns are commensurate with the risks taken.

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 policies, techniques and procedures as approved by our Parent Bank. There are periodic risk management reports reviewed by Risk Management Committee.

Compliance & Operational Risk Management (continued)

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.

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 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.

Directors' Report

for the year ended 31 December 2005

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 2005.

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	**500,154**	**487,326**
Taxation	**(143,111)**	**(140,227)**
Net profit for the year	**357,043**	**347,099**

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.

DIVIDENDS

The amount of dividends paid by the Bank since 31 December 2004 was as follows:

	RM'000
In respect of the financial year ended 31 December 2004 as reported in the directors' report for that year, a final dividend of 50% less 28% taxation, on 470 million ordinary shares, paid on 18 April 2005	**169,200**

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2005, of 50% less 28% taxation on 470 million ordinary shares, amounting to a dividend payable of RM169,200,000 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 2006.

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
Poon Hon Thang, Samuel
YABhg Tun Dato' Seri Dr Lim Chong Eu
Ng Kee Wei
YM Tunku Dato’ Seri Shahabuddin Bin Tunku Besar Burhanuddin (Resigned on 5 July 2005)
Lim Kean Chye
Lee Chin Yong, Francis
Ong Sea Eng, Terence

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 ("UOB ESOS").

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 26 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			
		1.1.2005	**Acquired**	**Disposed**	**31.12.2005**
Ultimate holding corporation:					
United Overseas Bank Limited					
Wee Cho Yaw	- Direct	16,390,248	-	-	16,390,248
	- Indirect	211,708,142	33,500,000	-	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
Poon Hon Thang, Samuel	- Direct	-	74,000	59,000	15,000
	- Indirect	-	45,000	45,000	-
Lee Chin Yong, Francis	- Direct	-	35,000	-	35,000
Ong Sea Eng, Terence	- Indirect	-	80,000	75,000	5,000

		Number of Options Over Ordinary Shares of S$1 Each			
		1.1.2005	**Granted**	**Exercised**	**31.12.2005**
Ultimate holding corporation:					
United Overseas Bank Limited					
Poon Hon Thang, Samuel	- Direct	125,000	-	(80,000)	45,000
Lee Chin Yong, Francis	- Direct	115,000	-	(35,000)	80,000
Ong Sea Eng, Terence	- Direct	120,000	-	(80,000)	40,000

Wee Cho Yaw by virtue of his substantial interest in the shares in United Overseas Bank Limited is also deemed to have substantial interest in shares of 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

(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;

(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$**
2000	11 December 2001 to 10 December 2005	12.90
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 2005

The country's domestic economy has displayed strength and resilience this year in face of adverse external factors. Despite soaring crude oil prices, domestic demand, although slower, held up better than expected. This has been mainly driven by continued high consumer spending, aided by relatively easy credit conditions.

With household incomes holding strong, the Bank had continued to focus on its Personal Financial Services offerings and selective SME markets. During the year, under the Bank's card acquisition initiatives, the Bank introduced the VOX Visa card, the first lenticular credit card in Malaysia targeted to the youth segment. The VOX card also allows its card members to use the contactless Visa Wave technology to conduct certain types of transactions. The Bank also re-launched its Platinum card with a better value proposition to its customers. On the mortgage front, innovative packages such as the UOB FlexiMortgage that allows flexi repayment and built-in OD facility were introduced. EasiCash, a new unsecured credit product was also introduced to penetrate the unsecured consumer financing arena.

Together with its insurance associates, the Bank had launched a series of investment-linked insurance products such as MAXGain, MAXIncome, MAXLink and other products with foreign exposure in the second half of the year. This followed the decision by the Government to allow life insurers to invest up to 30% of their investment overseas and the ringgit currency de-pegging in July 2005. The sales of the Structured Investment products (linked to equity, interest rate, currency or other index) continue to be popular amongst our increasingly affluent customers.

BUSINESS STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)

The investment banking unit recorded strong growth in 2005. The Bank arranged a total of 11 transactions valued in excess of RM4 billion. One of the significant transactions undertaken by the Bank was its appointment as the Global Coordinating Lead Arranger and Joint Book Runner for a USD500 million Multi-Currency Revolving Credit Facility for Tenaga Nasional Berhad (TNB), the country's main electric utility provider. This unique facility was considered to be the first issuance of such programmes in the Malaysian capital markets. It allows TNB the flexibility, from time to time, to draw on a combination of bank loan and capital market products in multi-currencies comprising US Dollar (USD), Sterling Pound, Euro and Ringgit Malaysia.

In the oil and gas sector, the Bank has successfully raised over RM1 billion through various capital market instruments for two major oil and gas players. We ended the year with the completion of the restructuring and re-issuance in Islamic Debt Securities for a water (RM1,020 million) and toll (RM510 million) concessionaires respectively.

As affirmation of the Bank's consistent effort in offering the right products to meet the increasingly sophisticated needs of its customers, the Bank bagged two awards in the Rating Agency Malaysia (RAM) League Awards 2005 for the second consecutive year. The Bank won Second Placing for Top Lead Managers 2004 – Islamic (by issue value) and also Third Placing for Top Lead Managers 2004 – Islamic (by number of deals).

In order to serve the Bank's customers better, the Bank had further invested in its delivery channels. The Bank celebrated its newly renovated Privilege Banking Centre in Batu Pahat branch in Johor in July 2005 and a new branch was opened in Bintulu, Sarawak in November 2005.

The Bank has made significant progress in its preparation for the New Basel Capital Accord (Basel II) and is already well in advance in developing, configuring and operationalising many of its systems and processes to prepare for the adoption of Basel II. It remains committed and will continue to invest in and strengthen its risk management systems, processes and practices to reach Internal Ratings Based (IRB) compliance at the earliest date. To this end, the Bank has been assisted by its ultimate holding company Bank and has engaged consultants in the relevant subject matters to provide advice on their fields of expertise.

OUTLOOK FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2006

The ringgit has been relatively stable since it was depeg in July 2005. The ringgit is likely to gradually appreciate next year against the US Dollar. Although Bank Negara had recently in November 2005 increased the key Overnight Policy Rate by 30 basis points (bps) to counteract growing inflationary pressures, we expect Bank Negara to judiciously moderate its monetary policy adjustments to sustain growth with price stability.

For the financial sector, further liberalisation and consolidation amongst the local banking players are expected. Competition will continue to intensify. Leveraging on the Bank's continued focus on meeting customer needs, strong financial standing, sound risk management policies, and dedicated and productive workforce, the Bank is poised to seize the business opportunities in an increasingly liberalised and competitive banking system.

RATING BY EXTERNAL RATING AGENCIES

Rating Agency Malaysia ('RAM') had reaffirmed the Bank's long term rating at AA1 and its 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

Wee Cho Yaw

Lee Chin Yong, Francis

Kuala Lumpur, Malaysia
Date: 17 February, 2006

Statement By Directors

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

We, Wee Cho Yaw and Lee Chin Yong, Francis, 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 27 to 80 are drawn up in accordance with provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia 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 2005 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

Wee Cho Yaw

Lee Chin Yong, Francis

Kuala Lumpur, Malaysia
17 February, 2006

Statutory Declaration

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

I, Lee Chin Yong, Francis, 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 27 to 80 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 Lee Chin Yong, Francis
at Kuala Lumpur in the Federal Territory
on 17 February, 2006

Lee Chin Yong, Francis

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 2005

We have audited the financial statements set out on pages 27 to 80. These accompanying 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 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 2005 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. 1918/09/06 (J)
Partner

Kuala Lumpur, Malaysia
17 February, 2006

Balance Sheets

as at 31 December 2005

	Note	Group 2005 RM'000	Group 2004 RM'000	Bank 2005 RM'000	Bank 2004 RM'000
ASSETS					
Cash and short-term funds	3	**2,815,289**	2,910,943	**2,815,289**	2,910,943
Securities purchased under resale agreements		**1,752,102**	3,668,835	**1,752,102**	3,668,835
Deposits and placements with financial institutions	4	**2,689,850**	450,000	**2,689,850**	450,000
Held-for-trading securities	5	**1,372,252**	1,190,118	**1,372,252**	1,190,118
Available-for-sale securities (AFS)	6	**3,995,319**	3,357,745	**3,995,319**	3,357,745
Loans, advances and financing	7	**17,201,022**	16,189,922	**17,201,022**	16,189,922
Other assets	8	**327,549**	194,110	**330,709**	194,817
Statutory deposits with Bank Negara Malaysia	9	**478,500**	485,000	**478,500**	485,000
Investment in subsidiaries	10	**-**	-	**151**	151
Investment in associates	11	**151,452**	142,457	**122,733**	122,733
Property, plant and equipment	12	**261,737**	264,267	**260,772**	264,150
Deferred tax assets	13	**35,691**	33,129	**35,691**	33,129
TOTAL ASSETS		**31,080,763**	28,886,526	**31,054,390**	28,867,543
LIABILITIES AND SHAREHOLDERS' FUNDS					
Deposits from customers	14	**16,639,605**	15,907,311	**16,639,605**	15,908,324
Deposits and placements of banks and other financial institutions	15	**4,295,228**	4,000,651	**4,296,453**	4,000,651
Obligations on securities sold under repurchase agreements		**4,510,905**	3,128,205	**4,510,905**	3,128,205
Bills and acceptances payable		**1,658,952**	1,982,728	**1,658,952**	1,982,728
Amount due to Cagamas	16	**1,302,529**	1,361,055	**1,302,529**	1,361,055
Other liabilities	17	**470,859**	476,895	**470,785**	476,119
Taxation		**38,310**	45,751	**38,310**	45,843
TOTAL LIABILITIES		**28,916,388**	26,902,596	**28,917,539**	26,902,925
SHARE CAPITAL	18	**470,000**	470,000	**470,000**	470,000
RESERVES	19	**1,666,674**	1,484,497	**1,666,851**	1,494,618
SHAREHOLDERS' EQUITY		**2,136,674**	1,954,497	**2,136,851**	1,964,618
NEGATIVE GOODWILL	20	**27,701**	29,433	**-**	-
		2,164,375	1,983,930	**2,136,851**	1,964,618
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**31,080,763**	28,886,526	**31,054,390**	28,867,543
COMMITMENTS AND CONTINGENCIES	32	**42,989,414**	39,708,420	**42,989,414**	39,708,420

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

INCOME STATEMENTS

for the year ended 31 December 2005

		Group		Bank	
		2005	2004	2005	2004
	Note	RM'000	RM'000	RM'000	RM'000
Operating revenue	21	**1,661,842**	1,450,074	**1,663,536**	1,449,284
Interest income	22	**1,324,109**	1,208,694	**1,324,098**	1,208,687
Interest expense	23	**(717,834)**	(652,319)	**(717,848)**	(652,319)
Net interest income		**606,275**	556,375	**606,250**	556,368
Other operating income	24	**347,495**	255,901	**349,200**	256,692
Operating income		**953,770**	812,276	**955,450**	813,060
Other operating expenses	25	**(311,056)**	(283,528)	**(310,030)**	(282,823)
Profit before allowance		**642,714**	528,748	**645,420**	530,237
Allowance for losses on loans, advances and financing	27	**(158,849)**	(40,757)	**(158,869)**	(40,908)
Write back/(provision) net of provision for commitments and contingencies		**775**	(692)	**775**	(692)
Net income		**484,640**	487,299	**487,326**	488,637
Amortisation of goodwill, net		**(1,560)**	17,114	**-**	-
Share of profit of associates		**17,074**	19,319	**-**	-
Profit before taxation		**500,154**	523,732	**487,326**	488,637
Taxation					
- Bank and subsidiaries	28	**(139,694)**	(141,925)	**(140,227)**	(142,225)
- associates	28	**(3,417)**	(7,067)	**-**	-
Profit after taxation		**357,043**	374,740	**347,099**	346,412
Basic earnings per share (sen)	29	**76.0**	79.7	**73.9**	73.7
Dividends per share (sen)	30	**36.0**	36.0	**36.0**	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 2005

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
		<---- Non-distributable				---->	Distributable	
2005								
Balance as at 1 January 2005								
As previously stated		**470,000**	**322,555**	**470,000**	**35,164**	**-**	**644,072**	**1,941,791**
Prior year adjustments	38	**-**	**-**	**-**	**-**	**11,002**	**1,704**	**12,706**
Balance as at 1 January 2005 (restated)		**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 loss on available-for-sale securities		**-**	**-**	**-**	**-**	**(8,665)**	**-**	**(8,665)**
Tax effect on net loss of AFS	13	**-**	**-**	**-**	**573**	**2,426**	**-**	**2,999**
Dividends paid:								
- final dividend for the year ended 31 December 2004	30	**-**	**-**	**-**	**-**	**-**	**(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**
2004								
Balance as at 1 January 2004								
As previously stated		470,000	322,555	470,000	35,509	-	300,347	1,598,411
Prior year adjustments	38	-	-	-	-	13,383	4,161	17,544
Balance as at 1 January 2004 (restated)		470,000	322,555	470,000	35,509	13,383	304,508	1,615,955
Net profit for the year		-	-	-	-	-	374,740	374,740
Net loss on available-for-sale securities		-	-	-	-	(3,307)	-	(3,307)
Realisation of revaluation reserve upon disposal of land and buildings		-	-	-	(368)	-	368	-
Transfer to deferred tax	13	-	-	-	23	926	-	949
Dividends paid:								
- final dividend for the year ended 31 December 2003	30	-	-	-	-	-	(33,840)	(33,840)
Balance as at 31 December 2004		470,000	322,555	470,000	35,164	11,002	645,776	1,954,497

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

Statement Of Changes In Equity

for the year ended 31 December 2005

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	
2005								
Balance as at 1 January 2005								
As previously stated		**470,000**	**322,555**	**470,000**	**50,216**	**-**	**639,141**	**1,951,912**
Prior year adjustments	38	**-**	**-**	**-**	**-**	**11,002**	**1,704**	**12,706**
Balance as at 1 January 2005 (restated)		**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 loss on available-for-sale securities		**-**	**-**	**-**	**-**	**(8,665)**	**-**	**(8,665)**
Transfer to deferred tax	13	**-**	**-**	**-**	**573**	**2,426**	**-**	**2,999**
Dividends paid:								
- final dividend for the year ended 31 December 2004	30	**-**	**-**	**-**	**-**	**-**	**(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**
2004								
Balance as at 1 January 2004								
As previously stated		470,000	322,555	470,000	50,561	-	323,744	1,636,860
Prior year adjustments	38	-	-	-	-	13,383	4,161	17,544
Balance as at 1 January 2004 (restated)		470,000	322,555	470,000	50,561	13,383	327,905	1,654,404
Net profit for the year		-	-	-	-	-	346,412	346,412
Net loss on available-for-sale securities		-	-	-	-	(3,307)	-	(3,307)
Realisation of revaluation reserve upon disposal of land and buildings		-	-	-	(368)	-	368	-
Transfer to deferred tax	13	-	-	-	23	926	-	949
Dividends paid:								
- final dividend for the year ended 31 December 2003	30	-	-	-	-	-	(33,840)	(33,840)
Balance as at 31 December 2004		470,000	322,555	470,000	50,216	11,002	640,845	1,964,618

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

Cash Flow Statements

for the year ended 31 December 2005

	Note	Group 2005 RM'000	Group 2004 RM'000	Bank 2005 RM'000	Bank 2004 RM'000
Cash Flows From Operating Activities					
Profit before taxation		**500,154**	523,732	**487,326**	488,637
Adjustments for:					
Share of profits of associates		**(17,074)**	(19,319)	**-**	-
Gain on disposal of property, plant and equipment		**(422)**	(1,460)	**(422)**	(1,460)
Depreciation of property, plant and equipment		**28,131**	26,727	**28,002**	26,717
Write back of impairment loss on property, plant and equipment		**(1,000)**	-	**(1,000)**	-
Allowance for losses on loans, advances and financing		**158,849**	40,757	**158,869**	40,908
Net unrealised loss/(gain) on held-for-trading securities		**664**	(10,022)	**664**	(10,022)
(Write back)/provision of provision for commitments and contingencies, net		**(775)**	692	**(775)**	692
Dividend income		**(643)**	(585)	**(2,547)**	(1,485)
Interest income from available-for-sale securities		**(120,555)**	(30,462)	**(120,555)**	(30,462)
Gain from sale of available-for-sale securities		**(2,167)**	(15,801)	**(2,167)**	(15,801)
Net profit from sale of held-for-trading securities		**(31,625)**	(5,517)	**(31,625)**	(5,517)
Amortisation of premium less accretion of discount		**3,573**	1,122	**3,573**	1,122
Amortisation of goodwill, net		**1,560**	(17,114)	**-**	-
Operating profit before working capital changes		**518,670**	492,750	**519,343**	493,329
Decrease/(increase) in operating assets:					
Loans and advances		**(1,169,948)**	(1,666,003)	**(1,169,968)**	(1,666,154)
Held-for-trading securities		**(151,172)**	2,594,968	**(151,172)**	2,594,968
Securities purchased under resale agreements		**1,916,734**	(3,232,149)	**1,916,734**	(3,232,149)
Statutory deposits with Bank Negara Malaysia		**6,500**	(97,000)	**6,500**	(97,000)
Other assets		**(130,351)**	4,933	**(134,708)**	4,081
		471,763	(2,395,251)	**467,386**	(2,396,254)
Increase in operating liabilities:					
Deposits from customers		**732,294**	2,387,625	**731,281**	2,388,390
Deposits and placements of banks and other financial institutions		**294,578**	(256,698)	**295,803**	(256,698)
Obligation on securities sold under repurchase agreements		**1,382,700**	1,016,315	**1,382,700**	1,016,315
Bills and acceptances payable		**(323,776)**	424,966	**(323,776)**	424,966
Amount due to Cagamas		**(58,526)**	(130,730)	**(58,526)**	(130,730)
Other liabilities		**(5,262)**	85,405	**(4,560)**	84,436
		2,022,008	3,526,883	**2,022,922**	3,526,679
Cash generated from operations		**3,012,441**	1,624,382	**3,009,651**	1,623,754
Taxation paid		**(147,056)**	(136,922)	**(146,614)**	(136,969)
Net cash generated from operating activities		**2,865,385**	1,487,460	**2,863,037**	1,486,785

Cash Flow Statements

for the year ended 31 December 2005

	Note	Group 2005 RM'000	Group 2004 RM'000	Bank 2005 RM'000	Bank 2004 RM'000
Cash Flows From Investing Activities					
Proceeds from disposal of property, plant and equipment		**3,299**	2,214	**3,299**	2,214
Purchase of property, plant and equipment		**(28,662)**	(22,701)	**(27,685)**	(22,574)
Interest income from available-for-sale securities		**120,555**	30,462	**120,555**	30,462
Net purchase of available-for-sale securities		**(647,646)**	(3,290,018)	**(647,646)**	(3,290,018)
Dividend received		**465**	468	**1,836**	1,116
Net cash flow from acquisition of subsidiaries		**-**	-	**-**	(100)
Net cash used in investing activities		**(551,989)**	(3,279,575)	**(549,641)**	(3,278,900)
Cash Flows From Financing Activities					
Dividends paid representing net cash used in financing activities		**(169,200)**	(33,840)	**(169,200)**	(33,840)
Net increase/(decrease) in cash and cash equivalents		**2,144,196**	(1,825,955)	**2,144,196**	(1,825,955)
Cash and cash equivalents at beginning of year		**3,360,943**	5,186,898	**3,360,943**	5,186,898
Cash and cash equivalents at end of year		**5,505,139**	3,360,943	**5,505,139**	3,360,943
Analysis of cash and cash equivalents					
Cash and short term funds	3	**2,815,289**	2,910,943	**2,815,289**	2,910,943
Deposits and placements with financial institutions	4	**2,689,850**	450,000	**2,689,850**	450,000
		5,505,139	3,360,943	**5,505,139**	3,360,943

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

1. CORPORATE INFORMATION

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.

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 bank incorporated in Malaysia and United Overseas Bank Limited, a bank incorporated in Singapore, respectively.

The numbers of employees in the Group and in the Bank at the end of the financial year were 2,241 (2004: 2,106) and 2,232 (2004: 2,101) respectively.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 17 February 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

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 comply with the provisions of the Companies Act, 1965, applicable MASB Approved Accounting Standards in Malaysia modified by Bank Negara Guidelines.

(b) Change in Accounting Policies

The accounting policies adopted by the Group and the Bank are consistent with those adopted in the previous financial year except for the adoption of the revised guidelines on Financial Reporting for Licensed Institutions (BNM/GP8) issued by Bank Negara Malaysia on 5 October 2004 which became effective for the current financial year. The adoption of the revised BNM/GP8 has resulted in changes in the accounting policies as disclosed in Notes 2(d), 2(h) and 2(m).

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 until 1 January 2006. Therefore, the allowance for losses on loans and financing of the Group and the Bank are computed based on the existing requirements of BNM/GP3 which is consistent with the accounting policy in the previous financial year.

(c) Basis of Consolidation

(i) Subsidiaries

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries.Subsidiaries are those entities in which the Group has power to exercise control over the financialand operating policies so as to obtain benefits from their activities.

2. SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(c) Basis of Consolidation (continued)

(i) Subsidiaries (continued)

Subsidiaries are consolidated using the acquisition method of accounting. Under the acquisition method of accounting, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal. At the date of acquisition, the fair value of the subsidiaries' net assets are determined and these values are reflected in the consolidated financial statements. The difference between the cost of an acquisition and the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition is included in the consolidated balance sheet as goodwill or negative goodwill arising on consolidation.

Intra-group transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of the subsidiaries to ensure consistency of accounting policies with those of the Group.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences.

(ii) Associates

Associates are those entities in which the Group exercises significant influence but not control, through participation in the financial and operating policy decisions of the entities.

Investments in associates are accounted for in the consolidated financial statements by the equity method of accounting based on the audited or management financial statements of the associates. The equity method of accounting involves recognising in the income statement the Group's share of the results of the associates for the period. The Group's investments in associates are carried in the balance sheet at an amount that reflects its share of the net assets of the associates and includes goodwill (net of accumulated amortisation) on acquisition. Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associates.

Unrealised gains on transactions between the Group and the associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are eliminated unless cost cannot be recovered.

(iii) Goodwill

Goodwill represents the excess of the cost of acquisition of subsidiaries and associates over the fair value of the Group's share of their net identifiable net assets at the date of acquisition. Goodwill is amortised on a straight-line basis, through the consolidated income statement, over its useful economic life of up to a maximum of 20 years. Where indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

Negative goodwill represents the excess of fair value of the identifiable net assets of subsidiaries, associates or businesses acquired over the fair value of the consideration given. Negative goodwill is amortised on a straight-line basis, through the income statement over the remaining weighted average useful life of the identifiable depreciable/amortisable assets acquired, with the exception of the amount of negative goodwill exceeding the fair values of acquired identifiable non-monetary assets, which is recognised as income immediately.

2. SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(d) Recognition of Interest Income

The adoption of the revised BNM/GP8 has resulted in the cessation of the accrual of interest income on non-performing accounts where interest accrued and recognised as income prior to the date the 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 shall be recognised as income on a cash basis. In the previous financial year, when an account becomes non-performing, interest is suspended in the balance sheet until it is realised on a cash basis.

During the current financial year, the Bank adopted the effective interest method in accruing interest income for loans in accordance with the revised guidelines of BNM/GP8. 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. This change has resulted in the increase in interest income by approximately RM57.8million in the current financial year.

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.

Customers' accounts are classified as non-performing where repayments are in arrears for more than three months instead of six months as required by 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.

(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.

(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.

(g) Repurchase Agreements

Securities purchased under resale agreements are securities which 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.

2. SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(g) Repurchase Agreements (continued)

Conversely, obligations on securities sold under repurchase agreements are securities which 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.

In the previous financial year, securities held by the Group and the Bank were classified as either "Dealing" or "Investment" Securities:

(i) Dealing Securities

Dealing securities are marketable securities that were acquired and held with the intention of resale in the short term and were stated at the lower of cost and market value on a portfolio basis. Increases or decreases in the carrying amount of the dealing securities were credited or charged to the income statement. On disposal of the dealing securities, the differences between the net disposal proceeds and their carrying amounts were charged or credited to the income statement.

(ii) Investment Securities

Investment securities are securities that were acquired and held for yield or capital growth or to meet the minimum liquid assets requirement pursuant to Section 38 of the Banking And Financial Institutions Act, 1989, and are usually held to maturity.

Malaysian Government securities, Cagamas bonds, other Government securities and Bank Guaranteed private debt securities held for investment were stated at cost adjusted for amortisation of premium or accretion of discount to maturity date. Quoted investments were stated at the lower of cost and market value on a portfolio basis. Unquoted investments were stated at cost and where applicable, adjusted for amortisation of premiums or accretion of discounts to maturity dates. Provision was made for diminution in value which was other than temporary.

2. SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(i) Investment in Subsidiaries

Investment in subsidiaries are stated at cost and written down when the Directors consider that there is an impairment in the value of such investments. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(v).

(j) Investment in Associates

Investment in associate is stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 2(v).

(k) Property, Plant and Equipment, and Depreciation

Property, plant and equipment are initially stated at cost. Land and buildings are subsequently stated at valuation less accumulated depreciation and impairment losses. Revaluations are made every five years based on valuations by independent valuers on an open market value basis. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for recognition and measurement of impairment losses is in accordance with Note 2(v).

Surpluses arising on revaluation of land and buildings are credited to revaluation reserve. Any deficit arising from revaluation is charged against the revaluation reserve to the extent of a previous surplus arising held in the revaluation for the same asset. In all other cases, a decrease in carrying amount is charged to the income statement.

Freehold land and long term leasehold land (above 99 years) are not depreciated. Leasehold land and buildings are depreciated over the period of the respective leases which range from 38 years to 99 years. Depreciation of other fixed assets is calculated to write off the cost or revalued amount of the fixed assets on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates of depreciation are:

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

Where an indication of impairment exists, the carrying amount of the assets is assessed and written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the income statement. Upon disposal of revalued assets, the attributable revaluation surplus remaining in the revaluation reserve is transferred to retained profits.

(l) 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

2. SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(l) Leases (continued)

(i) Finance leases (continued)

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 as decribed in Note 2(k).

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

(m) 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.

(n) Currency Translations

Transactions in foreign currencies are recorded in Ringgit Malaysia at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the balance sheet date are reported in Ringgit Malaysia at rates of exchange which approximate those ruling at the balance sheet date. Gains or losses on foreign exchange transactions are recognised in the income statement in the period in which they arise.

The principal closing rates used in translation of foreign currency amounts are as follows:

	2005 RM	**2004 RM**
Foreign currencies:		
- 1 USD	**3.78**	3.80
- 1 SGD	**2.27**	2.33
- 100 JPY	**3.22**	3.71
- 1 EURO	**4.48**	5.18

(o) Income Tax and Deferred Taxation

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.

2. SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(o) Income Tax and Deferred Taxation (continued)

Deferred tax is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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. 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 negative goodwill.

(p) Employee Benefits

(i) Short term employee benefits

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

(ii) Post-employment benefits - Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a fund and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

The Group contributes to a national defined contribution plan (the Employees' Provident Fund) and the amounts contributed to the plan are charged to the income statement in the period of which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(q) 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.

(r) Other Assets

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

(s) Bills and Acceptances Payable

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

2. SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(t) 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, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(u) 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.

(v) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same asset.

(w) 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.

(ii) Held-for-trading securities and available-for-sale securities

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.

3. CASH AND SHORT-TERM FUNDS

	Group and Bank 2005 RM'000	2004 RM'000
Cash and balances with banks and other financial institutions	**182,774**	209,700
Money at call and deposit placements maturing within one month	**2,632,515**	2,701,243
	2,815,289	2,910,943

4. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group and Bank 2005 RM'000	2004 RM'000
Licensed banks	**2,689,850**	450,000

5. HELD-FOR-TRADING SECURITIES

	Group and Bank 2005 RM'000	2004 RM'000
At fair value:		
Malaysian Government securities	**-**	113,303
Negotiable instruments of deposits	**-**	320,000
Bankers' acceptances and Islamic accepted bills	**307,665**	-
Islamic private debt securities	**406,152**	281,971
Private debt securities	**658,435**	474,844
Total held-for-trading securities	**1,372,252**	1,190,118

6. AVAILABLE-FOR-SALE SECURITIES

	Group and Bank 2005 RM'000	2004 RM'000
At fair value:		
Money market instruments:		
Bank Negara Malaysia Bills	**240,134**	-
Malaysian Government treasury bills	**101,827**	-
Malaysian Government securities	**2,266**	2,323
Negotiable instruments of deposits	**3,567,955**	3,252,000
Cagamas bonds	**60,100**	70,770
	3,972,282	3,325,093
Quoted securities:		
Shares of corporations in Malaysia	**3,827**	6,510
Corporate loan stocks	**5,521**	12,453
	9,348	18,963
Unquoted securities:		
Shares	**12,272**	12,272
Private debt securities	**1,417**	1,417
	13,689	13,689
Total available-for-sale securities	**3,995,319**	3,357,745

7. LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2005	**2004**	**2005**	**2004**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Overdrafts	**2,796,237**	2,990,999	**2,796,237**	2,990,999
Term loans and revolving credits				
Housing loans	**5,180,860**	4,237,994	**5,180,860**	4,237,994
Syndicated term loans	**123,331**	161,370	**123,331**	161,370
Hire purchase receivables	**3**	8,143	**3**	8,143
Lease receivables	**451**	489	**3**	21
Other term loans/financing	**5,659,837**	5,706,296	**5,659,837**	5,706,296
Credit cards receivable	**578,868**	457,040	**578,868**	457,040
Bills receivable	**109,123**	113,031	**109,123**	113,031
Trust receipts	**429,032**	509,033	**429,032**	509,033
Claims on customers under acceptance credits	**2,821,799**	2,623,056	**2,821,799**	2,623,056
Staff loans	**88,446**	90,936	**88,446**	90,936
Others	**2,570**	-	**2,570**	-
	17,790,557	16,898,387	**17,790,109**	16,897,919
Unearned interest	**(357)**	(288)	**(357)**	(288)
Gross loans, advances and financing	**17,790,200**	16,898,099	**17,789,752**	16,897,631
Allowance for losses on loans and financing				
- Specific	**(337,234)**	(456,227)	**(336,842)**	(455,821)
- General	**(251,944)**	(251,950)	**(251,888)**	(251,888)
Net loans, advances and financing	**17,201,022**	16,189,922	**17,201,022**	16,189,922

(i) By maturity structure:

Maturing within one year	**9,651,053**	9,895,968	**9,650,606**	9,895,501
One year to three years	**556,031**	702,345	**556,031**	702,345
Three years to five years	**761,525**	728,801	**761,525**	728,801
Over five years	**6,821,591**	5,570,985	**6,821,590**	5,570,984
	17,790,200	16,898,099	**17,789,752**	16,897,631

(ii) By type of customer

Domestic non-bank financial institutions				
- Stockbroking companies	**4,769**	29,013	**4,769**	29,013
- Others	**96,012**	120,790	**96,012**	120,790
Domestic business enterprises				
- Small medium enterprises	**3,438,523**	3,258,139	**3,438,104**	3,257,699
- Others	**5,983,238**	6,083,924	**5,983,237**	6,083,923
Government	**886,376**	1,200,252	**886,376**	1,200,252
Individuals	**7,295,767**	6,161,725	**7,295,767**	6,161,725
Other domestic entities	**2,510**	2,742	**2,482**	2,715
Foreign entities	**83,005**	41,514	**83,005**	41,514
	17,790,200	16,898,099	**17,789,752**	16,897,631

7. LOANS, ADVANCES AND FINANCING (continued)

	Group 2005 RM'000	Group 2004 RM'000	Bank 2005 RM'000	Bank 2004 RM'000
(iii) By interest/profit rate sensitivity				
Fixed rate				
Housing loans/financing	**87,241**	89,341	**87,241**	89,341
Hire purchase receivable	**6**	10,027	**6**	10,027
Other fixed rate loan/financing	**572,216**	454,549	**572,216**	454,549
Variable rate				
BLR plus	**14,610,624**	13,385,241	**14,610,175**	13,384,773
Cost-plus	**1,114,256**	1,250,716	**1,114,257**	1,250,716
Other variable rates	**1,405,857**	1,708,225	**1,405,857**	1,708,225
	17,790,200	16,898,099	**17,789,752**	16,897,631
(iv) By sector:				
Agriculture	**94,010**	108,990	**94,010**	108,990
Mining and quarrying	**16,753**	16,292	**16,753**	16,292
Manufacturing	**3,570,086**	3,514,589	**3,569,668**	3,514,150
Electricity, gas and water	**21,171**	44,792	**21,171**	44,792
Construction	**779,883**	886,927	**779,883**	886,927
Real estate	**385,429**	462,746	**385,429**	462,746
Purchase of landed property:				
- Residential	**5,391,364**	4,426,112	**5,391,364**	4,426,112
- Non-residential	**855,836**	616,155	**855,836**	616,155
General commerce	**2,536,708**	2,416,625	**2,536,707**	2,416,625
Transport, storage and communication	**517,377**	523,205	**517,377**	523,205
Finance, insurance and business services	**450,717**	458,497	**450,717**	458,496
Purchase of securities	**550,214**	660,709	**550,214**	660,709
Purchase of transport vehicles	**10,243**	11,008	**10,243**	11,008
Consumption credit	**1,515,634**	1,378,425	**1,515,634**	1,378,425
Government agencies	**898,616**	1,221,689	**898,616**	1,221,689
Others	**196,159**	151,338	**196,130**	151,310
	17,790,200	16,898,099	**17,789,752**	16,897,631
(v) Movements in non-performing loans, advances and financing are as follows:				
At beginning of the year	**1,506,588**	1,494,861	**1,506,121**	1,494,257
Classified as non-performing during the year	**431,135**	698,010	**431,140**	697,991
Amount recovered	**(187,953)**	(295,593)	**(187,938)**	(295,431)
Reclassified as performing	**(251,625)**	(253,705)	**(251,625)**	(253,705)
Amount written off	**(297,360)**	(136,985)	**(297,360)**	(136,991)
At end of the year	**1,200,785**	1,506,588	**1,200,338**	1,506,121
Specific allowance	**(337,234)**	(456,227)	**(336,842)**	(455,821)
Net non-performing loans, advances and financing	**863,551**	1,050,361	**863,496**	1,050,300
Ratio of net non-performing loans, advances and financing to net loans, advances and financing	**4.95%**	6.39%	**4.95%**	6.39%

7. LOANS, ADVANCES AND FINANCING (continued)

	Group		Bank	
	2005	**2004**	**2005**	**2004**
	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	**251,950**	251,950	**251,888**	251,888
Amount written back in respect of recoveries	**(6)**	-	**-**	-
Balance as at 31 December	**251,944**	251,950	**251,888**	251,888
As % of gross loans, advances and financing (excluding loan to Government) less specific allowance	**1.52%**	1.65%	**1.52%**	1.65%
Specific allowance				
Balance as at 1 January	**456,227**	518,670	**455,821**	518,128
Allowance made during the year	**241,993**	216,792	**241,992**	216,774
Transfer to provision for diminution in value of investment securities	**-**	(34,079)	**-**	(34,079)
Amount written back in respect of recoveries	**(63,602)**	(160,358)	**(63,587)**	(160,204)
Amount written off	**(297,384)**	(84,798)	**(297,384)**	(84,798)
Balance as at 31 December	**337,234**	456,227	**336,842**	455,821
(vii) Non performing loans according to economic sectors are as follows:				
Agriculture	**1,875**	4,523	**1,875**	4,523
Mining and quarrying	**3,196**	1,633	**3,196**	1,633
Manufacturing	**400,796**	501,268	**400,378**	500,829
Electricity, gas and water	**732**	-	**732**	-
Construction	**11,889**	54,513	**11,889**	54,513
Real estate	**46,248**	75,769	**46,248**	75,769
Purchase of landed property:				
- Residential	**165,725**	146,770	**165,725**	146,770
- Non-residential	**47,884**	65,057	**47,884**	65,057
General commerce	**218,573**	345,382	**218,572**	345,381
Transport, storage and communication	**3,805**	9,276	**3,805**	9,277
Finance, insurance and business services	**42,700**	57,873	**42,700**	57,873
Purchase of securities	**137,812**	121,452	**137,812**	121,452
Purchase of transport vehicles	**50**	257	**50**	257
Consumption credit	**93,982**	95,147	**93,982**	95,147
Others	**25,518**	27,668	**25,490**	27,640
	1,200,785	1,506,588	**1,200,338**	1,506,121

8. OTHER ASSETS

	Group		Bank	
	2005	**2004**	**2005**	**2004**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Other receivables, deposits and prepayments	**247,960**	114,070	**247,930**	114,070
Accrued interest receivable	**48,483**	53,018	**48,483**	53,018
Amount due to subsidiaries	**-**	-	**3,190**	707
Precious metal accounts	**27,300**	23,216	**27,300**	23,216
Foreclosed properties	**3,806**	3,806	**3,806**	3,806
	327,549	194,110	**330,709**	194,817

Included in other assets is a purchased receivable amounting to RM65 million, at cost which is subject to a put option with a third party. This option expires on June 2006.

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	
	2005	**2004**
	RM'000	**RM'000**
Unquoted shares in Malaysia, at cost	**151**	151

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
		2005	**2004**	
	RM	**%**	**%**	
UOB Smart Solutions Sdn Bhd (formerly known as UOB Info Tech 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

10. INVESTMENT IN SUBSIDIARIES (continued)

	Paid-up capital	Group's effective interest		Principal activities
		2005	2004	
	RM	%	%	
Overseas Union Bank (Malaysia) Berhad	7	**100**	100	Dormant
OUB Credit Bhd	2	**100**	100	Leasing company
OUB Nominees (Tempatan) Sdn Bhd	10,000	**100**	100	Dormant
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.

During the year, a subsidiary company, UOB Smart Solutions Sdn Bhd (formerly known as UOB Info Tech Sdn Bhd) commenced business in providing outsourcing services to the Bank.

11. INVESTMENT IN ASSOCIATES

	Group		Bank	
	2005	2004	2005	2004
	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	**28,719**	19,724	**-**	-
	151,452	142,457	**122,733**	122,733

	2005	2004
The Group's interest in the associates is analysed as follows:		
Share of net assets	**131,697**	119,410
Goodwill on acquisition	**19,755**	23,047
	151,452	142,457

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

	Group's effective interest		Principal activities
	2005	2004	
	%	%	
OSK-UOB Unit Trust Management Berhad	**30**	30	Management of unit trust funds
Uni. Asia Capital Sdn Bhd	**49**	49	Investment holding company

12. 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
Cost/Valuation								
At 1 January 2005	**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**
	44,287	**30,812**	**121,913**	**110,152**	**152,574**	**5,047**	**1,459**	**466,244**
Accumulated Depreciation and Impairment Losses								
At 1 January 2005								
Accumulated depreciation	**-**	**756**	**10,018**	**71,176**	**95,083**	**1,698**	**-**	**178,731**
Accumulated impairment loss	**3,288**	**64**	**2,279**	**-**	**-**	**-**	**-**	**5,631**
	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**
Analysed as:								
Accumulated depreciation	**-**	**1,316**	**13,137**	**74,794**	**108,441**	**2,188**	**-**	**199,876**
Accumulated impairment loss	**2,692**	**64**	**1,875**	**-**	**-**	**-**	**-**	**4,631**
	2,692	**1,380**	**15,012**	**74,794**	**108,441**	**2,188**	**-**	**204,507**
Net Book Value								
At 31 December 2005:								
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**
	41,595	**29,432**	**106,901**	**35,358**	**44,133**	**2,859**	**1,459**	**261,737**
At 31 December 2004:								
At cost	-	-	-	35,585	40,141	3,635	99	79,460
At valuation	42,895	29,992	111,920	-	-	-	-	184,807
	42,895	29,992	111,920	35,585	40,141	3,635	99	264,267
Details at 1 January 2004								
Cost	-	-	2,552	102,988	118,883	4,445	4,285	233,153
Valuation	46,563	29,512	121,086	-	-	-	-	197,161
Accumulated depreciation	-	308	4,761	65,979	80,831	3,757	-	155,636
Accumulated impairment losses	3,288	64	2,279	-	-	-	-	5,631
Depreciation charge for 2004	-	448	5,265	5,898	14,546	570	-	26,727

12. PROPERTY, PLANT AND EQUIPMENT (continued)

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
Cost/Valuation								
At 1 January 2005	**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**
	44,287	**30,812**	**121,913**	**109,675**	**151,946**	**5,047**	**1,459**	**465,139**
Accumulated Depreciation and Impairment Losses								
At 1 January 2005								
Accumulated depreciation	**-**	**756**	**10,018**	**71,165**	**95,083**	**1,698**	**-**	**178,720**
Accumulated impairment loss	**3,288**	**64**	**2,279**	**-**	**-**	**-**	**-**	**5,631**
	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**
Analysed as:								
Accumulated depreciation	**-**	**1,316**	**13,137**	**74,725**	**108,370**	**2,188**	**-**	**199,736**
Accumulated impairment loss	**2,692**	**64**	**1,875**	**-**	**-**	**-**	**-**	**4,631**
	2,692	**1,380**	**15,012**	**74,725**	**108,370**	**2,188**	**-**	**204,367**
Net Book Value								
At 31 December 2005:								
At cost	**-**	**-**	**-**	**34,950**	**43,576**	**2,859**	**1,459**	**82,844**
At valuation	**41,595**	**29,432**	**106,901**	**-**	**-**	**-**	**-**	**177,928**
	41,595	**29,432**	**106,901**	**34,950**	**43,576**	**2,859**	**1,459**	**260,772**
At 31 December 2004:								
At cost	-	-	-	35,468	40,141	3,635	99	79,343
At valuation	42,895	29,992	111,920	-	-	-	-	184,807
	42,895	29,992	111,920	35,468	40,141	3,635	99	264,150
Details at 1 January 2004								
Cost	-	-	2,552	102,988	118,883	4,445	4,285	233,153
Valuation	46,563	29,512	121,086	-	-	-	-	197,161
Accumulated depreciation	-	308	4,761	65,979	80,831	3,757	-	155,636
Accumulated impairment losses	3,288	64	2,279	-	-	-	-	5,631
Depreciation charge for 2004	-	448	5,265	5,888	14,546	570	-	26,717

12. PROPERTY, PLANT AND EQUIPMENT (continued)

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	
	2005	**2004**
	RM'000	**RM'000**
Freehold land	**33,580**	33,580
Leasehold land	**9,325**	9,117
Freehold building	**11,056**	11,056
Long leasehold building	**39,159**	39,159
	93,120	92,912

13. DEFERRED TAX ASSETS

	Group and Bank	
	2005	**2004**
	RM'000	**RM'000**
At 1 January		
As previously stated	**37,407**	40,502
Prior year adjustment (Note 38)	**(4,278)**	(5,204)
At 1 January (restated)	**33,129**	35,298
Recognised in the income statement (Note 28)	**(437)**	(3,118)
Recognised in equity	**2,999**	949
At 31 December	**35,691**	33,129
An analysis of the Bank's deferred tax position is as follows:		
Deferred tax assets	**70,707**	70,784
Deferred tax liabilities	**(35,016)**	(37,655)
	35,691	33,129

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal tax authority.

13. DEFERRED TAX ASSETS (continued)

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 2004	70,529	284	70,813
Charged to income statement	-	(29)	(29)
At 1 January 2005	70,529	255	70,784
Charged to income statement	-	(77)	(77)
At 31 December 2005	70,529	178	70,707

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 2004				
As previously stated	8,503	-	21,808	30,311
Prior year adjustment	-	5,204	-	5,204
At 1 January 2004 (restated)	8,503	5,204	21,808	35,515
Charged to income statement	465	-	2,624	3,089
Recognised in equity	-	(926)	(23)	(949)
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 31 December 2005	10,051	1,852	23,113	35,016

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

	Group	
	2005 RM'000	2004 RM'000
Unutilised tax losses	**64,170**	63,623
Unabsorbed capital allowances	**11,586**	11,061
	75,756	74,684

The unutilised tax losses and unabosorbed 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.

14. DEPOSITS FROM CUSTOMERS

	Group 2005 RM'000	Group 2004 RM'000	Bank 2005 RM'000	Bank 2004 RM'000
Demand deposits	**2,182,347**	1,910,845	**2,182,347**	1,911,858
Savings deposits	**1,262,496**	1,233,194	**1,262,496**	1,233,194
Fixed deposits	**11,728,219**	11,496,862	**11,728,219**	11,496,862
Negotiable instruments of deposits	**1,111,597**	1,239,529	**1,111,597**	1,239,529
Others	**354,946**	26,881	**354,946**	26,881
	16,639,605	15,907,311	**16,639,605**	15,908,324

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

	Group 2005 RM'000	Group 2004 RM'000	Bank 2005 RM'000	Bank 2004 RM'000
Due within six months	**9,601,584**	9,176,373	**9,601,584**	9,176,373
Six months to one year	**2,783,825**	3,235,408	**2,783,825**	3,235,408
One year to three years	**179,481**	71,367	**179,481**	71,367
Three years to five years	**111,135**	34,404	**111,135**	34,404
Over five years	**163,791**	218,839	**163,791**	218,839
	12,839,816	12,736,391	**12,839,816**	12,736,391

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

	Group 2005 RM'000	Group 2004 RM'000	Bank 2005 RM'000	Bank 2004 RM'000
Business enterprises	**4,357,187**	3,802,002	**4,357,187**	3,803,015
Individuals	**10,558,877**	9,993,516	**10,558,877**	9,993,516
Others	**1,723,541**	2,111,793	**1,723,541**	2,111,793
	16,639,605	15,907,311	**16,639,605**	15,908,324

15. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group 2005 RM'000	Group 2004 RM'000	Bank 2005 RM'000	Bank 2004 RM'000
Licensed banks	**4,068,151**	3,849,699	**4,069,376**	3,849,699
Bank Negara Malaysia	**212,813**	132,574	**212,813**	132,574
Other financial institutions	**14,264**	18,378	**14,264**	18,378
	4,295,228	4,000,651	**4,296,453**	4,000,651

16. AMOUNT DUE TO CAGAMAS

	Group and Bank 2005 RM'000	2004 RM'000
At 1 January	**1,361,055**	1,491,785
Amount sold during the year	**100,002**	250,024
Repayments	**(158,528)**	(380,754)
At 31 December	**1,302,529**	1,361,055

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.

17. OTHER LIABILITIES

	Group		Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Provision for commitments and contingencies	**1,330**	2,105	**1,330**	2,105
Accrued interest payable	**157,596**	139,169	**157,595**	139,169
Accruals and provisions for operational expenses	**66,436**	39,634	**43,265**	39,634
Other accruals and provisions	**245,497**	295,987	**268,595**	295,211
	470,859	476,895	**470,785**	476,119

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

	Group 2005 RM'000	Group 2004 RM'000	Bank 2005 RM'000	Bank 2004 RM'000
At 1 January	**2,105**	1,413	**2,105**	1,413
Provision made during the year	**89**	2,092	**89**	2,092
Amount written back in respect of recoveries	**(864)**	(1,400)	**(864)**	(1,400)
At 31 December	**1,330**	2,105	**1,330**	2,105

18. SHARE CAPITAL

	Group and Bank 2005 RM'000	2004 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

19. RESERVES

	Note	Group 2005 RM'000	Group 2004 RM'000	Bank 2005 RM'000	Bank 2004 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		**35,737**	35,164	**50,789**	50,216
Net unrealised reserves on AFS securities		**4,763**	11,002	**4,763**	11,002
Distributable					
Retained profits	(b)	**833,619**	645,776	**818,744**	640,845
		1,666,674	1,484,497	**1,666,851**	1,494,618

(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 2005, the Bank has tax exempt profits available for distribution of approximately RM248,764,724 (2004: RM248,764,724) before the proposed final dividend in respect of the current financial year ended 31 December 2005, 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 2005.

20. NEGATIVE GOODWILL

	Group 2005 RM'000	Group 2004 RM'000
At 1 January	**29,433**	48,274
Amortisation	**(1,732)**	(2,690)
Negative goodwill recognised during the year	**-**	(16,151)
At 31 December	**27,701**	29,433

21. 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.

22. INTEREST INCOME

	Group		Bank	
	2005	**2004**	**2005**	**2004**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Loans and advances				
- Interest income other than recoveries from NPLs	**883,015**	758,115	**883,021**	758,108
- Recoveries from NPLs	**93,198**	105,704	**93,195**	105,704
Money at call and deposit placements with financial institutions	**207,507**	183,718	**207,493**	183,718
Held-for-trading securities	**19,982**	109,443	**19,982**	109,443
Available-for-sale securities	**120,555**	30,462	**120,555**	30,462
Others	**8,450**	30,173	**8,450**	30,173
	1,332,707	1,217,615	**1,332,696**	1,217,608
Amortisation of premium less accretion of discount	**(3,573)**	(1,122)	**(3,573)**	(1,122)
Net interest suspended	**(5,025)**	(7,799)	**(5,025)**	(7,799)
	1,324,109	1,208,694	**1,324,098**	1,208,687

23. INTEREST EXPENSE

	Group		Bank	
	2005	**2004**	**2005**	**2004**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Deposits and placements of banks and other financial institutions	**122,674**	64,332	**122,674**	64,332
Deposits from other customers	**442,875**	397,174	**442,875**	397,174
Loans sold to Cagamas	**48,051**	52,204	**48,051**	52,204
Others	**104,234**	138,609	**104,248**	138,609
	717,834	652,319	**717,848**	652,319

24. OTHER OPERATING INCOME

	Group		Bank	
	2005	**2004**	**2005**	**2004**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Fee income				
- Commission	**62,369**	61,594	**62,170**	61,594
- Guarantee fees	**16,149**	13,376	**16,149**	13,376
- Service charges and fees	**122,454**	81,476	**122,454**	81,380
- Commitment fee	**18,950**	18,907	**18,950**	18,907
- Arrangement and participation fees	**35,600**	28,942	**35,600**	28,942
	255,522	204,295	**255,323**	204,199

24. OTHER OPERATING INCOME (continued)

	Group		Bank	
	2005	**2004**	**2005**	**2004**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Investment income				
- Net profit from sale of held-for-trading securities	**31,625**	5,517	**31,625**	5,517
- Gain from sale of available-for-sale securities	**2,167**	15,801	**2,167**	15,801
- Unrealised loss on held-for-trading securities	**(664)**	(10,022)	**(664)**	(10,022)
- Impairment loss in the value-of AFS	**-**	(2,582)	**-**	(2,582)
- Gross dividends from:				
- available-for-sale securities quoted in Malaysia	**643**	585	**643**	585
- associate	**-**	-	**1,904**	900
	33,771	9,299	**35,675**	10,199
Other income				
- Foreign exchange gain				
- realised	**39,306**	29,512	**39,306**	29,512
- unrealised	**7,453**	920	**7,453**	920
- Rental income	**576**	618	**576**	610
- Gain on disposal of property, plant and equipment	**422**	1,460	**422**	1,460
- Other operating income	**1,104**	589	**1,104**	589
- Others	**9,341**	9,208	**9,341**	9,203
	58,202	42,307	**58,202**	42,294
	347,495	255,901	**349,200**	256,692

25. OTHER OPERATING EXPENSES

	Group		Bank	
	2005	**2004**	**2005**	**2004**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Personnel expenses	**157,844**	134,709	**156,934**	134,251
Establishment related expenses	**65,566**	61,753	**65,339**	61,695
Promotion and marketing related expenses	**30,525**	23,816	**30,702**	23,778
General administrative expenses	**57,121**	63,250	**57,055**	63,099
	311,056	283,528	**310,030**	282,823
Personnel expenses				
- Wages, salaries and bonus	**127,027**	104,131	**126,284**	103,770
- Defined contribution retirement plan	**19,815**	17,013	**19,696**	16,961
- Other employee benefits	**11,002**	13,565	**10,954**	13,520
	157,844	134,709	**156,934**	134,251
Establishment related expenses				
- Depreciation of property, plant and equipment	**28,131**	26,727	**28,002**	26,717
- Hire of equipment	**54**	137	**47**	133
- Information technology costs	**5,851**	5,109	**5,850**	5,106
- Repair and maintenance	**10,752**	9,527	**10,743**	9,509
- Rental of premises	**3,078**	2,669	**3,007**	2,648
- Others	**17,700**	17,584	**17,690**	17,582
	65,566	61,753	**65,339**	61,695

25. OTHER OPERATING EXPENSES (continued)

	Group		Bank	
	2005	**2004**	**2005**	**2004**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Promotion and marketing related expenses				
- Advertising and publicity	**17,782**	12,086	**17,773**	12,063
- Others	**12,743**	11,730	**12,929**	11,715
	30,525	23,816	**30,702**	23,778
General administrative expenses				
- Fees and commissions paid	**35,125**	29,125	**35,102**	29,106
- Auditors' remuneration	**397**	362	**386**	353
- Others	**21,599**	33,763	**21,567**	33,640
	57,121	63,250	**57,055**	63,099

26. CEO AND DIRECTORS' REMUNERATION

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

	Group and Bank	
	2005	**2004**
	RM'000	**RM'000**
CEO		
- Salary and other remuneration	**533**	496
- Bonus	**352**	298
- Benefits-in-kind	**6**	2
Non-executive Directors		
- Fees	**349**	345
Total	**1,240**	1,141

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	
	2005	**2004**
Non executive directors:		
RM1 to RM50,000	**8**	8
RM50,001 to RM100,000	**1**	1

27. ALLOWANCE FOR LOSSES ON LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2005	**2004**	**2005**	**2004**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Allowance for losses on loans, advances and financing:				
(a) Specific allowance				
- made in the financial year	**241,993**	216,792	**241,992**	216,774
- written back	**(63,602)**	(160,358)	**(63,587)**	(160,204)
(b) General allowance				
- written back in the financial year	**(6)**	-	**-**	-
Bad debts on loans, advances and financing:				
- written off	**(23)**	3,339	**(23)**	3,339
- recovered	**(19,513)**	(19,016)	**(19,513)**	(19,001)
	158,849	40,757	**158,869**	40,908

28. TAXATION

	Group		Bank	
	2005	**2004**	**2005**	**2004**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Income tax:				
Malaysian income tax in respect of current financial year	**132,691**	138,075	**133,224**	138,327
Under provided in prior years	**6,566**	732	**6,566**	780
	139,257	138,807	**139,790**	139,107
Deferred tax (Note 13):				
Relating to origination and reversal of temporary differences	**437**	903	**437**	903
Underprovided in prior years	**-**	2,215	**-**	2,215
	437	3,118	**437**	3,118
Share of taxation of associates	**3,417**	7,067	**-**	-
	143,111	148,992	**140,227**	142,225

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	
	2005	**2004**	**2005**	**2004**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Profit before taxation	**500,154**	523,732	**487,326**	488,637
Taxation at Malaysian statutory tax rate of 28% (2004: 28%)	**140,043**	146,645	**136,451**	136,818
Income not subject to tax	**(6,756)**	(5,853)	**(4,903)**	(577)
Expenses not deductible for tax purposes	**3,036**	4,464	**2,113**	2,301
Deferred tax assets not recognised	**335**	152	**-**	-
Effect of utilisation of previously unabsorbed capital allowances	**-**	(51)	**-**	-
Under provision of tax expense in prior years	**6,566**	732	**6,566**	780
Under provision of deferred tax in prior years	**(113)**	2,903	**-**	2,903
Tax expense for the year	**143,111**	148,992	**140,227**	142,225

29. 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 RM357,043,000 (2004: RM374,740,000) and RM347,099,000 (2004: RM346,412,000) respectively and on the number of ordinary shares of RM1.00 each in issue during the year of 470,000,000 (2004: 470,000,000).

30. DIVIDENDS

	Group and Bank			
	2005		2004	
	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	**36.0**	**169,200**	36.0	169,200

At the forthcoming Annual General Meeting, a final gross dividend in respect of the financial year ended 31 December 2005, of 50% (2004: 50%) less 28% (2004: 28%) taxation on 470,000,000 (2004: 470,000,000) ordinary shares, amounting to dividend payable of RM169,200,000 (2004: RM169,200,000) (36 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 2006.

31. 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.

31. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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**
2004				
Income				
- Interest on deposits	1,965	-	-	-
- Rental income	32	40	-	-
- Dividend income	-	-	900	-
	1,997	40	900	-
Expenditure				
- Interest on deposits	51,023	5	1,070	53
- Rental expense	-	-	-	131
- Other expense				
- consultancy fee	-	-	-	878
	51,023	5	1,070	1,062
Amount due from				
- Cash and short-term funds	85,977	-	-	349
- Deposits and placements with financial institution	-	-	-	-
- Other assets	11,522	1,352	-	-
	97,499	1,352	-	349
Amount due to				
- Deposits from customers	-	598	4,028	-
- Deposits and placements	3,387,496	405	18,592	5,375
- Other liabilities	191,464	-	-	42
	3,578,960	1,003	22,620	5,417

32. 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 2005		
	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	**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**

	Group and Bank 2004		
	Principal amount RM'000	**Credit equivalent amount RM'000**	**Risk weighted amount RM'000**
Direct credit substitutes	778,849	778,849	724,663
Transaction-related contingent items	880,661	440,330	391,667
Short-term self-liquidating trade-related contingencies	307,371	61,474	53,336
Irrevocable commitments to extend credit			
- maturity more than one year	1,246,101	623,051	536,292
- maturity less than one year	11,742,716	-	-
Foreign exchange related contracts			
- less than one year	4,290,899	258,194	55,018
- more than one year	3,389	437	219
Interest rate related contracts			
- less than one year	2,034,627	15,854	3,207
- more than one year	17,802,448	105,019	21,004
- 5 years and above	356,000	26,169	5,234
Others	265,359	-	-
Total	39,708,420	2,309,377	1,790,640

32. COMMITMENTS AND CONTINGENCIES (continued)

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:

	2005 Principal amount RM'000	2004 Principal amount RM'000
The Group and Bank		
Foreign exchange contract		
- forward and futures contracts	**573,418**	851,488
- cross currency interest rate swaps	**5,358,622**	3,442,800
Interest rate contracts		
- forward and futures contracts	**12,918,000**	15,210,000
- swaps	**7,889,483**	4,983,075

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 2005 the amounts of contracts which were not hedged and hence, exposed to market risk was RM18,590,000 (2004: RM20,839,859).

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 2005, the amounts of credit risk, measured in terms of the cost to replace the profitable contracts, was RM20,734,475 (2004: RM6,278,023). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates of prices.

33. CAPITAL COMMITMENTS

	Group and Bank	
	2005 RM'000	2004 RM'000
Capital expenditure for property, plant and equipment:		
- authorised and contracted for	**10,377**	8,105
- authorised but not contracted for	**15,146**	14,591
	25,523	22,696

34. LEASE COMMITMENTS

The Group and the Bank has 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	
	2005	**2004**	**2005**	**2004**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Future minimum rentals payable:				
Not later than 1 year	**2,829**	1,777	**2,781**	1,777
Later than 1 year and not later than 5 years	**4,499**	1,315	**4,406**	1,315
Later than 5 years	**121**	316	**121**	316
	7,449	3,408	**7,308**	3,408

35. CAPITAL ADEQUACY

	2005	**2004**
	RM'000	**RM'000**
Bank		
Tier I capital		
- paid-up share capital	**470,000**	470,000
- share premium	**322,555**	322,555
Retained profits		
- as previously stated	**818,744**	639,141
- prior year adjustments	**-**	1,704
- as restated	**818,744**	640,845
- other reserves (excluding property revaluation reserve)	**474,763**	470,000
Less:		
- net unrealised reserve on available-for-sale securities		
- as previously stated	**(4,763)**	-
- prior year adjustments	**-**	(11,002)
- as restated	**(4,763)**	(11,002)
- deferred tax adjustment		
- as previously stated	**(35,691)**	(37,407)
- prior year adjustments	**-**	4,278
- as restated	**(35,691)**	(33,129)
	2,045,608	1,859,269
Tier II capital		
- property revaluation reserve	**25,395**	25,108
- general allowance for losses on loans, advances and financing	**251,888**	251,888
	277,283	276,996
Total capital	**2,322,891**	2,136,265
Less: Investment in subsidiaries	**(151)**	(151)
Capital base	**2,322,740**	2,136,114

35. CAPITAL ADEQUACY (continued)

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

	2005 RM'000	2004 RM'000
Core capital ratio	**11.16%**	11.86%
Risk-weighted capital ratio	**12.67%**	13.63%
Core capital ratio (net of proposed dividends)	**10.24%**	10.78%
Risk-weighted capital ratio (net of proposed dividends)	**11.75%**	12.55%

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

	2005		2004	
	Principal RM'000	Risk-weighted RM'000	Principal RM'000	Risk-weighted RM'000
0%	**8,301,359**	**-**	8,681,754	-
10%	**60,936**	**6,094**	98,934	9,893
20%	**6,072,394**	**1,214,479**	5,488,749	1,097,750
50%	**5,094,118**	**2,547,059**	4,456,385	2,228,193
100%	**13,847,435**	**13,847,435**	12,337,719	12,337,719
	33,376,242	**17,615,067**	31,063,541	15,673,555
Market Risk	**28,562,437**	**717,032**	-	-
	61,938,679	**18,332,099**	31,063,541	15,673,555

36. 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 various specialist committees of the Bank have established processes to identify, measure, monitor and ultimately, mitigate these financial risks. Additionally, the Board of Directors of the Bank together with the Risk Management Committee, and the Bank's Risk Management Division provide an independent oversight to ensure that those risk management policies are complied with through a variety of established controls and reporting processes.

36. FINANCIAL RISK MANAGEMENT (continued)

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

(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 Middle Office and reviewed by the Risk Management Division.

(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:

36. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit Risk (continued)

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	**-**	**456,982**	**-**	**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	**-**	**302,139**	**-**	**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	**1,372,252**	**3,995,319**	**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	**1,372,252**	**3,995,319**	**17,790,200**	**(589,178)**	**1,254,929**	**31,080,763**	**42,989,414**

Group 2004	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	-	-	-	125,282	(4,864)	-	120,418	92,916
Manufacturing	-	311,877	-	3,514,589	(221,291)	-	3,605,175	3,609,558
Electricity, gas and water	-	159,881	-	44,792	(686)	-	203,987	246,654
Construction	-	-	-	886,927	(70,895)	-	816,032	1,698,232
Real estate	-	-	-	462,746	(7,089)	-	455,657	243,972
General commerce	-	66,909	-	2,416,626	(113,133)	-	2,370,402	2,159,290
Transport, infrastructure, storage and communication	-	165,662	-	523,205	(13,903)	14,162	689,126	176,071
Finance, insurance, business services and government agencies	7,029,778	437,303	3,357,745	1,680,185	(115,231)	667,351	13,057,131	26,481,993
Residental landed property, securities and transport vehicles	-	48,486	-	5,713,984	(99,629)	-	5,662,841	2,532,329
Others	-	-	-	1,529,763	(61,456)	136,248	1,604,555	2,467,403
	7,029,778	1,190,118	3,357,745	16,898,099	(708,177)	817,761	28,585,324	39,708,420
Other assets not subject to credit risk	-	-	-	-	-	301,202	301,202	-
	7,029,778	1,190,118	3,357,745	16,898,099	(708,177)	1,118,963	28,886,526	39,708,420

36. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit Risk (continued)

Bank 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	**-**	**456,982**	**-**	**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	**-**	**302,139**	**-**	**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	**1,372,252**	**3,995,319**	**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	**1,372,252**	**3,995,319**	**17,789,752**	**(588,730)**	**1,228,556**	**31,054,390**	**42,989,414**

Bank 2004	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	-	-	-	125,282	(4,864)	-	120,418	92,916
Manufacturing	-	311,877	-	3,514,150	(220,852)	-	3,605,175	3,609,558
Electricity, gas and water	-	159,881	-	44,792	(686)	-	203,987	246,654
Construction	-	-	-	886,927	(70,895)	-	816,032	1,698,232
Real estate	-	-	-	462,746	(7,089)	-	455,657	243,972
General commerce	-	66,909	-	2,416,625	(113,132)	-	2,370,402	2,159,290
Transport, infrastructure, storage and communication	-	165,662	-	523,205	(13,903)	14,162	689,126	176,071
Finance, insurance, business services and government agencies	7,029,778	437,303	3,357,745	1,680,185	(115,231)	647,627	13,037,407	26,481,993
Residental landed property, securities and transport vehicles	-	48,486	-	5,713,984	(99,629)	-	5,662,841	2,532,329
Others	-	-	-	1,529,735	(61,428)	137,106	1,605,413	2,467,403
	7,029,778	1,190,118	3,357,745	16,897,631	(707,709)	798,895	28,566,458	39,708,420
Other assets not subject to credit risk	-	-	-	-	-	301,085	301,085	-
	7,029,778	1,190,118	3,357,745	16,897,631	(707,709)	1,099,980	28,867,543	39,708,420

36. 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.

Sensitivity to interest rates 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.

The following table shows the interest rate sensitivity gap, by time bands, on which interest rates of instruments are next repriced on a contractual basis or, if earlier, the dates on which the instruments mature.

	<---------- Non-trading book				---------->				
Group 2005	**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	-	-	-	-	-	-	1,372,252	1,372,252	4.33
Available-for-sale securities	1,018,702	2,375,696	575,618	2,266	-	23,037	-	3,995,319	2.58
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	778,066	281,102	3,800,600	1,372,252	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)	(534,715)	85,490				
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)	(1,479,715)	(292,510)				

36. FINANCIAL RISK MANAGEMENT (continued)

(c) Interest rate risk (continued)

Group 2004	<------ 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	2,769,826	-	-	-	-	141,117	-	2,910,943	2.51
Securities purchased under resale agreements	1,245,517	2,423,318	-	-	-	-	-	3,668,835	2.79
Deposits and placement with financial institutions	-	450,000	-	-	-	-	-	450,000	2.77
Held-for-trading securities	-	-	-	-	-	-	1,190,118	1,190,118	3.94
Available-for-sale securities	1,490,000	1,069,000	693,000	72,839	-	32,906	-	3,357,745	2.49
Loans, advances and financing									
- performing	9,238,863	1,560,315	1,128,077	1,259,346	149,478	1,806,046	-	15,142,125	5.58
- non performing	-	-	-	-	-	1,047,797	-	1,047,797	
Other assets	-	-	-	-	-	1,118,963	-	1,118,963	
	14,744,206	5,502,633	1,821,077	1,332,185	149,478	4,146,829	1,190,118	28,886,526	
Liabilities									
Deposits from customers	6,327,557	2,418,916	5,057,784	107,500	208,022	1,787,532	-	15,907,311	2.60
Deposits and placement of banks and financial institutions	1,287,000	2,208,625	447,673	-	-	57,353	-	4,000,651	2.14
Obligations on securities sold under repurchase agreements	3,088,393	39,812	-	-	-	-	-	3,128,205	2.60
Bills and acceptances payable	6,135	14,251	7,458	-	-	1,954,884	-	1,982,728	2.11
Amount due to Cagamas	9,615	19,319	88,444	1,207,557	36,120	-	-	1,361,055	3.67
Other liabilities	-	-	-	-	-	522,646	-	522,646	
	10,718,700	4,700,923	5,601,359	1,315,057	244,142	4,322,415	-	26,902,596	
On-balance sheet interest sensitivity gap	4,025,506	801,710	(3,780,282)	17,128	(94,664)				
Off-balance sheet interest sensitivity gap	(175,000)	(31,000)	457,150	(255,150)	4,000				
Total interest sensitivity gap	3,850,506	770,710	(3,323,132)	(238,022)	(90,664)				

36. FINANCIAL RISK MANAGEMENT (continued)

(c) Interest rate risk (continued)

Bank 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	-	-	-	-	-	-	1,372,252	1,372,252	4.33
Available-for-sale securities	1,018,702	2,375,696	575,618	2,266	-	23,037	-	3,995,319	2.58
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	778,066	281,102	3,774,227	1,372,252	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)	(534,715)	85,490				
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)	(1,479,715)	(292,510)				

36. FINANCIAL RISK MANAGEMENT (continued)

(c) Interest rate risk (continued)

Bank 2004	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	2,769,826	-	-	-	-	141,117	-	2,910,943	2.51
Securities purchased under resale agreements	1,245,517	2,423,318	-	-	-	-	-	3,668,835	2.79
Deposits and placement with financial institutions	-	450,000	-	-	-	-	-	450,000	2.77
Held-for-trading securities	-	-	-	-	-	-	1,190,118	1,190,118	3.94
Available-for-sale securities	1,490,000	1,069,000	693,000	72,839	-	32,906	-	3,357,745	2.49
Loans, advances and financing									
- performing	9,238,863	1,560,315	1,128,077	1,259,346	149,478	1,806,046	-	15,142,125	5.58
- non performing	-	-	-	-	-	1,047,797	-	1,047,797	
Other assets	-	-	-	-	-	1,099,980	-	1,099,980	
	14,744,206	5,502,633	1,821,077	1,332,185	149,478	4,127,846	1,190,118	28,867,543	
Liabilities									
Deposits from customers	6,328,570	2,418,916	5,057,784	107,500	208,022	1,787,532	-	15,908,324	2.60
Deposits and placement of banks and financial institutions	1,287,000	2,208,625	447,673	-	-	57,353	-	4,000,651	2.14
Obligations on securities sold under repurchase agreements	3,088,393	39,812	-	-	-	-	-	3,128,205	2.60
Bills and acceptances payable	6,135	14,251	7,458	-	-	1,954,884	-	1,982,728	2.11
Amount due to Cagamas	9,615	19,319	88,444	1,207,557	36,120	-	-	1,361,055	3.67
Other liabilities	-	-	-	-	-	521,962	-	521,962	
	10,719,713	4,700,923	5,601,359	1,315,057	244,142	4,321,731	-	26,902,925	
On-balance sheet interest sensitivity gap	4,024,493	801,710	(3,780,282)	17,128	(94,664)				
Off-balance sheet interest sensitivity gap	(175,000)	(31,000)	457,150	(255,150)	4,000				
Total interest sensitivity gap	3,849,493	770,710	(3,323,132)	(238,022)	(90,664)				

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.

36. 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.

It is not unusual for a bank to have mismatches in the contractual maturity profile of its assets and liabilities. The Banks manages liquidity risk in accordance with a framework of liquidity policies, controls and limits that is approved by the Asset Liability Committee, with the main objectives of 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 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	217,909	706,678	-	1,372,252
Available-for-sale securities	3,394,399	515,518	60,100	2,266	-	23,036	3,995,319
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		

36. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

Group 2004	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	2,910,943	-	-	-	-	-	2,910,943
Securities purchased under resale agreement	3,668,835	-	-	-	-	-	3,668,835
Deposits and placement with financial institutions	450,000	-	-	-	-	-	450,000
Held-for-trading securities	200,000	100,000	20,000	458,266	411,852	-	1,190,118
Available-for-sale securities	2,559,000	693,000	-	72,839	-	32,906	3,357,745
Loans, advances and financing	7,064,683	1,006,684	787,327	3,543,494	3,787,734	-	16,189,922
Other assets	-	-	-	-	-	1,118,963	1,118,963
	16,853,461	1,799,684	807,327	4,074,599	4,199,586	1,151,869	28,886,526
Liabilities							
Deposits from customers	10,507,125	1,814,081	3,243,701	107,500	208,022	26,882	15,907,311
Deposits and placement of banks and financial institutions	3,552,978	407,673	40,000	-	-	-	4,000,651
Obligations on securities sold under repurchase agreements	3,128,205	-	-	-	-	-	3,128,205
Bills and acceptances payables	1,521,759	346,777	-	-	-	114,192	1,982,728
Amount due to Cagamas	28,934	29,206	59,238	1,207,557	36,120	-	1,361,055
Other liabilities	-	-	-	-	-	522,646	522,646
	18,739,001	2,597,737	3,342,939	1,315,057	244,142	663,720	26,902,596
Net maturity mismatches	(1,885,540)	(798,053)	(2,535,612)	2,759,542	3,955,444		

36. 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	217,909	706,678	-	1,372,252
Available-for-sale securities	3,394,399	515,518	60,100	2,266	-	23,036	3,995,319
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		

36. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

Bank 2004	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	2,910,943	-	-	-	-	-	2,910,943
Securities purchased under resale agreement	3,668,835	-	-	-	-	-	3,668,835
Deposits and placement with financial institutions	450,000	-	-	-	-	-	450,000
Held-for-trading securities	200,000	100,000	20,000	458,266	411,852	-	1,190,118
Available-for-sale securities	2,559,000	693,000	-	72,839	-	32,906	3,357,745
Loans, advances and financing	7,064,683	1,006,684	787,327	3,543,494	3,787,734	-	16,189,922
Other assets	-	-	-	-	-	1,099,980	1,099,980
	16,853,461	1,799,684	807,327	4,074,599	4,199,586	1,132,886	28,867,543
Liabilities							
Deposits from customers	10,508,138	1,814,081	3,243,701	107,500	208,022	26,882	15,908,324
Deposits and placement of banks and financial institutions	3,552,978	407,673	40,000	-	-	-	4,000,651
Obligations on securities sold under repurchase agreements	3,128,205	-	-	-	-	-	3,128,205
Bills and acceptances payables	1,521,759	346,777	-	-	-	114,192	1,982,728
Amount due to Cagamas	28,934	29,206	59,238	1,207,557	36,120	-	1,361,055
Other liabilities	-	-	-	-	-	521,962	521,962
	18,740,014	2,597,737	3,342,939	1,315,057	244,142	663,036	26,902,925
Net maturity mismatches	(1,886,553)	(798,053)	(2,535,612)	2,759,542	3,955,444		

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.

36. 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.

37. 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.

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:

	2005		2004	
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*	**17,452,966**	**17,452,966**	16,441,872	16,472,371
Financial liabilities				
Deposits from customers	**16,639,605**	**16,636,641**	15,907,311	15,911,128
Deposits and placements of banks and other financial institutions	**4,295,228**	**4,294,810**	4,000,651	4,000,512
Recourse obligation on loans sold to Cagamas	**1,302,529**	**1,292,585**	1,361,055	1,356,446
Bank				
Financial assets				
Loan, advances and financing*	**17,452,910**	**17,452,910**	16,441,810	16,472,309
Financial liabilities				
Deposits from customers	**16,639,605**	**16,642,569**	15,908,324	15,912,141
Deposits and placements of banks and other financial institutions	**4,296,453**	**4,296,035**	4,000,651	4,000,512
Recourse obligation on loans sold to Cagamas	**1,302,529**	**1,292,585**	1,361,055	1,356,446

* The general provisions for the Group and the Bank amounting to RM251,944,000 (2004: RM251,950,000) and RM251,888,000 (2004: RM251,888,000) respectively have been added back to arrive at the carrying value of the loans, advances and financing.

37. 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**
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	**7,889,484**	**61,774**	**692,191**
2004			
Foreign exchange contracts			
- forwards	851,488	3,964	1,977
- swaps	3,442,800	192,462	1,906
Interest rate related contracts			
- forwards	15,210,000	9,112	15,726
- swaps	4,983,075	66,526	273,464

The table above analyse 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.

(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.

37. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

(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.

38. CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS

During the current financial year, the Group and the Bank adopted the revised Guidelines on financial reporting for Licensed Institutions (BNM/GP8) which became effective from 1 January 2005. The adoption of the revised BNM/GP8 has resulted in changes in accounting policies as disclosed in Notes 2(d), 2(h) and 2(m) to the financial statements.

(a) The holdings 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 investments. 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.

(b) Derivative finanacial 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 a change in the fair value of the derivatives is recognised in the income statement.

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

38. CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS (continued)

The changes in accounting policy have been accounted for retrospectively and the effects of the changes are as follows:

	Group	
	2005	**2004**
	RM'000	**RM'000**
Effects on retained profits:		
At 1 January, as previously stated	**644,072**	300,347
Effects of change in accounting policies on securities	**1,704**	4,161
At 1 January, as restated	**645,776**	304,508
Effects on net profit for the year:		
Net profit before changes in accounting policies	**353,702**	377,197
Effects of change in accounting policies on securities	**3,341**	(2,457)
Net profit for the year	**357,043**	374,740

	Bank	
	2005	**2004**
	RM'000	**RM'000**
Effects on retained profits:		
At 1 January, as previously stated	**639,141**	323,744
Effects of change in accounting policies on securities	**1,704**	4,161
At 1 January, as restated	**640,845**	327,905
Effects on net profit for the year:		
Net profit before changes in accounting policies	**343,758**	348,869
Effects of change in accounting policies on securities	**3,341**	(2,457)
Net profit for the year	**347,099**	346,412

	Group and Bank	
	2005	**2004**
	RM'000	**RM'000**
Effects on net unrealised reserves on available-for-sale securities		
At 1 January, as previously stated	**-**	-
Effects of change in accounting policies on securities	**11,002**	13,383
At 1 January, as restated	**11,002**	13,383

38. CHANGES IN ACCOUNTING POLICIES AND PRIOR YEAR ADJUSTMENTS (continued)

Comparative amounts of the Group as at 31 December 2004 have been restated as follows:

	Previously Stated RM'000	Adjustments RM'000	Restated RM'000
Dealing securities	878,241	(878,241)	-
Held-for-trading securities	-	1,190,118	1,190,118
Investment securities	3,638,850	(3,638,850)	-
Available-for-sale securities	-	3,357,745	3,357,745
Other assets	203,695	(9,585)	194,110
Deferred tax assets	37,407	(4,278)	33,129
Other liabilities	472,692	4,203	476,895

Comparative amounts of the Bank as at 31 December 2004 has been restated as follows:

	Previously Stated RM'000	Adjustments RM'000	Restated RM'000
Dealing securities	878,241	(878,241)	-
Held-for-trading securities	-	1,190,118	1,190,118
Investment securities	3,638,850	(3,638,850)	-
Available-for-sale securities	-	3,357,745	3,357,745
Other assets	204,402	(9,585)	194,817
Deferred tax assets	37,407	(4,278)	33,129
Other liabilities	471,916	4,203	476,119