



## Brief Profile

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

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

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

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

For further information, please visit [www.uob.com.my](http://www.uob.com.my)

## Chairman's Statement



**Wee Cho Yaw**  
*Chairman*

### 2006 PERFORMANCE

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

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

recorded higher provisions of RM167 million (2005: RM159 million) mainly due to general allowance of RM54 million provided for in 2006 (2005: nil).

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

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

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

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

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

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

#### **2007 PROSPECTS AND PLANS**

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

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

#### **ACKNOWLEDGEMENT**

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

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

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

Wee Cho Yaw  
Chairman

## Board Of Directors

### BOARD OF DIRECTORS

Wee Cho Yaw  
*Chairman*

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

### EXECUTIVE COMMITTEE

Wee Cho Yaw  
*Chairman*

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

### AUDIT COMMITTEE

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

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

### NOMINATING COMMITTEE

Lim Kean Chye  
*Chairman*

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

### REMUNERATION COMMITTEE

Lim Kean Chye  
*Chairman*

Wee Cho Yaw  
Lee Chin Yong Francis

### RISK MANAGEMENT COMMITTEE

Ng Kee Wei  
*Chairman*

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

## Corporate Information

### SENIOR MANAGEMENT

Chan Kok Seong  
*Director & Chief Executive Officer*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Corporate Information

### SECRETARIES

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

### AUDITORS

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

### SHARE CAPITAL

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

### REGISTERED OFFICE

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

### HEAD OFFICE

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

## Branch Network

### FEDERAL TERRITORY

#### Main Branch Kuala Lumpur

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

#### Medan Pasar Branch

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

#### Jalan Pudu Branch

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

#### Jalan Imbi Branch

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

#### Jalan Sultan Ismail Branch

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

#### Kepong Branch

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

### SELANGOR

#### Jalan Tengah Branch, Petaling Jaya

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

#### Jalan Othman Branch, Petaling Jaya

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

#### Kota Damansara Branch, Petaling Jaya

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

#### Damansara Uptown Branch, Petaling Jaya

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

#### Klang Branch

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

#### Shah Alam Branch

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

#### Puchong Branch

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



## Branch Network

### PERAK

#### Ipoh Branch

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

### MELAKA

#### Plaza Mahkota Branch

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

#### Malim Branch

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

### PAHANG

#### Kuantan Branch

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

#### Bentong Branch

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

#### Raub Branch

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

### NEGERI SEMBILAN

#### Seremban

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

### NORTHERN REGION

#### North Regional Centre

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

### PULAU PINANG

#### Lebuh Bishop Branch

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

#### Jalan Kelawei Branch

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

#### Butterworth Branch

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

#### Bukit Mertajam Branch

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

## Branch Network

### KEDAH

#### Sungai Petani Branch

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

#### Alor Setar Branch

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

### KELANTAN

#### Kota Bahru Branch

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

### TERENGGANU

#### Kuala Terengganu Branch

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

### SOUTHERN REGION

#### South Regional Centre

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

### JOHOR

#### Jalan Wong Ah Fook Branch

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

#### Taman Molek Branch

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

#### Batu Pahat Branch

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

#### Kluang Branch

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

#### Jalan Bakri, Muar Branch

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

#### Kulai Branch

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

## Branch Network

### SABAH

#### Kota Kinabalu Branch

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

#### Tuaran Branch

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

#### Sandakan Branch

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

### SARAWAK

#### Kuching Branch

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

#### Miri Branch

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

#### Bintulu Branch

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

#### Sibu Branch

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

## Corporate Governance

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

### Board of Directors

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

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

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

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

### Board Committees

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

## Corporate Governance

### Board Committees (continued)

#### Executive Committee ("Exco")

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

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

#### Audit Committee ("AC")

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

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

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

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

#### Risk Management Committee ("RMC")

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

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

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

#### Remuneration Committee ("RC")

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

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

## Corporate Governance

### Board Committees (continued)

#### Nominating Committee ("NC")

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

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

#### Financial Reporting

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

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

#### Internal Controls

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

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

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

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

## Risk Management

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

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

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

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

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

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

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

### Credit Risk Management

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

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

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

## Risk Management

### Credit Risk Management (continued)

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

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

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

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

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

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

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

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

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

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

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

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



## Risk Management

### Credit Risk Management (continued)

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

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

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

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

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

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

<b>Loan Classification</b>	<b>Period of Default</b>	<b>Provision</b>
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.

## Risk Management

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

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

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

### Rescheduled And Restructured Accounts

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

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

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

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

### Balance Sheet Risk Management

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

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

## Risk Management

### Balance Sheet Risk Management (continued)

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

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

The risks arising from the trading book in interest rates, foreign exchange rates and equity prices are managed and controlled 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 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.

# Risk Management

## Market Risk Management

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

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

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

Market risk is managed using a framework of risk management processes based on market risk management policies and risk control procedures, as well as risk and loss limits. Mark-to-market technique is used to revalue marketable securities, equities and foreign currency positions. Mark-to-market of trading positions are then compared against predetermined market risk limits. The market risk limits are set after taking into account the risk 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.

## Operational Risk Management

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

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

This framework of techniques and procedures encompasses the following:

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

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

# Risk Management

## **Operational Risk Management (continued)**

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

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

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

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

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

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

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

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

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

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

## Directors' Report

for the year ended 31 December 2006

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

### PRINCIPAL ACTIVITIES

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

### RESULTS

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

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

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

### DIVIDENDS

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

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

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

### DIRECTORS

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

Wee Cho Yaw

Wee Ee Cheong

YABhg Tun Dato' Seri Dr Lim Chong Eu

Ng Kee Wei

Lim Kean Chye

Lee Chin Yong, Francis

Ong Sea Eng, Terence

Chan Kok Seong

YBhg Dato' Maznah Binti Abdul Jalil

Poon Hon Thang, Samuel

(appointed on 3 August 2006)

(appointed on 27 September 2006)

(resigned on 1 November 2006)

## Directors' Report

for the year ended 31 December 2006

### DIRECTORS' BENEFITS

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

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

### DIRECTORS' INTERESTS

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

		Number of Ordinary Shares of S\$1 Each			
		1.1.2006	Acquired	Disposed	31.12.2006
<b>Ultimate holding corporation:</b>					
<b>United Overseas Bank Limited</b>					
Wee Cho Yaw	- Direct	16,390,248	-	-	16,390,248
	- Indirect	245,208,142	-	-	245,208,142
Wee Ee Cheong	- Direct	2,794,899	-	-	2,794,899
	- Indirect	146,085,251	-	-	146,085,251
Ng Kee Wei	- Direct	447,582	-	-	447,582
	- Indirect	1,725,189	-	-	1,725,189
Lim Kean Chye	- Direct	117	-	-	117
Lee Chin Yong, Francis	- Direct	35,000	35,000	(70,000)	-
Ong Sea Eng, Terence	- Indirect	5,000	40,000	(35,000)	10,000
Chan Kok Seong	- Direct	5,000	-	-	5,000
		Number of Options Over Ordinary Shares of S\$1 Each			
		1.1.2006	Granted	Exercised	31.12.2006
<b>Ultimate holding corporation:</b>					
<b>United Overseas Bank Limited</b>					
Lee Chin Yong, Francis	- Direct	80,000	-	(35,000)	45,000
Ong Sea Eng, Terence	- Direct	40,000	-	(40,000)	-
Chan Kok Seong	- Direct	24,000	-	-	24,000

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

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

### HOLDING COMPANIES

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

## Directors' Report

for the year ended 31 December 2006

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

- (a) On 6 October 1999, the ultimate holding company's shareholders approved the adoption of the UOB ESOS scheme to replace the previous Executives' Share Option Scheme. Under the UOB ESOS scheme, options may be granted to employees in the corporate grade of Vice President (or an equivalent rank) and above and selected employees below the corporate grade of Vice President (or an equivalent rank), and to directors and controlling shareholders. Particulars of the share options granted under this scheme in 2000, 2003 and 2004 (hereinafter called "Options 2000", Options 2003" and "Options 2004" respectively) have been set out in the ultimate holding company's directors' reports for the financial years ended 31 December 2000, 2003 and 2004 respectively. Options 2000 have since expired on 10 December 2005.
- (b) The share options which were granted pursuant to the UOB ESOS carry the right to subscribe for new ordinary shares of United Overseas Bank Limited at the following prices:

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

- (c) The share options expire at the end of the respective option periods unless they lapse earlier in the event of death, bankruptcy or cessation of employment of the participant or the take-over or winding up of the Bank.
- (d) The holders of the options have no right to participate, by virtue of the options, in any share issue of any other company.

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

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

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

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

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

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



## Directors' Report

for the year ended 31 December 2006

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

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

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

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

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

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

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

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

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

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

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

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

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

## Directors' Report

for the year ended 31 December 2006

### 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 dated 27 February, 2007.

Wee Cho Yaw

Chan Kok Seong

## Statement By Directors

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

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

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

Wee Cho Yaw

Chan Kok Seong

## Statutory Declaration

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

I, Chan Kok Seong, being the director primarily responsible for the financial management of United Overseas Bank (Malaysia) Bhd, do solemnly and sincerely declare that the accompanying financial statements set out on pages 28 to 85 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

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

Chan Kok Seong

Before me,

Soh Ah Kau, AMN  
Commissioner for Oaths

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

for the year ended 31 December 2006

We have audited the financial statements set out on pages 28 to 85. These financial statements are the responsibility of the Bank's directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities modified by Bank Negara Malaysia guidelines so as to give a true and fair view of:
  - (i) the financial position of the Group and of the Bank as at 31 December 2006 and of the results and the cash flows of the Group and of the Bank for the year then ended; and
  - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Bank and by its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Bank are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

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

Ernst & Young  
AF: 0039  
Chartered Accountants

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

Kuala Lumpur, Malaysia  
27 February, 2007

## Balance Sheets

as at 31 December 2006

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

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

## Income Statements

for the year ended 31 December 2006

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

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

## Consolidated Statement Of Changes In Equity

for the year ended 31 December 2006

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

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

## Statement Of Changes In Equity

for the year ended 31 December 2006

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

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



## Cash Flow Statements

for the year ended 31 December 2006

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

## Cash Flow Statements

for the year ended 31 December 2006

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

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

# Notes To The Financial Statements

for the year ended 31 December 2006

## 1. CORPORATE INFORMATION

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

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

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

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

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

### 2.2 Summary of Significant Group Accounting Policies

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

##### (i) Subsidiaries

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

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

##### (ii) Basis of Consolidation

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

# Notes To The Financial Statements

for the year ended 31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

##### (ii) Basis of Consolidation (continued)

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

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

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

#### (b) Associates

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

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

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

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

# Notes To The Financial Statements

for the year ended 31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### (b) Associates (continued)

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

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

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

#### (c) Goodwill

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

#### (d) Recognition of Interest Income

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

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

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

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

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

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

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

# Notes To The Financial Statements

for the year ended 31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

#### (g) Repurchase Agreements

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

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

#### (h) Securities

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

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

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

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

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

# Notes To The Financial Statements

for the year ended 31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### (h) Securities (continued)

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

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

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

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

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

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

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

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

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

# Notes To The Financial Statements

for the year ended 31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### (j) Investment Properties

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

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

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

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

#### (k) Leases

##### (i) Finance leases

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

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

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

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

##### (ii) Operating leases

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

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



# Notes To The Financial Statements

for the year ended 31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### (l) Derivative Financial Instruments

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

#### (m) Foreign Currencies

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

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

##### (ii) Foreign Currency Transactions

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

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

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

#### (n) Income Tax

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

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

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

# Notes To The Financial Statements

for the year ended 31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

#### (o) Employee Benefits

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

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

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

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

#### (p) Cash and Cash Equivalents

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

#### (q) Other Assets

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

#### (r) Bills and Acceptances Payable

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

#### (s) Provisions for Liabilities

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

# Notes To The Financial Statements

for the year ended 31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### (t) Liabilities

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

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

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

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

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

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

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

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

# Notes To The Financial Statements

for the year ended 31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### (v) Financial Instruments

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

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

#### (i) Equity instruments

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

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

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

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

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

# Notes To The Financial Statements

for the year ended 31 December 2006

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

##### (i) Goodwill

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

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

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

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

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

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

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

###### (iii) Accounting for acquisitions

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

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

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

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

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

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

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

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

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

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

##### (d) Restatement of comparatives

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

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.4 Significant Accounting Estimates and Judgements

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

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

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

##### (b) Income taxes

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

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

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

### 3. CASH AND SHORT-TERM FUNDS

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

### 4. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

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



## Notes To The Financial Statements

for the year ended 31 December 2006

### 5. HELD-FOR-TRADING SECURITIES

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

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

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 7. LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Overdrafts	<b>2,871,023</b>	2,796,237	<b>2,871,023</b>	2,796,237
Term loans and revolving credits				
Housing loans	<b>6,791,307</b>	5,180,860	<b>6,791,307</b>	5,180,860
Syndicated term loans	<b>105,239</b>	131,052	<b>105,239</b>	131,052
Hire purchase receivables	-	3	-	3
Lease receivables	<b>3</b>	451	<b>3</b>	3
Other term loans/financing	<b>6,134,316</b>	5,652,116	<b>6,134,316</b>	5,652,116
Credit cards receivable	<b>781,145</b>	578,868	<b>781,145</b>	578,868
Bills receivable	<b>112,521</b>	109,123	<b>112,521</b>	109,123
Trust receipts	<b>561,371</b>	429,032	<b>561,371</b>	429,032
Claims on customers under acceptance credits	<b>3,447,565</b>	2,821,799	<b>3,447,565</b>	2,821,799
Staff loans				
- Executive directors	<b>489</b>	-	<b>489</b>	-
- Others	<b>91,359</b>	88,446	<b>91,359</b>	88,446
Other	<b>5,692</b>	2,570	<b>5,692</b>	2,570
	<b>20,902,030</b>	17,790,557	<b>20,902,030</b>	17,790,109
Unearned interest	<b>(11,650)</b>	(357)	<b>(11,650)</b>	(357)
Gross loans, advances and financing	<b>20,890,380</b>	17,790,200	<b>20,890,380</b>	17,789,752
Allowance for losses on loans and financing				
- Specific	<b>(352,240)</b>	(337,234)	<b>(352,240)</b>	(336,842)
- General	<b>(305,969)</b>	(251,944)	<b>(305,969)</b>	(251,888)
Net loans, advances and financing	<b>20,232,171</b>	17,201,022	<b>20,232,171</b>	17,201,022
<b>(i) By maturity structure:</b>				
Maturing within one year	<b>9,899,911</b>	9,651,053	<b>9,899,911</b>	9,650,606
One year to three years	<b>819,946</b>	556,031	<b>819,946</b>	556,031
Three years to five years	<b>857,300</b>	761,525	<b>857,300</b>	761,525
Over five years	<b>9,313,223</b>	6,821,591	<b>9,313,223</b>	6,821,590
	<b>20,890,380</b>	17,790,200	<b>20,890,380</b>	17,789,752
<b>(ii) By type of customer</b>				
Domestic non-bank financial institutions				
- Stockbroking companies	<b>130</b>	4,769	<b>130</b>	4,769
- Others	<b>108,004</b>	96,012	<b>108,004</b>	96,012
Domestic business enterprises				
- Small medium enterprises	<b>5,413,640</b>	4,423,161	<b>5,413,640</b>	4,422,742
- Others	<b>5,788,902</b>	4,998,600	<b>5,788,902</b>	4,998,599
Government	<b>104,796</b>	886,376	<b>104,796</b>	886,376
Individuals	<b>9,251,224</b>	7,295,767	<b>9,251,224</b>	7,295,767
Other domestic entities	<b>214</b>	2,510	<b>214</b>	2,482
Foreign entities	<b>223,470</b>	83,005	<b>223,470</b>	83,005
	<b>20,890,380</b>	17,790,200	<b>20,890,380</b>	17,789,752

## Notes To The Financial Statements

for the year ended 31 December 2006

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

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

## Notes To The Financial Statements

for the year ended 31 December 2006

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

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 8. OTHER ASSETS

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

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

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

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

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

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

### 9. STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

### 10. INVESTMENT IN SUBSIDIARIES

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 10. INVESTMENT IN SUBSIDIARIES (continued)

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

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

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

### 11. INVESTMENT IN ASSOCIATES

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

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

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 11. INVESTMENT IN ASSOCIATES (continued)

The summarised financial information of the associates are as follows:

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

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

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

### 12. INVESTMENT PROPERTIES

	Group and Bank	
	2006 RM'000	2005 RM'000
At 1 January	-	-
Transfer from property, plant and equipment	10,000	-
<b>At 31 December</b>	<b>10,000</b>	<b>-</b>

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 13. PROPERTY, PLANT AND EQUIPMENT

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



## Notes To The Financial Statements

for the year ended 31 December 2006

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

Group (continued)	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Office furniture, fittings and equipment RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital Work-in-progress RM'000	Total RM'000
<b>Accumulated Depreciation and Impairment</b>								
At 1 January 2005	3,288	820	12,297	71,176	95,083	1,698	-	184,362
Depreciation charge	-	560	4,860	6,179	15,631	901	-	28,131
Disposals	-	-	(1,741)	(2,561)	(2,273)	(411)	-	(6,986)
Reversal of impairment loss	(596)	-	(404)	-	-	-	-	(1,000)
At 31 December 2005	2,692	1,380	15,012	74,794	108,441	2,188	-	204,507
<b>Net carrying amount</b>								
At cost	-	1,254	2,431	35,358	44,133	2,859	1,459	87,494
At valuation	41,595	28,178	104,470	-	-	-	-	174,243
At 31 December 2005	41,595	29,432	106,901	35,358	44,133	2,859	1,459	261,737
<b>Bank</b>								
	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
<b>At 31 December 2006</b>								
<b>Cost or valuation</b>								
At 1 January 2006								
At cost	-	1,300	2,552	109,675	151,946	5,047	1,459	271,979
At valuation	44,287	29,512	119,361	-	-	-	-	193,160
	44,287	30,812	121,913	109,675	151,946	5,047	1,459	465,139
Additions	-	-	-	15,283	21,194	1,342	2,816	40,635
Disposals	(20,968)	-	-	(3,465)	(8,052)	(484)	-	(32,969)
Revaluation surplus	-	-	55	-	-	-	-	55
Transfer to investment property	-	-	(10,782)	-	-	-	-	(10,782)
At 31 December 2006	23,319	30,812	111,186	121,493	165,088	5,905	4,275	462,078
Representing:								
At cost	-	1,300	2,552	121,493	165,088	5,905	4,275	300,613
At valuation	23,319	29,512	108,634	-	-	-	-	161,465
At 31 December 2006	23,319	30,812	111,186	121,493	165,088	5,905	4,275	462,078
<b>Accumulated Depreciation and Impairment</b>								
At 1 January 2006	2,692	1,380	15,012	74,725	108,370	2,188	-	204,367
Depreciation charge	-	560	4,334	7,105	17,225	954	-	30,178
Disposals	-	-	-	(2,620)	(8,024)	(405)	-	(11,049)
Reversal of impairment loss	(1,969)	-	-	-	-	-	-	(1,969)
Transfer to investment property	-	-	(782)	-	-	-	-	(782)
At 31 December 2006	723	1,940	18,564	79,210	117,571	2,737	-	220,745
<b>Net carrying amount</b>								
At cost	-	-	-	42,283	47,517	3,168	4,275	97,243
At valuation	22,596	28,872	92,622	-	-	-	-	144,090
At 31 December 2006	22,596	28,872	92,622	42,283	47,517	3,168	4,275	241,333

## Notes To The Financial Statements

for the year ended 31 December 2006

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

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

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

- Henry Butcher, Lim & Long Sdn Bhd
- Knight Frank, Ooi & Zaharin Sdn Bhd
- CH Williams Talhar & Wong Sdn Bhd

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

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

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 14. DEFERRED TAX ASSETS

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

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

#### Deferred tax assets - Group and Bank

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

#### Deferred tax liabilities - Group and Bank

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

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

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

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 15. DEPOSITS FROM CUSTOMERS

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

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

Due within six months	11,332,755	9,601,584
Six months to one year	2,851,635	2,783,825
One year to three years	305,337	179,481
Three years to five years	98,216	111,135
Over five years	106,699	163,791
	<b>14,694,642</b>	<b>12,839,816</b>

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

Business enterprises	6,427,236	4,357,187
Individuals	11,292,149	10,558,877
Others	1,542,295	1,723,541
	<b>19,261,680</b>	<b>16,639,605</b>

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

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

### 17. AMOUNT DUE TO CAGAMAS

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

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.

## Notes To The Financial Statements

for the year ended 31 December 2006

### 18. OTHER LIABILITIES

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

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

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

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

### 19. SHARE CAPITAL

	Group and Bank	
	2006 RM'000	2005 RM'000
<b>Authorised:</b>		
2,000,000,000 ordinary shares of RM1 each	2,000,000	2,000,000
<b>Issued and fully paid-up:</b>		
470,000,000 ordinary shares of RM1 each	470,000	470,000

### 20. RESERVES

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 20. RESERVES (continued)

- (a) The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989, and is not distributable as dividends.
- (b) As at 31 December 2006, the Bank has tax exempt profits available for distribution of approximately RM248,764,724 (2005: RM248,764,724) before the proposed final dividend in respect of the current financial year ended 31 December 2006, subject to the agreement of the Inland Revenue Board.

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

### 21. NEGATIVE GOODWILL

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

### 22. OPERATING REVENUE

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

### 23. INTEREST INCOME

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 24. INTEREST EXPENSE

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

### 25. OTHER OPERATING INCOME

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 26. OTHER OPERATING EXPENSES

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

#### The above expenditure includes the following:

Directors' remuneration (Note 27)	<b>1,329</b>	1,240	<b>1,329</b>	1,240
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### 27. CEO AND DIRECTORS' REMUNERATION

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

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



## Notes To The Financial Statements

for the year ended 31 December 2006

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

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

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

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

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

### 29. INCOME TAX EXPENSE

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 29. INCOME TAX EXPENSE (continued)

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

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

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

### 30. EARNINGS PER SHARE

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

### 31. DIVIDENDS

	Group and Bank			
	2006		2005	
	Net dividend per share sen	Amount of dividend, net of tax RM'000	Net dividend per share sen	Amount of dividend, net of tax RM'000
Proposed final dividend	<b>36.5</b>	<b>171,550</b>	36.0	169,200

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 32. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

#### Related parties and relationships

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

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

#### Significant related party transactions and balances

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

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

## Notes To The Financial Statements

for the year ended 31 December 2006

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

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

### 33. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 33. COMMITMENTS AND CONTINGENCIES (continued)

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

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

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

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

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

#### Market risk

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

#### Credit risk

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 34. CAPITAL COMMITMENTS

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

### 35. LEASE COMMITMENTS

#### (a) The Group as Lessee

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

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

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

### 36. CAPITAL ADEQUACY

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 36. CAPITAL ADEQUACY (continued)

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

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

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

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

### 37. FINANCIAL RISK MANAGEMENT

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

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

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

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

# Notes To The Financial Statements

for the year ended 31 December 2006

## 37. FINANCIAL RISK MANAGEMENT (continued)

### (a) Foreign exchange risk

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

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

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

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

### (b) Credit risk

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

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

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

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

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

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

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



## Notes To The Financial Statements

for the year ended 31 December 2006

### 37. FINANCIAL RISK MANAGEMENT (continued)

#### (b) Credit Risk (continued)

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

#### Group 2005

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 37. FINANCIAL RISK MANAGEMENT (continued)

#### (b) Credit Risk (continued)

Bank 2006	Short term funds and placements with financial institutions RM'000	Held-for- trading securities RM'000	Available- for-sale securities RM'000	Loans, advances and financing RM'000	Specific provision and general provision RM'000	Other assets RM'000	On balance sheet total RM'000	Commitment and contingencies RM'000
Agriculture and mining	-	21,342	-	132,311	(2,478)	-	151,175	194,757
Manufacturing	-	43,842	342,101	4,396,532	(189,379)	-	4,593,096	6,200,137
Electricity, gas and water	-	59,723	-	29,220	(435)	-	88,508	398,768
Construction	-	41,972	-	1,158,286	(37,602)	-	1,162,656	3,116,188
Real estate	-	-	-	715,144	(37,359)	-	677,785	321,564
General commerce	-	-	-	3,103,397	(107,129)	-	2,996,268	3,485,208
Transport, infrastructure, storage and communication	-	179,382	155,846	518,209	(9,593)	18,788	862,632	218,556
Finance, insurance, business services and government agencies	5,906,430	893,359	2,805,000	1,104,978	(56,522)	651,974	11,305,219	31,629,466
Residential landed property, securities and transport vehicles	-	9,638	1,260	7,478,368	(129,736)	-	7,359,530	3,747,077
Others	-	-	-	2,253,935	(87,976)	306,336	2,472,295	155,453
	5,906,430	1,249,258	3,304,207	20,890,380	(658,209)	977,098	31,669,164	49,467,174
Other assets not subject to credit risk	-	-	-	-	-	309,143	309,143	-
	5,906,430	1,249,258	3,304,207	20,890,380	(658,209)	1,286,241	31,978,307	49,467,174

#### Bank 2005

Agriculture and mining	-	-	-	110,763	(1,874)	-	108,889	79,977
Manufacturing	-	97,691	359,291	3,569,668	(158,698)	-	3,867,952	3,710,963
Electricity, gas and water	-	179,727	-	21,171	(306)	-	200,592	351,217
Construction	-	100,127	-	779,883	(37,048)	-	842,962	2,119,432
Real estate	-	-	-	385,429	(59,967)	-	325,462	155,535
General commerce	-	5,388	-	2,431,594	(94,658)	-	2,342,324	2,369,010
Transport, infrastructure, storage and communication	-	152,985	149,154	517,377	(9,588)	16,111	826,039	164,923
Finance, insurance, business services and government agencies	7,257,241	327,889	3,977,910	1,349,287	(50,603)	642,183	13,503,907	28,196,678
Residential landed property, securities and transport vehicles	-	-	17,409	6,807,703	(112,094)	-	6,713,018	3,011,419
Others	-	-	-	1,816,877	(63,894)	269,993	2,022,976	2,830,260
	7,257,241	863,807	4,503,764	17,789,752	(588,730)	928,287	30,754,121	42,989,414
Other assets not subject to credit risk	-	-	-	-	-	300,269	300,269	-
	7,257,241	863,807	4,503,764	17,789,752	(588,730)	1,228,556	31,054,390	42,989,414

## Notes To The Financial Statements

for the year ended 31 December 2006

### 37. FINANCIAL RISK MANAGEMENT (continued)

#### (c) Interest rate risk

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

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

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

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 37. FINANCIAL RISK MANAGEMENT (continued)

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

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 37. FINANCIAL RISK MANAGEMENT (continued)

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

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 37. FINANCIAL RISK MANAGEMENT (continued)

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

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

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 37. FINANCIAL RISK MANAGEMENT (continued)

#### (d) Liquidity risk

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

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

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

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 37. FINANCIAL RISK MANAGEMENT (continued)

#### (d) Liquidity risk (continued)

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
<b>Assets</b>							
Cash and short term funds	2,815,289	-	-	-	-	-	2,815,289
Securities purchased under resale agreement	1,752,102	-	-	-	-	-	1,752,102
Deposits and placement with financial institutions	2,682,003	6,297	1,550	-	-	-	2,689,850
Held-for-trading securities	382,665	-	65,000	46,236	369,906	-	863,807
Available-for-sale securities	3,394,399	515,518	60,100	173,939	336,772	23,036	4,503,764
Loans, advances and financing	6,710,971	839,419	1,282,197	2,979,196	5,389,239	-	17,201,022
Other assets	-	-	-	-	-	1,254,929	1,254,929
	17,737,429	1,361,234	1,408,847	3,199,371	6,095,917	1,277,965	31,080,763
<b>Liabilities</b>							
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		



## Notes To The Financial Statements

for the year ended 31 December 2006

### 37. FINANCIAL RISK MANAGEMENT (continued)

#### (d) Liquidity risk (continued)

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 37. FINANCIAL RISK MANAGEMENT (continued)

#### (d) Liquidity risk (continued)

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

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

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

## Notes To The Financial Statements

for the year ended 31 December 2006

### 37. FINANCIAL RISK MANAGEMENT (continued)

#### (e) Compliance & Operational Risk Management

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

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

This framework of techniques and procedures encompasses the following:

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

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

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

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

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

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

### 38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

## Notes To The Financial Statements

for the year ended 31 December 2006

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

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

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

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

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

## Notes To The Financial Statements

for the year ended 31 December 2006

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

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

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

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

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

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

## Notes To The Financial Statements

for the year ended 31 December 2006

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

- (b) Fair values of securities that are actively traded is determined by quoted bid prices. For non-actively traded securities, independent broker quotations are obtained. Fair values of equity securities are estimated using a number of methods, including net tangible assets, earnings multiples and discounted cash flow analysis. Where discounted cash flow technique is used, the estimated future cash flows are discounted using applicable prevailing market or indicative rates of similar instruments at the balance sheet date.
- (c) The fair values of variable rate loans are estimated to approximate their carrying values. For fixed rate loans, the fair values are estimated based on expected future cash flows of contractual instalment payments, discounted at applicable and prevailing rates at balance sheet date offered for similar facilities to new borrowers with similar credit profiles. In respect of non-performing loans, the fair values are deemed to approximate the carrying values which are net of interest/income-in-suspense and specific provision for bad and doubtful debts and financing.
- (d) The Group and the Bank consider the carrying amount of its deposits, such as non bank customers' deposits and deposits and balances of banks, agents and related companies with maturities of less than one year to approximate their fair values due to the relatively short maturity of these instruments. The fair values of fixed deposits and placements with remaining maturities of more than one year are estimated based on discounted cash flows using applicable rates currently offered for deposits and placements with similar remaining maturities.
- (e) The fair values of amount due to Cagamas are determined based on the discounted cash flows of future instalment payments at applicable prevailing Cagamas rates as at balance sheet date.
- (f) For off-balance sheet derivatives, where quoted and observable market prices are not available, fair values are arrived at using internal pricing models. As assumptions were made regarding risk characteristics of the various financial instruments, discount rates, future expected loss and other factors, changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

### 39. CHANGES IN ACCOUNTING POLICIES AND COMPARATIVES

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

- (a) the adoption of new and revised FRSs as disclosed in Note 2.3(d); and
- (b) reclassification of certain investments from held-for-trading securities to available-for-sale securities. In the current financial year, the Group and the Bank had reclassified certain private debt securities amounting to RM508,445,000 as at 31 December 2005 from held-for-trading securities to available-for-sale securities to meet the reporting requirements of local regulators. This reclassification had resulted in the following comparative amounts as at 31 December 2005 to be restated as follows:

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

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