

RIGHT ON COURSE



UNITED OVERSEAS BANK (MALAYSIA) BHD
(A SUBSIDIARY OF UNITED OVERSEAS BANK LIMITED)

Annual Report 2007

UNITED OVERSEAS BANK (MALAYSIA) BHD

(INCORPORATED IN MALAYSIA)

CO NO : 271809K

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Reports and financial statements for the year ended 31 December 2007

BRIEF PROFILE

About United Overseas Bank (Malaysia) Bhd (Company Registration No. 271809K)

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: 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

CHAIRMAN'S STATEMENT



Wee Cho Yaw
Chairman

2007 FINANCIAL PERFORMANCE

In 2007 the Group chalked up another year of good profit with a pre-tax profit of RM660.4 million, an increase of 13% as compared to RM586 million in 2006. This translated into returns on equity and returns on assets of 18.7% and 1.4%, respectively (2006: 18.1% and 1.3%). This good performance was due to the robust growth in housing loans and lending to small and medium enterprise ("SME"). During the year under review, net interest income improved by 23% to RM868.8 million (2006: RM704.8 million).

The Group's shareholders' fund expanded by 14% to RM2.7 billion (2006: RM2.4 billion). The Group's assets grew by 12% to RM36.0 billion as at 31 December 2007 (2006: RM32.0 billion). Loan portfolio increased by 23% to RM25.7 billion (2006: RM20.9 billion) as the Bank continued to leverage

on its niche in SME lending and mid to high-end residential mortgages. Customer deposits growth kept pace with its lending business activities as the Bank launched a series of innovative deposit campaigns to attract depositors. The Bank's net non-performing loans ("NPL") ratio dropped to 2.7% in 2007 as compared to 4.3% as at 31 December 2006, reflecting the success of its intensified recovery effort and effective credit management framework.

For the consumer banking segment, the Bank has done well by introducing a comprehensive range of innovative and competitively priced products. In 2007, the Bank achieved a 25% and 17% growth in its mortgage loans and credit card receivables respectively, while its credit card base increased by 26%. The Bank also successfully introduced a wide range of wealth management products and achieved a remarkable 75% growth in unit trust sales.

The Bank continues to play a supportive role in the Government's drive to strengthen the domestic economy by focusing on providing financing for SME's. Loans to the SME business sector registered a robust growth of 24%. With its innovative trade products and excellent customer services, the Bank also managed to register a healthy growth rate of 21% for its trade financing volume. During the year, the Bank's investment banking unit also continued to perform well in arranging Private Debts Securities ("PDS"), where the total issuance of PDS increased by 9%.

2008 PROSPECTS AND PLANS

The outlook for the global economy in 2008 is discouraging as the world's largest economy continues to be affected by the US sub-prime mortgage and Collateralised Debt Obligation (CDO) crisis. However, high commodity prices and fiscal stimulus under the Ninth Malaysian Plan are expected to sustain a domestic demand-led growth in Malaysia. Competition in the banking sector is expected to escalate further in the coming year with the continued liberalisation of the banking industry under the Financial Sector Masterplan initiatives with increasing challenges posed by new players from the Middle East and non-bank financial institutions.

Nonetheless, given the Bank's sound financial position, robust risk management processes and strong regional network, it should be well positioned to compete for growth within its targeted market segments. Barring any unforeseen event, the Bank is expected to register satisfactory growth in 2008.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to extend our appreciation to the management and staff of the Bank for their contributions, commitment and dedication. I also wish to express our sincere appreciation to our customers for their continuous support.

Lastly, 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 YBhg Dato' Maznah Binti Abdul Jalil, who resigned from the Board on 30 March 2007.

Wee Cho Yaw
Chairman

BOARD OF DIRECTORS

Board Of Directors

Wee Cho Yaw
Chairman

Wee Ee Cheong
Lee Chin Yong Francis
Ong Sea Eng Terence
YABhg Tun Dato' Seri Dr Lim Chong Eu
Ng Kee Wei
Lim Kean Chye
Chan Kok Seong
YBhg Dato' Maznah Binti Abdul Jalil
(Resigned on 30 March 2007)

Executive Committee

Wee Cho Yaw
Chairman
(Member / Chairman of Exco up to 27 April 2007)

Wee Ee Cheong
Chairman
(Appointed Exco Chairman on 27 April 2007)

Lee Chin Yong Francis
Chan Kok Seong

Audit Committee

YABhg Tun Dato' Seri Dr Lim Chong Eu
Chairman

Ng Kee Wei
Lee Chin Yong Francis

Risk Management Committee

Ng Kee Wei
Chairman

Lee Chin Yong Francis
YBhg Dato' Maznah Binti Abdul Jalil
(Resigned on 30 March 2007)
Ong Sea Eng Terence
(Appointed on 30 March 2007)

Remuneration Committee

Lim Kean Chye
Chairman

Wee Cho Yaw
Lee Chin Yong Francis

Nominating Committee

Lim Kean Chye
Chairman

Wee Cho Yaw
Lee Chin Yong Francis
Ng Kee Wei
Ong Sea Eng Terence

CORPORATE INFORMATION

Senior Management

Chan Kok Seong

Director & Chief Executive Officer

Tay Han Chong

Senior Vice President & Senior Head

Personal Financial Services Division

Yeo Kian Ing Ken

Senior Vice President & Senior Head

Delivery Channels & Operations Division

Aw Tee Woo

Senior Vice President & Head

Consumer Credit

Credit Management Division

Chun Choy Wan (Ms)

Senior Vice President & Head

Centralised Credit Operations / Legal & Secretariat

Delivery Channels & Operations Division

Kan Wing Yin

First Vice President & Head

Commercial Banking 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 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 Business Banking Division

Ng Ling Tee Steven

Senior Vice President & Head

Specialised Financing Division

Por Peng Seong Alex

Senior Vice President & Head

Risk Management Division

Quah Chei Jin Albert

Senior Vice President & Head / Chief Financial Officer

Corporate Services Division

Tan Guat Ngiee Peggy (Ms)

Managing Director

Global Markets & Investment Management Division

Tan Kian Huat

Senior Vice President & Head

Business Banking Division

Yong Chow Kung Lawrence

Senior Vice President & Head

- Transaction Banking Division

- International Trade Services & Remittances

Delivery Channels & Operations Division

Yong Yen Ee

Senior Vice President & Head

Commercial Credit

Credit Management Division

C O R P O R A T E I N F O R M A T I O N

Secretaries

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

Auditors

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

Share Capital

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

Registered Office

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

Head Office

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

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: Yew Beng Guay Janny (Ms)

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 /
03-2078 0184
Manager: Foo Tek Lam

Jalan Pudu Branch

408-410, Jalan Pudu
55100 Kuala Lumpur
Tel: 03-9222 5135 / 03-9222 9022
Fax: 03-9221 6667
Manager: Ku Nyet Fan

Jalan Imbi Branch

197-199, Jalan Imbi
55100 Kuala Lumpur
Tel: 03-2143 5722 / 03-2143 8722
Fax: 03-2148 9725 / 03-2148 3562
Manager: Khiew Wai Kuan

Jalan Sultan Ismail (Parkroyal) Branch

Unit 1-6, Ground Floor, President House
Jalan Sultan Ismail, 50250 Kuala Lumpur
Tel: 03-2142 8828
Fax: 03-2141 1212
Manager: Swa Siew Guat (Ms)

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: Chen Fu Xiang Samuel

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: Choo Wei Hong Kennedy

Jalan Othman Branch, Petaling Jaya

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

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: Quah Boo Lek Christopher

Damansara Uptown Branch, Petaling Jaya

Ground Floor, Uptown 1, No. 1, Jalan SS21/58
Damansara Uptown, 47400 Petaling Jaya
Tel: 03-7726 2299
Fax: 03-7727 5566
Manager: Woon Siew Hoong

Klang Branch

2108, Jalan Meru, 41050 Klang
Tel: 03-3342 0712 / 03-3342 0713
Fax: 03-3342 1135
Manager: Chui Keng Leng Raymond

Shah Alam Branch

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

Puchong Branch

5 & 6, Jalan Kenari 5, Bandar Puchong Jaya
47100 Puchong
Tel: 03-8076 8989
Fax: 03-8076 8181
Manager: Wong Yin Pheng (Ms)

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: 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: Sim Meow Hui (Ms)

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: 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: Cheow Chee Seng

Bentong Branch

61-62, Jalan Loke Yew
28700 Bentong
Tel: 09-222 1600 / 09-222 1778
Fax: 09-222 5882
Manager: 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: 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: Ho Fong Kun (Ms)

NORTHERN REGION

North Regional Centre

1st Floor, 64E-H, Lebuah Bishop
10200 Pulau Pinang
Tel: 04-258 8188
Fax: 04-262 9119 / 04-258 8166
Regional Manager: Tan Guan Leong

PULAU PINANG

Lebuah Bishop Branch

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

Jalan Kelawei Branch

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

Butterworth Branch

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

Bukit Mertajam Branch

1, Jalan Tembikai, Taman Mutiara
14000 Bukit Mertajam
Tel: 04-548 8288
Fax: 04-530 3818
Manager: Koay Jin Hee Jean (Ms)

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: Ho Yik Tuck

Alor Star Branch

55, Jalan Gangsa, 05150 Alor Star
Tel: 04-732 1366
Fax: 04-733 0621
Manager: 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: Puan Ameena Beevi Bt Mohamed Saleh

TERENGGANU

Kuala Terengganu Branch

51, Jalan Sultan Ismail
20200 Kuala Terengganu
Tel: 09-622 1644 / 09-622 7912
Fax: 09-623 4644
Manager: Shaharom Kahar

SOUTHERN REGION

South Regional Centre

2, Jalan Wong Ah Fook, 80000 Johor Bahru
Tel: 07-219 6300
Fax: 07-226 0892
Regional Manager: Koh Boon Huat

JOHOR

Jalan Wong Ah Fook Branch

2, Jalan Wong Ah Fook, 80000 Johor Bahru
Tel: 07-219 6300 / 07-224 1344 / 07-224 1388
Fax: 07-224 3706
Manager: 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: Tong Yik Moy Kay (Ms)

Batu Pahat Branch

Ground Floor, Wisma Sing Long
9, Jalan Zabedah, 83000 Batu Pahat
Tel: 07-432 8999
Fax: 07-433 8122
Manager: Lee Guek Pin Adeline (Ms)

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: 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: Lim Lian Eng Grace (Ms)

Kulai Branch

31-1 & 31-2, Jalan Raya,
Kulai Besar, 81000 Kulai
Tel: 07-663 1232 / 07-663 1342
Fax: 07-663 5287
Manager: Oh Seng Hu

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: Chua Chai Hua

Tuaran Branch

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

Sandakan Branch

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

SARAWAK

Kuching Branch

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

Miri Branch

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

Bintulu Branch

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

Sibu Branch

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

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 8 distinguished members. Four (4) of the members, namely Mr Wee Cho Yaw, Mr Wee Ee Cheong, Mr Terence Ong Sea Eng and Mr Francis Lee Chin Yong are Non-Independent Non-Executive Directors, while YABhg Tun Dato’ Seri Dr Lim Chong Eu, Mr Ng Kee Wei and Mr Lim Kean Chye are Independent Non-Executive Directors. Mr Chan Kok Seong is the only Non-Independent Executive Director. Dato’ Maznah Binti Abdul Jalil was a Non-Independent Non-Executive Director before her resignation from the Board on 30 March 2007. The directors each have distinguished careers in banking, finance, law, public, business and management sectors and possess varied skills and experience to provide breadth and depth to Board discussions.

The Board has oversight responsibility for the business and affairs of UOBM. It sets the overall business direction and provides guidance on UOBM’s strategic plans. The Board delegates the formulation of business policies and day-to-day management to various committees and the Chief Executive Officer. It 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 2007

	Board of Directors	Executive Committee	Audit Committee	Risk Management Committee	Remuneration Committee	Nominating Committee
Wee Cho Yaw	4	16	-	-	1	2
Wee Ee Cheong	6	48	-	-	-	-
Ong Sea Eng, Terence	6	-	-	3	-	2
Lee Chin Yong, Francis	6	49	4	4	1	2
YABhg Tun Dato’ Seri Dr Lim Chong Eu	6	-	4	-	-	-
Ng Kee Wei	6	-	4	4	-	2
Chan Kok Seong	6	47	-	-	-	-
Lim Kean Chye	5	-	-	-	1	2
Dato’ Maznah Binti Abdul Jalil (resigned as director on 30 March 2007)	1	-	-	1	-	-
Number of meetings held in 2007	6	51	4	4	1	2

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 on page 6.

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 on 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 two 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 quarterly 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 28.

Internal Controls

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

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 reported to the AC and significant findings and their resolution 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 Deputy Chairman of the Board and the Group Chief Internal Auditor of key audit findings and other control concerns monthly.

The scope of Internal Audit covers the audit of the Bank's 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 is prioritised 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. The AC members are kept informed of the progress of the audits. 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 production application systems, 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 **In-Country Credit Committee** deals with approval of credit applications and review of existing credit portfolio.

The **Credit Management Committee** deals with all credit risk matters, including formulation and review of credit policies and assessment of risk profiles.

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 Management 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.

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 MANAGEMENT

Credit Risk Management (continued)

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 Management Committee and EXCO.

Credit Approval Process

To maintain independence and integrity of credit decision-making, the Bank has established a Credit Management Division (CMD) 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.

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.

Connected Party Transactions

During 2007, the Bank replaced the policies governing approval of credit facilities with "Related Parties", to "Connected Parties", to comply with revision in Bank Negara Malaysia (BNM)'s guidelines on Credit Transactions and Exposures with Connected Parties.

Credit Risk Concentration

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 Management 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.

Credit Stress Test

To assess the potential loss arising from the impact of plausible adverse events on the Bank's credit portfolio, credit stress test 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)

Basel II

Over the last few years, as part of the Bank plans to adopt best practice in risk management, substantial investments and significant progress were made in aligning to the requirements of the International Convergence of Capital Measurement and Capital Standards framework (Basel II). This effort included investments in human resources, IT systems, processes, and the development of internal models to estimate risk.

The Bank intends to adopt an Internal Rating Based Approach (IRBA) in the management of its credit exposures. To this end, significant changes have been made to the Bank's organisational structure, policies and procedures to ensure that internal risk ratings are integral to the Group's credit decision and management processes.

At the same time, the Bank has mapped all its business activities to the business lines defined by Basel II under the Standardised Approach for operational risk. To complement these initiatives, work is in progress in our parent bank to develop and implement a process to assess the adequacy of the Bank's capital to support the risks inherent to its core banking activities.

The Bank is committed to continue strengthening and investing in its risk management systems, processes and procedures to adopt best practices in its risk management framework.

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

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

Loan Classification	Description
Pass	All payments are current and full repayment of interest and principal from normal sources is not in doubt.
Special Mention	There is some potential weakness in the borrower's creditworthiness, but the extent of any credit deterioration does not warrant its classification as a Non-Performing Loan.
Substandard	There is weakness in the borrower's creditworthiness that jeopardises normal repayment. Default has occurred or is likely to occur or the repayment schedule has been restructured. A credit (except consumer loan) is greater than 90 days past due but less than 270 days past due. Consumer loan greater than 90 days but less than 120 days past due falls under this classification.
Doubtful	A credit (except consumer loan) is greater than 270 days past due but less than 365 days past due. Consumer loan greater than 120 days but less than 180 days past due falls under this classification.
Loss	A credit (except consumer loan) is greater than 365 days past due. Consumer loan greater than 180 days past due falls under this classification.

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

Loan Classification	Provision
Substandard	20% of any unsecured loan outstanding less interest-in-suspense
Doubtful	50% of any unsecured loan outstanding less interest-in-suspense
Loss	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 2006 and 31 December 2007:

	The Bank	
	Dec 2007 RM'000	Dec 2006 RM'000
Total non-performing loans	1,037,482	1,227,859
General provision	384,739	305,969
Total specific provision	341,847	352,240
Cumulative provisions	726,586	658,209
Ratios (%)		
NPLs/Gross total loans	4.0%	5.9%
NPLs/Net total loans	2.7%	4.3%
Cumulative provision/NPLs	70.0%	53.6%

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 highlights of its monthly risk management reports are reviewed by the Bank's Board of Directors and 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 38 to the financial statements represents the Bank's interest rate risk sensitivity based on repricing mismatches as at 31 December 2007. 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 2007, the Bank had an overall positive interest rate sensitivity gap of RM 3,761million, 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 for example 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 risk to the Bank's earnings or capital arising from its inability to meet its financial obligations as they fall due, without incurring significant costs or losses. Liquidity risk arises from the general funding of the Bank's banking activities and in the management of its assets and liabilities, including off-balance sheet items. The Bank maintains sufficient liquidity to fund its day-to-day operations, meet deposit withdrawals and loan disbursements, participation in new investments, and repayment of borrowings. Hence, liquidity is managed in a manner that addresses known as well as unanticipated cash funding needs.

Liquidity risk is managed within a framework of 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.

Aligning to the regulatory liquidity risk management framework, liquidity risk is measured and managed on a projected cash flow basis. The Bank is monitored under "business as usual", "bank-specific crisis" and "general market crisis" scenarios. Cash flow mismatch limits are established to limit the Bank's liquidity exposure. The Bank has also employed liquidity early warning indicators and established trigger points to signal possible contingency situations. At the tactical level, the Bank's Global Markets & Investment Management Division's Asset Liability Management unit is responsible for the active management of cash flows in accordance with the Bank's approved liquidity risk management policies and limits.

Liquidity contingency funding plans are in place to identify potential liquidity crises through early warning indicators; detailing crisis escalation process and the various strategies including funding and communication strategies to be taken to minimise the impact of a liquidity crunch. 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 governed by the Group ALCO, which provides risk oversight and policy guidance.

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 Middle Office, which is responsible to monitor, control and report all market and liquidity risk exposures arising from the activities and operations of UOBM GMIM, including daily Mark to Market valuation of GMIM product exposures.

To complement the Value at Risk (VaR), stress and scenario test are performed on the trading portfolio to identify the bank's vulnerability to event risks. The test serves to provide early warning of plausible extreme losses to facilitate proactive management of market risks.

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.

RISK MANAGEMENT

Operational Risk Management (continued)

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

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

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

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

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

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

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

As part of the Bank's comprehensive operational risk framework, Business 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.

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 scrutinized for insurability.

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.

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 with the relevant laws, regulations, policies and procedures in their respective areas.

DIRECTORS' REPORT

for the year ended 31 December 2007

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 2007.

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	660,433	664,475
Taxation	(177,219)	(181,685)
Net profit for the year	<u>483,214</u>	<u>482,790</u>

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

In the opinion of the directors, the results of the operations of the Group and of the Bank during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDENDS

The amount of dividends paid by the Bank since 31 December 2006 was as follows:

	RM'000
In respect of the financial year ended 31 December 2006 as reported in the directors' report for that year, a final dividend of 50% less 27% taxation, on 470 million ordinary shares, paid on 6 April 2007.	<u>171,550</u>

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2007, of 50% less 26% taxation on 470 million ordinary shares of RM1 each, amounting to a dividend payable of RM173,900,000 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 2008.

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

Dato' Maznah binti Abdul Jalil (resigned on 30 March 2007)

DIRECTORS' REPORT

for the year ended 31 December 2007

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, Restricted Share Plan and Share Appreciation Rights Plan 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 28 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.

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 2003 and 2004 (hereinafter called "Options 2003" and "Options 2004" respectively) have been set out in the ultimate holding company's directors' report for the financial year ended 31 December 2007.
- (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.

RESTRICTED SHARES AND SHARE APPRECIATION RIGHTS

Following the review of remuneration strategy across the Group, the Bank implemented the UOB Restricted Share Plan and UOB Share Appreciation Rights Plan on 28 September 2007 and made grants to selected employees of the Group. The objectives of the plans are to motivate key talents and high potentials whose contributions are essential to the long-term growth and success of the Group, foster commitment towards the Group's long-term goals, and enhance alignment to shareholders' interests.

Under the UOB Restricted Share Plan and UOB Share Appreciation Rights Plan, participants will receive fully-paid UOB ordinary shares and market-price share appreciation rights respectively free of charge, provided that the prescribed return on equity performance target is met at the end of the prescribed performance period. The actual number of shares and share appreciation rights to be given ultimately at the end of the prescribed period will depend on the level of attainment of the performance target. The performance period for 25% of the grant is 2 years and the remaining 75% is 3 years. The share appreciation rights are exercisable 2 years after the grant date and expire in the 6th year. Upon exercise of the vested share appreciation rights, participants will receive the gains in the form of UOB ordinary shares at market price. Only in exceptional cases, the Bank may settle its obligations under the share plans in cash or a combination of cash and shares. The share plans only allow the purchase and delivery of existing UOB ordinary shares to participants upon the vesting of the grants.

DIRECTORS' REPORT

for the year ended 31 December 2007

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			
		1.1.2007	Acquired	Disposed	31.12.2007
Ultimate holding corporation: United Overseas Bank Limited					
Wee Cho Yaw	- Direct	16,390,248	-	-	16,390,248
	- Indirect	245,208,142	1,800,000	-	247,008,142
Wee Ee Cheong	- Direct	2,794,899	-	-	2,794,899
	- Indirect	146,085,251	50,000	-	146,135,251
Ng Kee Wei	- Direct	447,582	-	-	447,582
	- Indirect	1,725,189	-	-	1,725,189
Lim Kean Chye	- Direct	117	-	-	117
Ong Sea Eng, Terence	- Indirect	10,000	-	(5,000)	5,000
Lee Chin Yong, Francis	- Direct	-	20,000	(20,000)	-
Chan Kok Seong	- Direct	5,000	24,000	-	29,000

		Number of Options Over Ordinary Shares of S\$1 Each under UOB ESOS			
		1.1.2007	Granted	Exercised	31.12.2007
Ultimate holding corporation: United Overseas Bank Limited					
Lee Chin Yong, Francis	- Direct	45,000	-	(20,000)	25,000
Chan Kok Seong	- Direct	24,000	-	(24,000)	-

		Number of Options Over Ordinary Shares of S\$1 Each under UOB Restricted Share Plan			
		1.1.2007	Granted	Exercised	31.12.2007
Ultimate holding corporation: United Overseas Bank Limited					
Lee Chin Yong, Francis	- Direct	-	20,109	-	20,109
Ong Sea Eng, Terence	- Direct	-	17,160	-	17,160
Chan Kok Seong	- Direct	-	8,433	-	8,433

		Number of Options Over Ordinary Shares of S\$1 Each under UOB Share Appreciation Rights Plan			
		1.1.2007	Granted	Exercised	31.12.2007
Ultimate holding corporation: United Overseas Bank Limited					
Lee Chin Yong, Francis	- Direct	-	85,355	-	85,355
Ong Sea Eng, Terence	- Direct	-	72,839	-	72,839
Chan Kok Seong	- Direct	-	35,794	-	35,794

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.

DIRECTORS' REPORT

for the year ended 31 December 2007

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.

BUSINESS STRATEGY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

Competition in the financial sector has intensified further in 2007, particularly in mortgages and small and medium enterprise ("SME") financing which continued to manifest itself in lower lending margins. Despite this competitive environment, the Bank had continued to achieve satisfactory results in 2007 mainly attributed to the robust growth in housing loans and lending to SME.

For the consumer banking segment, the Bank has done well by introducing a comprehensive range of innovative and competitively priced products. In 2007, the Bank achieved a 25% growth in its housing loans as it continued to focus on mid to high end residential mortgages. In April 2007, the Bank launched the UOB One Card, the first truly cash rebate card in the industry, which was well received by the consumers. During the year, its credit card base has grown by 26%. For its wealth management businesses, the Bank has also successfully introduced a wide range of wealth management products to its customers and achieved a remarkable 75% growth in unit trust sales. Besides broadening its sales channels, the Bank also embarked on a 3-year structured training program to improve productivity of its frontline sales staff.

For the commercial business segment, the Bank continued to leverage on its niche market in SME lending by providing speedy financial solutions to meet customers' needs. The Bank's decision to segregate its SME banking into two segments, one which caters to small enterprises for loans up to RM4million and the other for loans above RM4million, has shown encouraging results as its loans to the SME business sector registered a robust growth of 24% during the year. For the retail SME sector, its flagship product, UOB Biz Cash, a comprehensive and flexible financial solution package, specially developed to accommodate a retail SME's needs for financing of land and buildings, purchase of machinery and working capital requirements, was very well received by the customers. The Bank also managed to grow its trade finance volume by 21%, driven by the full suite of innovative trade products delivered consistently within an efficient standard turnaround time.

In line with the Bank's commitment to provide excellent customer services, the Bank has launched the Siebel Customer Relationship Management system which enabled Call Centre to provide better quality customer service with a more integrated view of customer information. In addition, the Bank has also enhanced its Interactive Voice Response system as part of its efforts to enhance customer satisfaction.

The Bank's investment banking unit continued to chalked-up satisfactory results in arranging Private Debts Securities ("PDS"), where the total issuance of PDS increased by 9%. Among the notable transactions in the PDS which were undertaken by the Bank were RM850 million Sukuk Ijarah Medium Term Notes for DRIR Management Sdn Bhd, RM500 million Nominal Value Bonds with detachable warrants for SP Setia Berhad and RM700 million Islamic Medium Term Notes for MTD InfraPerdana Berhad.

OUTLOOK FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2008

While the global economic outlook continues to be uncertain in view of the United States of America sub-prime mortgage crisis, the Bank expect the Malaysian economy to grow at a steady pace of 6.0% per annum in 2008. The growth will be supported primarily by high commodity prices and strong domestic demand stimulated by the implementation of projects earmarked under the Ninth Malaysian Plan and regional economic corridors.

The banking landscape will continue to experience rapid changes as Bank Negara Malaysia continues to liberalise the banking industry through the Financial Sector Masterplan initiatives. With the entry of new players particularly from the Middle East and non-banking financial entities, the Bank expects the competition to intensify. Nonetheless, the Bank will continue to focus on strengthening its position in the consumer and commercial banking businesses, supported by its robust risk management processes and strong regional networks. The Bank is well positioned to compete for growth in the selected market segments and expects to achieve satisfactory performance in 2008.

DIRECTORS' REPORT

for the year ended 31 December 2007

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 26 February, 2008.

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 30 to 90 are drawn up in accordance with provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia modified by Bank Negara Malaysia guidelines so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2007 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 26 February, 2008.

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 30 to 90 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 26 February, 2008.

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 2007

We have audited the financial statements set out on pages 30 to 90. 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 Financial Reporting Standards in Malaysia modified by Bank Negara Malaysia guidelines so as to give a true and fair view of:
 - (i) the financial position of the Group and of the Bank as at 31 December 2007 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 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

26 February, 2008.

BALANCE SHEETS

as at 31 December 2007

	Note	Group		Bank	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
ASSETS					
Cash and short-term funds	3	1,141,316	2,427,041	1,141,316	2,427,041
Securities purchased under resale agreements		2,430,909	3,105,055	2,430,909	3,105,055
Deposits and placements with financial institutions	4	726,277	374,334	726,277	374,334
Held-for-trading securities	5	577,497	1,249,258	577,497	1,249,258
Available-for-sale (AFS) securities	6	4,375,018	3,304,207	4,375,018	3,304,207
Loans, advances and financing	7	25,004,640	20,232,171	25,004,640	20,232,171
Other assets	8	419,897	411,398	420,403	415,427
Statutory deposits with Bank Negara Malaysia	9	817,000	497,000	817,000	497,000
Investment in subsidiaries	10	-	-	51	151
Investment in associates	11	161,372	163,142	122,733	122,733
Investment properties	12	9,000	10,000	9,000	10,000
Property, plant and equipment	13	242,500	213,608	242,119	212,461
Prepaid land lease payments	14	41,387	28,872	41,387	28,872
Deferred tax assets	15	69,728	54,076	69,728	54,076
		36,016,541	32,070,162	35,978,078	32,032,786
LIABILITIES AND EQUITY					
Deposits from customers	16	24,433,395	18,987,160	24,433,395	18,987,160
Deposits and placements of banks and other financial institutions	17	4,716,958	3,129,712	4,717,367	3,130,734
Obligations on securities sold under repurchase agreements		-	3,709,795	-	3,709,795
Bills and acceptances payable		3,027,681	2,697,630	3,027,681	2,697,630
Amount due to Cagamas	18	316,115	560,030	316,115	560,030
Other liabilities	19	715,400	505,972	715,326	505,788
Taxation		62,822	69,418	62,822	69,418
TOTAL LIABILITIES		33,272,371	29,659,717	33,272,706	29,660,555
SHARE CAPITAL	20	470,000	470,000	470,000	470,000
RESERVES	21	2,274,170	1,940,445	2,235,372	1,902,231
SHAREHOLDERS EQUITY		2,744,170	2,410,445	2,705,372	2,372,231
Negative goodwill	22	-	-	-	-
		2,744,170	2,410,445	2,705,372	2,372,231
TOTAL LIABILITIES AND EQUITY		36,016,541	32,070,162	35,978,078	32,032,786
COMMITMENTS AND CONTINGENCIES	34	52,243,292	49,467,174	52,243,292	49,467,174

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

INCOME STATEMENTS

for the year ended 31 December 2007

	Note	Group		Bank	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Operating revenue	23	2,224,208	1,941,046	2,247,564	1,949,358
Interest income	24	1,824,838	1,553,510	1,824,830	1,553,493
Interest expense	25	(956,052)	(848,663)	(956,052)	(848,663)
Net interest income		868,786	704,847	868,778	704,830
Other operating income	26	411,321	399,971	435,314	408,299
Operating income		1,280,107	1,104,818	1,304,092	1,113,129
Other operating expenses	27	(451,456)	(370,671)	(453,900)	(369,175)
Operating profit before allowance for losses on loans, advances and and financing and provision for commitments and contingencies		828,651	734,147	850,192	743,954
Allowance for losses on loans, advances and financing	29	(185,787)	(166,586)	(185,789)	(166,583)
Net write back of provision for commitments and contingencies		72	22	72	22
Net income		642,936	567,583	664,475	577,393
Share of profit of associates		17,497	18,033	-	-
Profit before taxation		660,433	585,616	664,475	577,393
Income tax expense	30	(177,219)	(167,316)	(181,685)	(169,783)
Profit for the year attributable to equity holders of the parent		483,214	418,300	482,790	407,610
Basic earnings per share (sen)	31	102.8	89.0		
Dividends per share (sen)	32	37.0	36.5	37.0	36.5

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2007

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		
2007									
Balance as at 1 January 2007		470,000	322,555	470,000	37,504	(37)	1,110,423	2,410,445	
Net profit for the year		-	-	-	-	-	483,214	483,214	
Revaluation of properties		-	-	-	28,317	-	-	28,317	
Impairment losses	12	-	-	-	(637)	-	-	(637)	
Share of revaluation reserve from associated company		-	-	-	160	-	-	160	
Net unrealised loss on AFS securities		-	-	-	-	(4,280)	-	(4,280)	
Realisation of revaluation reserve upon disposal of land and buildings		-	-	-	(2,944)	-	2,944	-	
Transfer to deferred tax	15	-	-	-	(2,569)	1,070	-	(1,499)	
Dividends paid:									
- final dividend for the year ended 31 December 2006	32	-	-	-	-	-	(171,550)	(171,550)	
Balance as at 31 December 2007		470,000	322,555	470,000	59,831	(3,247)	1,425,031	2,744,170	
2006									
Balance as at 1 January 2006		470,000	322,555	470,000	35,737	4,763	861,320	2,164,375	
Net profit for the year		-	-	-	-	-	418,300	418,300	
Revaluation of properties	13	-	-	-	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	15	-	-	-	1,715	1,865	-	3,580	
Dividends paid:									
- final dividend for the year ended 31 December 2005	32	-	-	-	-	-	(169,200)	(169,200)	
Balance as at 31 December 2006		470,000	322,555	470,000	37,504	(37)	1,110,423	2,410,445	

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2007

	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		
2007									
Balance as at 1 January 2007		470,000	322,555	470,000	52,556	(37)	1,057,157	2,372,231	
Net profit for the year		-	-	-	-	-	482,790	482,790	
Revaluation of properties		-	-	-	28,317	-	-	28,317	
Impairment losses	12	-	-	-	(637)	-	-	(637)	
Net unrealised loss on AFS securities		-	-	-	-	(4,280)	-	(4,280)	
Realisation of revaluation reserve upon disposal of land and buildings		-	-	-	(2,944)	-	2,944	-	
Transfer to deferred tax	15	-	-	-	(2,569)	1,070	-	(1,499)	
Dividends paid:									
- final dividend for the year ended 31 December 2006	32	-	-	-	-	-	(171,550)	(171,550)	
Balance as at 31 December 2007		470,000	322,555	470,000	74,723	(3,247)	1,371,341	2,705,372	
2006									
Balance as at 1 January 2006		470,000	322,555	470,000	50,789	4,763	818,744	2,136,851	
Net profit for the year		-	-	-	-	-	407,610	407,610	
Revaluation of properties	13	-	-	-	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	15	-	-	-	1,715	1,865	-	3,580	
Dividends paid:									
- final dividend for the year ended 31 December 2005	32	-	-	-	-	-	(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	

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

CASH FLOW STATEMENTS

for the year ended 31 December 2007

Note	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Cash Flows From Operating Activities				
Profit before taxation	660,433	585,616	664,475	577,393
Adjustments for:				
Share of profits of associates	(17,497)	(18,033)	-	-
Loss/(gain) on disposal of property, plant and equipment	365	1,011	(266)	1,011
Depreciation of property, plant and equipment	34,293	29,845	34,066	29,618
Depreciation of investment property	363	-	363	-
Amortisation of prepaid land lease payments	451	560	451	560
Gain on disposal of subsidiaries	(250)	-	(300)	-
Impairment of property, plant and equipment	100	-	100	-
Allowance for losses on loans, advances and financing	185,787	166,586	185,789	166,583
Bad debts written off	-	-	3,677	-
Net unrealised loss/(gain) on held-for-trading securities	24,062	(53,967)	24,062	(53,967)
Write back of commitments and contingencies, net	(72)	(22)	(72)	(22)
Dividend income	(808)	(594)	(24,701)	(9,403)
Interest income from available-for-sale securities	(159,209)	(162,152)	(159,209)	(162,152)
Gain from sale of available-for-sale securities	(6,274)	(4,078)	(6,274)	(4,078)
Unrealised foreign exchange (gain)/loss	(9,729)	14,792	(9,729)	14,792
Net profit from sale of held-for-trading securities	(58,728)	(42,469)	(58,728)	(42,469)
Amortisation of premium less accretion of discount	6,839	3,768	6,839	3,768
Operating profit before working capital changes	660,126	520,863	660,543	521,634
Increase in operating assets:				
Loans and advances	(4,958,256)	(3,197,735)	(4,958,258)	(3,197,732)
Held-for-trading securities	706,427	(289,015)	706,427	(289,015)
Securities purchased under resale agreements	674,146	(1,352,953)	674,146	(1,352,953)
Statutory deposits with Bank Negara Malaysia	(320,000)	(18,500)	(320,000)	(18,500)
Other assets	10,998	(23,028)	(8,644)	(30,239)
	(3,886,685)	(4,881,231)	(3,906,329)	(4,888,439)
Increase in operating liabilities:				
Deposits from customers	5,446,235	2,347,074	5,446,235	2,347,074
Deposits and placements of banks and other financial institutions	1,587,246	(1,165,036)	1,586,633	(1,165,239)
Obligation on securities sold under repurchase agreements	(3,709,795)	(801,109)	(3,709,795)	(801,109)
Bills and acceptances payable	330,051	1,038,678	330,051	1,038,678
Amount due to Cagamas	(243,915)	(742,499)	(243,915)	(742,499)
Other liabilities	219,297	(34,136)	219,339	(34,246)
	3,629,119	642,972	3,628,548	642,659
Cash generated from operations	402,560	(3,717,396)	382,762	(3,724,146)
Taxation paid	(200,752)	(150,740)	(200,752)	(150,740)
Net cash generated from/(used in) operating activities	201,808	(3,868,136)	182,010	(3,874,886)

CASH FLOW STATEMENTS

for the year ended 31 December 2007

	Note	Group		Bank	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Cash Flows From Investing Activities					
Proceeds from disposal of property, plant and equipment		3,519	18,816	3,494	18,816
Purchase of property, plant and equipment		(51,971)	(41,044)	(51,709)	(40,636)
Net cash inflow from disposal of subsidiary	10	265	-	400	-
Interest income from available-for-sale securities		159,209	162,152	159,209	162,152
Net purchase of available-for-sale securities		(1,075,656)	1,193,202	(1,075,656)	1,193,202
Dividend received		594	446	20,020	6,788
Net cash (used in)/generated from investing activities		(964,040)	1,333,572	(944,242)	1,340,322
Cash Flows From Financing Activities					
Dividends paid representing net cash used in financing activities		(171,550)	(169,200)	(171,550)	(169,200)
Net decrease in cash and cash equivalents		(933,782)	(2,703,764)	(933,782)	(2,703,764)
Cash and cash equivalents at beginning of year		2,801,375	5,505,139	2,801,375	5,505,139
Cash and cash equivalents at end of year		1,867,593	2,801,375	1,867,593	2,801,375
Analysis of cash and cash equivalents					
Cash and short term funds	3	1,141,316	2,427,041	1,141,316	2,427,041
Deposits and placements with financial institutions	4	726,277	374,334	726,277	374,334
		1,867,593	2,801,375	1,867,593	2,801,375

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

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 26 February, 2008.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements comply with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards ("FRS") in Malaysia modified by Bank Negara Malaysia Guidelines.

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

On 1 January 2007, the Group and the Bank adopted the following FRSs mandatory for financial periods beginning on or after 1 October 2006:

FRS 117 Leases

FRS 124 Related Party Disclosures

(a) FRS 117: Leases

Prior to 1 January 2006, leasehold land held for own use was classified as property, plant and equipment and was stated at cost less accumulated depreciation and impairment losses. The adoption of the revised FRS 117 has resulted in a change in the accounting policy relating to the classification of leases of land and buildings. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and building elements of a lease of land and building are considered separately for the purposes of lease classification. Leasehold land held for own use is now classified as operating lease and where necessary, the minimum lease payments or the up-front payments made are allocated between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and building element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(a) FRS 117 : Leases

The Group and the Bank has applied the change in accounting policy in respect of leasehold land in accordance with the transitional provisions of FRS 117. At 1 January 2006, the unamortised amount of leasehold land is retained as the surrogate carrying amount of prepaid lease payments as allowed by the transitional provisions. The reclassification of leasehold land as prepaid lease payments has been accounted for retrospectively and as disclosed below, certain comparatives have been restated. The effects on the balance sheets as at 31 December 2006 and income statements for the year ended 31 December 2006 are set out below.

(i) Effects on Balance Sheets as at 31 December 2006

Description of change	As previously stated RM'000	Increase/ (Decrease) RM'000	Restated RM'000
Group			
Property, plant and equipment	242,480	(28,872)	213,608
Prepaid land lease payments	-	28,872	28,872
Bank			
Property, plant and equipment	241,333	(28,872)	212,461
Prepaid land lease payments	-	28,872	28,872

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

Group			
Depreciation of property, plant and equipment	30,405	(560)	29,845
Amortisation of prepaid land and lease payments	-	560	560
Bank			
Depreciation of property, plant and equipment	30,178	(560)	29,618
Amortisation of prepaid land and lease payments	-	560	560

(b) FRS 124: Related Party Disclosures

The adoption of FRS 124 did not result in significant changes in accounting policies of the Group and the Bank and did not have a significant impact on the Group and the Bank. The additional disclosures are reflected in Note 33 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The following new and revised FRSs which are mandatory for companies with financial periods beginning on or after 1 January 2007 are not relevant to the Group and the Bank:

FRS	Effective for financial periods beginning on/after
FRS 6: Exploration for and Evaluation of Mineral Resources	1 January 2007

The Group and the Bank have not adopted the following new and revised FRSs which have been issued but are not yet effective.

FRS	Effective for financial periods beginning on/after
Amendment to FRS 121: The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operations	1 July 2007
FRS 107: Cash Flow Statements	1 July 2007
FRS 111: Construction Contracts	1 July 2007
FRS 112: Income Taxes	1 July 2007
FRS 118: Revenue	1 July 2007
FRS 120: Accounting for Government Grants and Disclosure of Government Assistance	1 July 2007
FRS 134: Interim Financial Reporting	1 July 2007
FRS 137: Provisions, Contingent Liabilities and Contingent Assets	1 July 2007
IC Interpretation 1: Changes in Existing, Decommissioning, Restoration and Similar Liabilities	1 July 2007
IC Interpretation 2: Members' Shares in Co-operative Entities and Similar Instruments	1 July 2007
IC Interpretation 5: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 July 2007
IC Interpretation 6: Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	1 July 2007
IC Interpretation 7: Applying the Restatement Approach under FRS 129 ²⁰⁰⁴ Financial Reporting in Hyperinflationary Economies	1 July 2007
IC Interpretation 8: Scope of FRS 2	1 July 2007

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The impact of applying the above FRSs, amendments to accounting standards and IC interpretations on these financial statements upon first adoption of these standards as required by paragraph 30(b) of FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors are not disclosed as FRS 107, 112, 118, 134 and 137, Amendment to FRS 121, IC Interpretation 1 and 8 do not have any significant financial impact on the financial statements, and FRS 111, 120 and IC Interpretation 2, 5, 6 and 7 are not applicable to the Group and the Bank.

In the previous financial year, the MASB had also issued FRS 139 Financial Instruments: Recognition and Measurement for which the MASB has yet to announce the effective date. The impact of applying FRS 139 on the financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors is not required to be disclosed by virtue of exemptions provided under paragraph 103AB of FRS 139.

2.3 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Group Accounting Policies (continued)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Group Accounting Policies (continued)

(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 on a declared basis.

(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, fifty percent (50%) for non-performing loans in arrears five (5) to seven (7) years and hundred percent (100%) for those 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Group Accounting Policies (continued)

(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 have 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Group Accounting Policies (continued)

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

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.

(j) Investment Properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less any accumulated depreciation and impairment losses.

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 cost.

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.

Prior to 1 Jan 2007, investment properties were stated at fair value and any gain or loss arising from change in fair value was recognised in the income statement. The change in the accounting policy for investment properties in the current financial year, to conform with a new accounting policy of the ultimate holding company which was adopted in the current financial year, has had no significant impact on the financial statements of the Group and of the Bank for the financial year ended 31 December 2006.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Group Accounting Policies (continued)

(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.

(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, which is also the Bank's functional currency.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Group Accounting Policies (continued)

(m) Foreign Currencies (continued)

(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. 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Group Accounting Policies (continued)

(o) Employee Benefits (continued)

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Group Accounting Policies (continued)

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

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Summary of Significant Group Accounting Policies (continued)

(v) Financial Instruments (continued)

(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.

2.4 Significant Accounting Estimates and Judgements

In the preparation of the financial statements, management has been required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimate is revised and in any future periods affected.

Significant areas of estimation, uncertainty and critical judgements used in applying accounting policies that have significant effect on the amount recognised in the financial statements include the following:

(a) Fair value estimation for securities held-for-trading and securities available-for-sale

The fair value of securities that are not traded in an active market are determined using valuation techniques based on assumptions of market conditions existing at the balance sheet date, including reference to quoted market prices and independent dealer quotes for similar securities and discounted cash flows method.

(b) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the losses and capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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

Whilst the assessment of allowance for losses required for loans, advances and financing is made in accordance with the requirements of BNM/GP3 Guidelines on the Classification of Non-Performing Loans and Provision for Substandards, Bad and Doubtful Debts, the Bank exercises judgement in the valuation of certain collateral when assessing the levels of loan loss allowance required.

(d) Impairment of assets

Assessment of impairment of securities available-for-sale and securities held-to-maturity is made in line with the guidance in the revised BNM/GP8 to determine when the investment is other than temporarily impaired. Management judgement is required to evaluate the duration and extent by which the fair value of the financial instruments are below its carrying value and when there is indication of permanent impairment in the carrying value of the financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. CASH AND SHORT-TERM FUNDS

	Group and Bank	
	2007 RM'000	2006 RM'000
Cash and balances with banks and other financial institutions	597,316	236,775
Money at call and deposit placements maturing within one month	544,000	2,190,266
	1,141,316	2,427,041

4. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group and Bank	
	2007 RM'000	2006 RM'000
Licensed banks	33,080	-
Bank Negara Malaysia	-	300,000
Other financial institutions	693,197	74,334
	726,277	374,334

5. HELD-FOR-TRADING SECURITIES

	Group and Bank	
	2007 RM'000	2006 RM'000
At fair value:		
Malaysian Government treasury bills	-	112,509
Malaysian Government securities	164,251	-
Bank Negara Malaysia Bills	-	662,479
Bankers' acceptances and Islamic accepted bills	-	3,134
Islamic private debt securities	85,575	264,382
Cagamas bonds	-	49,860
Private debt securities	327,671	156,894
Total held-for-trading securities	577,497	1,249,258

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

6. AVAILABLE-FOR-SALE (AFS) SECURITIES

	Group and Bank	
	2007 RM'000	2006 RM'000
At fair value:		
Money market instruments:		
Bank Negara Malaysia Bills	226,925	-
Bankers' acceptances	355,776	-
Malaysian Government treasury bills	63,506	-
Malaysian Government securities	838,137	2,206
Negotiable instruments of deposits	1,930,015	2,570,017
Cagamas bonds	303,895	213,721
Private debt securities	635,999	497,948
	4,354,253	3,283,892
Quoted securities:		
Shares of corporations in Malaysia	2,575	2,740
Corporate loan stocks	5,642	5,027
	8,217	7,767
At cost:		
Unquoted securities:		
Shares	12,272	12,272
Private debt securities	276	276
	12,548	12,548
Total available-for-sale securities	4,375,018	3,304,207

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

7. LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Overdrafts	2,807,803	2,871,023	2,807,803	2,871,023
Term loans and revolving credits				
Housing loans	8,477,711	6,791,307	8,477,711	6,791,307
Syndicated term loans	423,427	105,239	423,427	105,239
Lease receivables	-	3	-	3
Other term loans/financing	7,761,387	6,134,316	7,761,387	6,134,316
Credit cards receivable	909,878	781,145	909,878	781,145
Bills receivable	109,501	112,521	109,501	112,521
Trust receipts	879,447	561,371	879,447	561,371
Claims on customers under acceptance credits	4,272,907	3,447,565	4,272,907	3,447,565
Staff loans				
- Executive directors	450	489	450	489
- Others	95,722	91,359	95,722	91,359
Others	9,737	5,692	9,737	5,692
	25,747,970	20,902,030	25,747,970	20,902,030
Unearned interest	(16,744)	(11,650)	(16,744)	(11,650)
Gross loans, advances and financing	25,731,226	20,890,380	25,731,226	20,890,380
Allowance for losses on loans and financing				
- Specific	(341,847)	(352,240)	(341,847)	(352,240)
- General	(384,739)	(305,969)	(384,739)	(305,969)
Net loans, advances and financing	25,004,640	20,232,171	25,004,640	20,232,171

(i) By maturity structure:

Maturing within one year	11,439,396	9,899,911	11,439,396	9,899,911
One year to three years	978,522	819,946	978,522	819,946
Three years to five years	1,165,654	857,300	1,165,654	857,300
Over five years	12,147,654	9,313,223	12,147,654	9,313,223
	25,731,226	20,890,380	25,731,226	20,890,380

(ii) By type of customer

Domestic banking institutions	34,761	-	34,761	-
Domestic non-bank financial institutions				
- Stockbroking companies	-	130	-	130
- Others	79,923	108,004	79,923	108,004
Domestic business enterprises				
- Small medium enterprises	6,728,691	5,413,640	6,728,691	5,413,640
- Others	6,928,583	5,788,902	6,928,583	5,788,902
Government	49,300	104,796	49,300	104,796
Individuals	11,203,375	9,251,224	11,203,375	9,251,224
Other domestic entities	3,031	214	3,031	214
Foreign entities	703,562	223,470	703,562	223,470
	25,731,226	20,890,380	25,731,226	20,890,380

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

7. LOANS, ADVANCES AND FINANCING (continued)

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
(iii) By interest/profit rate sensitivity				
Fixed rate				
Housing loans/financing	95,376	90,759	95,376	90,759
Other fixed rate loan/financing	951,484	773,713	951,484	773,713
Variable rate				
BLR plus	23,137,335	18,393,960	23,137,335	18,393,960
Cost-plus	1,061,899	1,090,848	1,061,899	1,090,848
Other variable rates	485,132	541,100	485,132	541,100
	25,731,226	20,890,380	25,731,226	20,890,380
(iv) By sector:				
Agriculture, hunting forestry and fishing	117,329	93,881	117,329	93,881
Mining and quarrying	34,946	38,337	34,946	38,337
Manufacturing	5,127,661	4,391,770	5,127,661	4,391,770
Electricity, gas and water	28,815	29,220	28,815	29,220
Construction	1,512,810	1,167,166	1,512,810	1,167,166
Wholesale & retail trade and restaurants & hotels	3,811,760	3,101,268	3,811,760	3,101,268
Transport, storage and communication	521,347	518,187	521,347	518,187
Finance, insurance and business services	1,445,962	1,063,636	1,445,962	1,063,636
Real estate	1,032,166	753,602	1,032,166	753,602
Community, social and personal services	105,019	91,693	105,019	91,693
Households of which:				
- purchase of residential properties	8,854,145	6,748,297	8,854,145	6,748,297
- purchase of non residential properties	981,387	703,700	981,387	703,700
- others	2,108,159	2,081,891	2,108,159	2,081,891
Others	49,720	107,732	49,720	107,732
	25,731,226	20,890,380	25,731,226	20,890,380
(v) Movements in non-performing loans, advances and financing are as follows:				
At beginning of the year	1,227,859	1,200,785	1,227,859	1,200,338
Classified as non-performing during the year	441,253	507,901	441,253	507,898
Amount recovered	(241,300)	(160,237)	(241,300)	(160,237)
Reclassified as performing	(185,785)	(180,169)	(185,785)	(180,169)
Amount written off	(204,545)	(140,421)	(204,545)	(139,971)
At end of the year	1,037,482	1,227,859	1,037,482	1,227,859
Specific allowance	(341,847)	(352,240)	(341,847)	(352,240)
Net non-performing loans, advances and financing	695,635	875,619	695,635	875,619
Ratio of net non-performing loans, advances and financing to net loans, advances and financing	2.7%	4.3%	2.7%	4.3%

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

7. LOANS, ADVANCES AND FINANCING (continued)

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
(vi) Movements in allowance for losses on loans, advances and financing are as follows:				
General allowance				
Balance as at 1 January	305,969	251,944	305,969	251,888
Allowance made during the year	78,770	54,081	78,770	54,081
Amount written off	-	(56)	-	-
Balance as at 31 December	384,739	305,969	384,739	305,969
As % of gross loans, advances and financing (excluding loan to Government) less specific allowance	1.5%	1.5%	1.5%	1.5%
Specific allowance				
Balance as at 1 January	352,240	337,234	352,240	336,842
Allowance made during the year	251,780	211,012	251,780	211,009
Amount written back in respect of recoveries	(58,844)	(61,826)	(58,844)	(61,826)
Amount written off	(203,329)	(134,180)	(203,329)	(133,785)
Balance as at 31 December	341,847	352,240	341,847	352,240
(vii) Non performing loans according to economic sectors are as follows:				
Agriculture, hunting forestry and fishing	1,122	2,077	1,122	2,077
Mining and quarrying	596	2,567	596	2,567
Manufacturing	366,344	366,826	366,344	366,826
Construction	33,272	34,671	33,272	34,671
Wholesale & retail trade and restaurants & hotels	195,505	262,988	195,505	262,988
Transport, storage and communication	9,715	3,553	9,715	3,553
Finance, insurance and business services	9,690	109,535	9,690	109,535
Real estate	41,550	74,222	41,550	74,222
Community, social and personal services	14,910	23,972	14,910	23,972
Households of which:				
- purchase of residential properties	234,388	197,069	234,388	197,069
- purchase of non residential properties	13,610	12,420	13,610	12,420
- others	108,009	137,959	108,009	137,959
Others	8,771	-	8,771	-
	1,037,482	1,227,859	1,037,482	1,227,859

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

8. OTHER ASSETS

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Other receivables, deposits and prepayments	297,550	267,559	297,511	267,498
Derivative assets	18,391	54,479	18,391	54,479
Accrued interest receivable	50,883	48,047	50,883	48,047
Amount due to subsidiaries	-	-	545	4,090
Precious metal accounts (Note (a))	49,024	37,579	49,024	37,579
Foreclosed properties held for sale (Note (b))	4,049	3,734	4,049	3,734
	419,897	411,398	420,403	415,427

- (a) 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 RM133,285,000 (2006: RM86,828,000) net of cash collateral received from the customers of RM84,259,000 (2006: RM49,249,000). The amount due to ultimate holding company is classified as other accruals and provisions in other liabilities (Note 19).

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.

- (b) 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	
	2007 RM'000	2006 RM'000
Unquoted shares in Malaysia, at cost	51	151

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

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
		2007 %	2006 %	
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	Trustee services
UOB (2007) Bhd	7	100	100	Dormant
UOB Credit Bhd	2	100	100	Leasing company
UOB 2006 Nominees (Tempatan) Sdn Bhd	10,000	100	100	Dormant
UOB 2006 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.

Disposal of subsidiary

The Group disposed of its 100% equity interest in UOB Trustee (Malaysia) Berhad on 1 November 2007 for a total consideration of RM800,000.

The disposal had the following effects on the financial position of the Group as at end of the year:

	2007 RM'000
Trade and other receivables	83
Cash and bank balances	535
Trade and other payables	(66)
Current tax payable	(2)
Net assets disposed	550
Total disposal proceeds	(800)
Gain on disposal to the Group	(250)
Disposal proceeds settled by cash	800

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

10. INVESTMENT IN SUBSIDIARIES (continued)

Disposal of subsidiary (continued)

	2007 RM'000
Cash inflow arising on disposal:	
Cash consideration	800
Cash and cash equivalents of subsidiary disposed	(535)
Net cash inflow of the Group	265

The disposal of subsidiary had the following effect on the financial results of the Bank:

	2007 RM'000
Total disposal proceeds	400
Less: Cost of investment in subsidiary	(100)
Gain on disposal of subsidiary	300

11. INVESTMENT IN ASSOCIATES

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Unquoted shares, at cost	122,733	122,733	122,733	122,733
Share of post-acquisition reserves	38,639	40,409	-	-
	161,372	163,142	122,733	122,733

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

	Group's effective interest		Principal activities
	2007 %	2006 %	
OSK-UOB Unit Trust Management Berhad	30	30	Management of unit trust funds
Uni.Asia Capital Sdn Bhd	49	49	Investment holding company

The financial statements of the above associates are coterminous with those of the Group, except for Uni Asia Capital Sdn Bhd which has a financial year end of 31 March to conform with its holding company's financial year end.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

11. INVESTMENT IN ASSOCIATES (continued)

The summarised financial information of the associates are as follows:

	2007 RM'000	2006 RM'000
Assets and liabilities		
Current assets	390,768	176,234
Non-current assets	1,350,350	1,408,789
Total assets	1,741,118	1,585,023
Current liabilities	488,701	464,178
Non-current liabilities	878,304	746,575
Total liabilities	1,367,005	1,210,753
Revenue		
Revenue	428,394	366,899
Profit before taxation	55,358	54,892
Profit for the year	39,916	39,203

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

	2007 RM'000	2006 RM'000
Cost		
At 1 January	19,755	32,924
Effects of adopting FRS 3: Business Combinations and FRS 136: Impairment of Assets	-	(13,169)
At 31 December	19,755	19,755
Accumulated amortisation		
At 1 January	-	13,169
Effects of adopting FRS 3: Business Combinations and FRS 136: Impairment of Assets	-	(13,169)
At 31 December	-	-
Net carrying amount		
At 31 December	19,755	19,755

In the previous financial year, the Group adopted FRS 3 and FRS 136 which has resulted in the Group ceasing amortisation of goodwill.

12. INVESTMENT PROPERTIES

	Group and Bank	
	2007 RM'000	2006 RM'000
At 1 January	10,000	-
Transfer from property, plant and equipment	-	10,000
Impairment loss recognised in equity	(637)	-
Depreciation charge	(363)	-
At 31 December	9,000	10,000

In the previous 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 2007

13. PROPERTY, PLANT AND EQUIPMENT

Group	Freehold land RM'000	Buildings RM'000	Office furniture, fittings and equipment RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital Work-in- progress RM'000	Total RM'000
At 31 December 2007							
Cost or valuation							
At 1 January 2007							
At cost	-	2,552	122,212	165,883	5,905	4,275	300,827
At valuation	23,319	108,634	-	-	-	-	131,953
	23,319	111,186	122,212	165,883	5,905	4,275	432,780
Additions	-	2,033	9,433	38,581	984	941	51,972
Disposals	(1,880)	(1,348)	(12,249)	(14,951)	(681)	-	(31,109)
Revaluation surplus	11,193	4,158	-	-	-	-	15,351
Elimination of accumulated depreciation on revaluation	-	(20,771)	-	-	-	-	(20,771)
At 31 December 2007	32,632	95,258	119,396	189,513	6,208	5,216	448,223
Representing:							
At cost	-	-	119,396	189,513	6,208	5,216	320,333
At valuation	32,632	95,258	-	-	-	-	127,890
At 31 December 2007	32,632	95,258	119,396	189,513	6,208	5,216	448,223
Accumulated Depreciation and Impairment							
At 1 January 2007							
At cost	723	18,564	79,419	117,729	2,737	-	219,172
Depreciation charge	-	4,368	7,930	20,840	1,155	-	34,293
Disposals	-	(438)	(12,149)	(13,848)	(636)	-	(27,071)
Impairment loss	100	-	-	-	-	-	100
Elimination of accumulated depreciation on revaluation	-	(20,771)	-	-	-	-	(20,771)
At 31 December 2007	823	1,723	75,200	124,721	3,256	-	205,723
Net carrying amount							
At cost							
At cost	-	-	44,196	64,792	2,952	5,216	117,156
At valuation	31,809	93,535	-	-	-	-	125,344
At 31 December 2007	31,809	93,535	44,196	64,792	2,952	5,216	242,500
At 31 December 2006							
Cost or valuation							
At 1 January 2006							
At cost	-	2,552	110,152	152,574	5,047	1,459	271,784
At valuation	44,287	119,361	-	-	-	-	163,648
	44,287	121,913	110,152	152,574	5,047	1,459	435,432
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	111,186	122,212	165,883	5,905	4,275	432,780
Representing:							
At cost	-	2,552	122,212	165,883	5,905	4,275	300,827
At valuation	23,319	108,634	-	-	-	-	131,953
At 31 December 2006	23,319	111,186	122,212	165,883	5,905	4,275	432,780

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)	Freehold land RM'000	Buildings RM'000	Office furniture, fittings and equipment RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital Work-in- progress RM'000	Total RM'000
Accumulated Depreciation and Impairment							
At 1 January 2006	2,692	15,012	74,794	108,441	2,188	-	203,127
Depreciation charge	-	4,334	7,245	17,312	954	-	29,845
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	18,564	79,419	117,729	2,737	-	219,172
Net carrying amount							
At cost	-	-	42,793	48,154	3,168	4,275	98,390
At valuation	22,596	92,622	-	-	-	-	115,218
At 31 December 2006	22,596	92,622	42,793	48,154	3,168	4,275	213,608
Bank							
	Freehold land RM'000	Buildings RM'000	Office furniture, fittings and equipment RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital Work-in- progress RM'000	Total RM'000
At 31 December 2007							
Cost/Valuation							
At 1 January 2007							
At cost	-	2,552	121,493	165,088	5,905	4,275	299,313
At valuation	23,319	108,634	-	-	-	-	131,953
	23,319	111,186	121,493	165,088	5,905	4,275	431,266
Additions	-	2,033	9,327	38,424	984	941	51,709
Disposals	(1,880)	(1,348)	(12,142)	(13,755)	(681)	-	(29,806)
Revaluation surplus	11,193	4,158	-	-	-	-	15,351
Elimination of accumulated depreciation on revaluation	-	(20,771)	-	-	-	-	(20,771)
At 31 December 2007	32,632	95,258	118,678	189,757	6,208	5,216	447,749
Representing:							
At cost	-	-	118,678	189,757	6,208	5,216	319,859
At valuation	32,632	95,258	-	-	-	-	127,890
At 31 December 2007	32,632	95,258	118,678	189,757	6,208	5,216	447,749
Accumulated Depreciation and Impairment							
At 1 January 2007	723	18,564	79,210	117,571	2,737	-	218,805
Depreciation charge	-	4,368	7,884	20,659	1,155	-	34,066
Disposals	-	(438)	(12,111)	(13,385)	(636)	-	(26,570)
Impairment loss	100	-	-	-	-	-	100
Elimination of accumulated depreciation on revaluation	-	(20,771)	-	-	-	-	(20,771)
At 31 December 2007	823	1,723	74,983	124,845	3,256	-	205,630
Net carrying amount							
At cost	-	-	43,695	64,912	2,952	5,216	116,775
At valuation	31,809	93,535	-	-	-	-	125,344
At 31 December 2007	31,809	93,535	43,695	64,912	2,952	5,216	242,119

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Bank (continued)	Freehold land RM'000	Buildings RM'000	Office furniture, fittings and equipment RM'000	Computer equipment and software RM'000	Motor vehicles RM'000	Capital Work-in- progress RM'000	Total RM'000
At 31 December 2006							
Cost or Valuation							
At 1 January 2006							
At cost	-	2,552	109,675	151,946	5,047	1,459	270,679
At valuation	44,287	119,361	-	-	-	-	163,648
	44,287	121,913	109,675	151,946	5,047	1,459	434,327
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	111,186	121,493	165,088	5,905	4,275	431,266
Representing:							
At cost	-	2,552	121,493	165,088	5,905	4,275	299,313
At valuation	23,319	108,634	-	-	-	-	131,953
At 31 December 2006	23,319	111,186	121,493	165,088	5,905	4,275	431,266
Accumulated Depreciation and Impairment							
At 1 January 2006	2,692	15,012	74,725	108,370	2,188	-	202,987
Depreciation charge	-	4,334	7,105	17,225	954	-	29,618
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	18,564	79,210	117,571	2,737	-	218,805
Net carrying amount							
At cost	-	-	42,283	47,517	3,168	4,275	97,243
At valuation	22,596	92,622	-	-	-	-	115,218
At 31 December 2006	22,596	92,622	42,283	47,517	3,168	4,275	212,461

Land and buildings are revalued on 31 December 2007 by Knight Frank, Ooi & Zaharin Sdn Bhd, an independent qualified valuer using the comparative and investment method to reflect the fair value.

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	
	2007 RM'000	2006 RM'000
Freehold land	12,131	12,295
Freehold building	11,854	10,307
Long leasehold building	26,749	28,618
	50,734	51,220

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for the year ended 31 December 2007

14. PREPAID LAND LEASE PAYMENTS

	Group and Bank	
	2007 RM'000	2006 RM'000
Long term leasehold land		
At 1 January	28,872	29,432
Revaluation surplus	12,966	-
Amortisation for the year	(451)	(560)
At 31 December	41,387	28,872

15. DEFERRED TAX ASSETS

	Group and Bank	
	2007 RM'000	2006 RM'000
At 1 January	54,076	35,691
Recognised in the income statement (Note 30)	17,151	14,805
Recognised in equity	(1,499)	3,580
At 31 December	69,728	54,076
An analysis of the Group's and the Bank's deferred tax position is as follows:		
- Deferred tax assets	98,241	79,960
- Deferred tax liabilities	(28,513)	(25,884)
	69,728	54,076

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 2006	70,529	178	70,707
Charged to income statement	9,023	230	9,253
At 31 December 2006	79,552	408	79,960
Charged to income statement	16,633	1,648	18,281
At 31 December 2007	96,185	2,056	98,241

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 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
Charged to income statement	1,596	-	(466)	1,130
Recognised in equity	-	(1,070)	2,569	1,499
At 31 December 2007	6,875	(1,083)	22,721	28,513

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

15. DEFERRED TAX ASSETS (continued)

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

	Group	
	2007 RM'000	2006 RM'000
Unutilised tax losses	63,171	64,920
Unabsorbed capital allowances	11,172	12,098
	74,343	77,018

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.

16. DEPOSITS FROM CUSTOMERS

	Group and Bank	
	2007 RM'000	2006 RM'000
Demand deposits	3,351,581	2,512,964
Savings deposits	1,580,662	1,358,215
Fixed deposits	14,539,809	13,600,494
Negotiable instruments of deposits	520,048	819,628
Money market deposits	3,877,471	-
Others	563,824	695,859
	24,433,395	18,987,160

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

Due within six months	11,339,233	11,058,235
Six months to one year	3,256,522	2,851,635
One year to three years	329,676	305,337
Three years to five years	89,725	98,216
Over five years	44,701	106,699
	15,059,857	14,420,122

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

Business enterprises	10,117,691	6,427,716
Individuals	13,158,735	11,292,149
Others	1,156,969	1,267,295
	24,433,395	18,987,160

17. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Licensed banks	1,542,212	1,215,909	1,542,621	1,216,931
Licensed investment banks	389,100	-	389,100	-
Bank Negara Malaysia	1,646,506	314,954	1,646,506	314,954
Other financial institutions	1,139,140	1,598,849	1,139,140	1,598,849
	4,716,958	3,129,712	4,717,367	3,130,734

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18. AMOUNT DUE TO CAGAMAS

	Group and Bank	
	2007 RM'000	2006 RM'000
At 1 January	560,030	1,302,529
Repayments	(243,915)	(742,499)
At 31 December	316,115	560,030

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.

19. OTHER LIABILITIES

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Provision for commitments and contingencies (Note (i))	1,236	1,308	1,236	1,308
Derivative liabilities	120,953	86,455	120,953	86,455
Accrued interest payable	181,126	165,169	181,126	165,169
Accruals and provisions for operational expenses	75,778	54,567	75,704	54,467
Other accruals and provisions (Note (ii))	336,307	198,473	336,307	198,389
	715,400	505,972	715,326	505,788

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

At 1 January	1,308	1,330	1,308	1,330
Provision made during the year	52	88	52	88
Amount written back in respect of recoveries	(124)	(110)	(124)	(110)
At 31 December	1,236	1,308	1,236	1,308

(ii) Included in other accruals and provisions is an amount due to the ultimate holding company of RM133,284,000 (2006: RM86,828,000) in relation to precious metals on-loan to customers of the Bank as disclosed in Note 8.

20. SHARE CAPITAL

	Group and Bank	
	2007 RM'000	2006 RM'000
Authorised:		
2,000,000,000 ordinary shares of RM1 each	2,000,000	2,000,000
Issued and fully paid-up:		
470,000,000 ordinary shares of RM1 each	470,000	470,000

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

21. RESERVES

	Note	Group		Bank	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Non-distributable					
Share premium		322,555	322,555	322,555	322,555
Statutory reserve	(a)	470,000	470,000	470,000	470,000
Revaluation reserves		59,831	37,504	74,723	52,556
Net unrealised reserves on AFS securities		(3,247)	(37)	(3,247)	(37)
		849,139	830,022	864,031	845,074
Distributable					
Retained profits	(b)	1,425,031	1,110,423	1,371,341	1,057,157
Total Reserves		2,274,170	1,940,445	2,235,372	1,902,231

- (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 2007, the Bank has tax exempt profits available for distribution of approximately RM248,764,724 (2006: RM248,764,724) before the proposed final dividend in respect of the current financial year ended 31 December 2007, subject to the agreement of the Inland Revenue Board.

Presently, Malaysian companies adopt the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividend paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have irrevocable option to disregard the 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

The Bank has not yet elected for the irrevocable option to disregard the 108 balance. Accordingly, during the transitional period, the Bank may utilise the credit in the 108 balance as at 31 December 2007 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007. As at 31 December 2007, the Bank has sufficient credit in the 108 balance to pay franked dividends out of its entire retained earnings.

22. NEGATIVE GOODWILL

	Group	
	2007 RM'000	2006 RM'000
At 1 January	-	27,701
Effects of adopting FRS 3	-	(27,701)
At 31 December	-	-

The first time adoption of FRS 3 in the previous financial year had resulted in any excess of the Group's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisitions (negative goodwill), after reassessment, to be recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

23. 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.

24. INTEREST INCOME

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Loans and advances				
- Interest income other than recoveries from NPLs	1,253,673	1,043,490	1,253,673	1,043,490
- Recoveries from NPLs	119,711	77,811	119,711	77,811
Money at call and deposit placements with financial institutions	274,568	249,273	274,560	249,256
Held-for-trading securities	26,179	28,383	26,179	28,383
Available-for-sale securities	159,209	162,152	159,209	162,152
Others	2,602	6,787	2,602	6,787
	1,835,942	1,567,896	1,835,934	1,567,879
Amortisation of premium less accretion of discount	(6,839)	(3,945)	(6,839)	(3,945)
Net interest suspended	(4,265)	(10,441)	(4,265)	(10,441)
	1,824,838	1,553,510	1,824,830	1,553,493

25. INTEREST EXPENSE

	Group and Bank	
	2007 RM'000	2006 RM'000
Deposits and placements of banks and other financial institutions	192,224	192,180
Deposits from other customers	656,333	493,220
Loans sold to Cagamas	16,282	38,549
Others	91,213	124,714
	956,052	848,663

26. OTHER OPERATING INCOME

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Fee income				
- Commission	116,741	81,285	116,160	80,808
- Guarantee fees	27,625	23,396	27,625	23,396
- Service charges and fees	103,541	81,450	103,541	81,446
- Commitment fee	22,092	25,351	22,092	25,351
- Arrangement and participation fees	17,146	13,028	17,146	13,028
	287,145	224,510	286,564	224,029

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

26. OTHER OPERATING INCOME (continued)

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Investment income				
- Gain from sale of held-for-trading securities	58,728	42,469	58,728	42,469
- Gain from sale of available-for-sale securities	6,274	4,078	6,274	4,078
- Unrealised (loss)/gain on held-for-trading securities	(24,062)	53,967	(24,062)	53,967
- Gain on disposal of subsidiaries	250	-	300	-
- Gross dividends from:				
- available-for-sale securities quoted in Malaysia	808	594	808	594
- associate	-	-	23,893	8,809
	41,998	101,108	65,941	109,917
Other income				
- Foreign exchange gain/(losses)				
- realised	56,769	73,748	56,769	73,748
- unrealised	9,729	(14,792)	9,729	(14,792)
- Rental income from operating leases, other than those from investment properties	276	492	276	492
- Rental income from investment properties	600	300	600	300
- (Loss)/gain on disposal of property, plant and equipment	(365)	(1,011)	266	(1,011)
- Impairment of property, plant and equipment	(100)	-	(100)	-
- Other operating income	2,854	2,170	2,854	2,170
- Others	12,415	13,446	12,415	13,446
	82,178	74,353	82,809	74,353
	411,321	399,971	435,314	408,299

27. OTHER OPERATING EXPENSES

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Personnel expenses	242,437	196,165	240,463	193,989
Establishment related expenses	92,342	77,309	91,842	76,784
Promotion and marketing related expenses	36,799	32,137	38,340	33,808
General administrative expenses	79,878	65,060	83,255	64,594
	451,456	370,671	453,900	369,175
Personnel expenses				
- Wages, salaries and bonus	192,696	156,766	191,049	154,990
- Defined contribution retirement plan	30,556	23,010	30,323	22,736
- Other employee benefits	19,185	16,389	19,091	16,263
	242,437	196,165	240,463	193,989

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

27. OTHER OPERATING EXPENSES (continued)

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Establishment related expenses				
- Depreciation of property, plant and equipment	34,293	29,845	34,066	29,618
- Depreciation of investment property	363	-	363	-
- Amortisation of prepaid land lease payments	451	560	451	560
- Hire of equipment	64	37	58	29
- Information technology costs	9,902	8,205	9,894	8,168
- Repair and maintenance	14,405	11,565	14,337	11,515
- Rental of premises	6,443	4,603	6,300	4,451
- Others	26,421	22,494	26,373	22,443
	92,342	77,309	91,842	76,784
Promotion and marketing related expenses				
- Advertising and publicity	21,668	16,162	21,652	16,144
- Others	15,131	15,975	16,688	17,664
	36,799	32,137	38,340	33,808
General administrative expenses				
- Fees and commissions paid	33,274	27,473	33,187	27,209
- Auditors' remuneration	449	449	439	441
- Amount due from subsidiary written off	-	-	3,677	-
- Others	46,155	37,138	45,952	36,944
	79,878	65,060	83,255	64,594
The above expenditure includes the following:				
Directors' remuneration (Note 28)	1,538	1,329	1,538	1,329

28. CEO AND DIRECTORS' REMUNERATION

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

	Group and Bank	
	2007 RM'000	2006 RM'000
CEO		
- Salary and other remuneration	686	625
- Bonus	400	350
- Fees	40	15
- Benefits-in-kind	7	10
Non-executive Directors		
- Fees	405	329
Total	1,538	1,329

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	
	2007	2006
Executive director:		
RM500,000 to RM1,000,000	1	1
Non-executive directors:		
RM1 to RM50,000	7	8
RM50,001 to RM100,000	1	1

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

29. ALLOWANCE FOR LOSSES ON LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Allowance for losses on loans, advances and financing:				
(a) Specific allowance				
- made in the financial year	251,780	211,012	251,780	211,009
- written back in the financial year	(58,844)	(61,826)	(58,844)	(61,826)
(b) General allowance				
- made in the financial year	78,770	54,081	78,770	54,081
Bad debts on loans, advances and financing:				
- written off	634	887	634	887
- recovered	(86,553)	(37,568)	(86,551)	(37,568)
	185,787	166,586	185,789	166,583

30. INCOME TAX EXPENSE

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Income tax:				
Malaysian income tax in respect				
of current financial year	192,759	181,963	197,225	184,430
Under provided in prior years	1,611	158	1,611	158
	194,370	182,121	198,836	184,588
Deferred tax (Note 15):				
Relating to origination and reversal of temporary differences	(19,530)	(14,050)	(19,530)	(14,050)
Deferred tax recognised at different tax rates	3,690	(755)	3,690	(755)
Overprovision in prior years	(1,311)	-	(1,311)	-
	(17,151)	(14,805)	(17,151)	(14,805)
	177,219	167,316	181,685	169,783

Domestic income tax is calculated at the Malaysian statutory tax rate of 27% (2006: 28%) of the estimated assessable profit for the year. The domestic statutory rate will be reduced to 26% from the current year's rate of 27%, effective year of assessment 2008 and to 25% effective year of assessment 2009. The computation of deferred tax as at 31 December have reflected these changes.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

30. INCOME TAX EXPENSE (continued)

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	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Profit before taxation	660,433	585,616	664,475	577,393
Taxation at Malaysian statutory tax rate of 27% (2006: 28%)	178,317	163,972	179,408	161,670
Effect of changes in tax rates on opening balance of deferred tax	3,033	-	3,033	-
Deferred tax recognised at different tax rates	657	(755)	657	(755)
Income not subject to tax	(6,839)	(4,771)	(6,839)	-
Expenses not deductible for tax purposes	5,128	10,810	5,126	8,710
Effects of share of associates' post-tax profits included in Group's profit before taxation	(3,377)	(2,098)	-	-
Underprovision of tax expense in prior years	1,611	158	1,611	158
Overprovision of deferred tax in prior years	(1,311)	-	(1,311)	-
Tax expense for the year	177,219	167,316	181,685	169,783

31. EARNINGS PER SHARE

The earnings per ordinary share of the Group has been calculated based on the net profit after taxation of RM483,214,000 (2006: RM418,300,000) and on the number of ordinary shares of RM1.00 each in issue during the year of 470,000,000 (2006: 470,000,000).

32. DIVIDENDS

	Group and Bank			
	2007 Net dividend per share sen	2007 Amount of dividend, net of tax RM'000	2006 Net dividend per share sen	2006 Amount of dividend, net of tax RM'000
Proposed final dividend	37.0	173,900	36.5	171,550

At the forthcoming Annual General Meeting, a final dividend in respect of the financial year ended 31 December 2007, of 50% less 26% taxation on 470,000,000 ordinary shares of RM1 each, amounting to dividend payable of RM173,900,000 (37 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 2008.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

33. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) 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
Chung Khiaw Realty Limited	Other related parties

(b) Key Management Personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Bank either directly or indirectly. The key management personnel of the Group and the Bank includes Non-Executive Directors of the Bank and certain members of senior management of the Bank.

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	Key Management Personnel RM'000	Other related companies RM'000
2007					
Income					
- Interest on placements, loans and advances	62,621	-	-	220	-
- Rental income	34	56	-	-	113
- Dividend income	-	-	23,893	-	-
	62,655	56	23,893	220	113
Expenditure					
- Interest on deposits	87,574	9	708	687	247
- Rental expense	-	-	-	-	131
- Other expense	27	-	-	-	-
	87,601	9	708	687	378
Amount due from					
- Cash and short-term funds	202,848	-	-	-	169
- Deposits and placements with financial institution	693,197	-	-	-	-
- Loans, advances and financing	-	-	-	6,973	-
- Other assets	10,823	546	-	-	-
	906,868	546	-	6,973	169

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

33. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

	Ultimate holding company RM'000	Subsidiaries RM'000	Associates RM'000	Key Management Personnel RM'000	Other related companies RM'000
2007 (continued)					
Amount due to					
- Deposits from customers	-	411	1,873	24,631	17
- Deposits and placements of banks and other financial institutions	1,043,551	-	7,059	-	8,941
- Other liabilities	149,370	-	-	-	-
	1,192,921	411	8,932	24,631	8,958
2006					
Income					
- Interest on placements, loans and advances	9,108	-	-	180	-
- Rental income	34	67	113	-	-
- Dividend income	-	-	-	-	8,809
	9,142	67	113	180	8,809
Expenditure					
- Interest on deposits	152,282	16	228	502	104
- Rental expense	-	-	131	-	-
- Other expense	-	-	-	-	-
	152,282	16	359	502	104
Amount due from					
- Cash and short-term funds	1,637,794	-	371	-	-
- Deposits and placements with financial institution	74,334	-	-	-	-
- Loans, advances and financing	-	-	-	6,329	-
- Other assets	10,327	4,090	-	-	-
	1,722,455	4,090	371	6,329	-
Amount due to					
- Deposits from customers	-	748	-	18,977	1,303
- Deposits and placements of banks and other financial institutions	1,090,972	272	8,696	-	3,057
- Other liabilities	100,556	-	-	-	-
	1,191,528	1,020	8,696	18,977	4,360

The remuneration of key management personnel included in the income statement was as follows:

	Group and Bank	
	2007 RM'000	2006 RM'000
Short-term employee benefits	9,691	6,789
Post employment benefits:		
Defined contribution retirement plan	1,533	1,092
Share based payment*	430	-
	11,654	7,881

* In the current financial year, key management personnel of the Bank were granted options to subscribe in shares of the holding company under the Restricted Share Plan and Share Appreciation Rights Plan. As at 31 December 2007 the number of options held by key management personnel under these 2 plans were 58,513 and 248,334, respectively.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

34. 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.

2007	Group and Bank		
	Principal amount RM'000	Credit equivalent amount RM'000	Risk weighted amount RM'000
Direct credit substitutes	1,856,018	1,856,018	1,803,956
Transaction-related contingent items	1,108,620	554,310	443,894
Short-term self-liquidating trade-related contingencies	544,727	108,945	101,385
Irrevocable commitments to extend credit			
- maturity more than one year	1,948,814	974,407	834,844
- maturity less than one year	16,593,290	-	-
Foreign exchange related contracts			
- less than one year	9,122,314	223,948	48,504
- more than one year to less than five years	1,177,902	96,220	19,244
Interest rate related contracts			
- less than one year	3,183,324	7,663	1,533
- more than one year to less than five years	15,370,242	432,381	87,967
- five years and above	911,940	103,228	20,646
Others	426,101	-	-
Total	52,243,292	4,357,120	3,361,973
2006			
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	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

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

34. COMMITMENTS AND CONTINGENCIES (continued)

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

	2007 Principal amount RM'000	2006 Principal amount RM'000
The Group and Bank		
Foreign exchange contract		
- forward and futures contracts	1,669,644	901,834
- cross currency interest rate swaps	8,630,572	5,835,312
Interest rate contracts		
- forward and futures contracts	1,275,000	10,829,000
- swaps	18,190,506	12,693,228

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 2007 the amounts of contracts which were not hedged and hence, exposed to market risk was RM1,007,000 (2006: RM14,010,000).

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 2007, the amounts of credit risk, measured in terms of the cost to replace the profitable contracts, was RM106,232,695 (2006: RM63,025,690). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates of prices.

35. CAPITAL COMMITMENTS

	Group and Bank	
	2007 RM'000	2006 RM'000
Capital expenditure for property, plant and equipment:		
- authorised and contracted for	15,805	27,428
- authorised but not contracted for	15,096	28,285
	30,901	55,713

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

36. 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	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Future minimum rentals payments:				
Not later than 1 year	4,577	5,599	4,462	5,483
Later than 1 year and not later than 5 years	2,653	7,121	2,521	6,919
Later than 5 years	-	24	-	24
	7,230	12,744	6,983	12,426

37. CAPITAL ADEQUACY

	2007 RM'000	2006 RM'000
Bank		
Tier I capital		
- paid-up share capital	470,000	470,000
- share premium	322,555	322,555
Retained profits	1,371,341	1,057,157
Statutory reserve	470,000	470,000
Less:		
- Deferred tax assets	(69,728)	(54,076)
	2,564,168	2,265,636
Tier II capital		
- property revaluation reserve	37,362	26,278
- general allowance for losses on loans, advances and financing	384,739	305,969
	422,101	332,247
Total capital	2,986,269	2,597,883
Less: Investment in subsidiaries	(51)	(151)
Capital base	2,986,218	2,597,732

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

Core capital ratio	9.96%	10.45%
Risk-weighted capital ratio	11.60%	11.98%
Core capital ratio (net of proposed dividends)	9.29%	9.65%
Risk-weighted capital ratio (net of proposed dividends)	10.92%	11.19%

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

37. CAPITAL ADEQUACY (continued)

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

	2007		2006	
	Principal RM'000	Risk- weighted RM'000	Principal RM'000	Risk- weighted RM'000
0%	6,479,786	-	5,830,869	-
20%	5,020,498	1,004,100	5,595,859	1,119,172
50%	8,315,607	4,157,804	6,662,896	3,331,448
100%	20,090,385	20,090,385	16,410,973	16,410,973
	39,906,276	25,252,289	34,500,597	20,861,593
Market Risk	30,223,328	486,929	31,137,586	828,739
	70,129,604	25,739,218	65,638,183	21,690,332

38. FINANCIAL RISK MANAGEMENT

The Bank's business activities involve the use of financial instruments, including derivatives. These activities 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. It is carried out centrally by the various specialist committees of the Bank under delegated authority of the Board of Directors. These various specialist committees formulate, review and approve policies and limits on monitoring and managing risk exposures under their respective supervision. The major policy decisions and proposals approved by these committees are subject to review by the Executive Committee.

The Risk Management Division assumes the independent oversight of risk undertaken by the Bank, and takes the lead in the formulation and approval of risk policy, controls and processes. The Middle Office enforces Global Markets and Investment Management's compliance with trading policies and limits. This is further enhanced by the periodic risk assessment audit carried out by the Internal Audit.

The main financial risks that the Bank is exposed to and how they are being managed are set out below:

(a) Foreign exchange risk

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

The Bank's foreign exchange exposures arise mainly from its foreign exchange position-taking or proprietary business, and customer facilitation business. To mitigate foreign currency risk, the Bank predominately uses foreign currency outright forward 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 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 by Middle Office.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

38. FINANCIAL RISK MANAGEMENT (continued)

(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.

The In-Country Credit Committee, under delegated authority from the Executive Committee, deals with approval of credit applications and review of existing credit facilities.

The Credit Management Committee, under delegated authority from the Executive Committee, deals with all credit risk matters, including formulation and review of credit policies.

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:

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for the year ended 31 December 2007

38. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit Risk (continued)

Group 2007	Short term funds, securities purchased under resale agreements 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, hunting, forestry and fishing	-	23,660	-	117,329	(1,778)	-	139,211	93,561
Mining and quarrying	-	-	-	34,946	(530)	-	34,416	163,156
Manufacturing	-	16,446	334,670	5,127,661	(225,833)	335	5,253,279	6,402,702
Electricity, gas and water	-	138,441	-	28,815	(437)	669	167,488	377,743
Construction	-	38,056	497	1,512,810	(34,180)	95	1,517,278	3,954,270
Wholesale & retail trade and restaurants & hotels	-	-	-	3,811,760	(124,916)	-	3,686,844	4,000,521
Transport, storage, and communication	-	54,703	181,847	521,347	(10,675)	1,373	748,595	401,284
Finance, insurance, and business services	4,298,502	255,726	3,857,902	1,445,962	(29,619)	1,026,705	10,855,178	31,660,222
Real estate	-	50,465	102	1,032,166	(25,647)	118	1,057,204	341,416
Community, social and personal services	-	-	-	105,019	(13,038)	-	91,981	82,521
Households	-	-	-	11,943,691	(259,180)	-	11,684,511	4,645,471
Others	-	-	-	49,720	(753)	364,925	413,892	120,425
	4,298,502	577,497	4,375,018	25,731,226	(726,586)	1,394,220	35,649,877	52,243,292
Other assets not subject to credit risk	-	-	-	-	-	366,664	366,664	-
	4,298,502	577,497	4,375,018	25,731,226	(726,586)	1,760,884	36,016,541	52,243,292
Group 2006								
Agriculture, hunting, forestry and fishing	-	21,342	-	93,881	(1,399)	-	113,824	98,083
Mining and quarrying	-	-	-	38,337	(1,085)	-	37,252	96,674
Manufacturing	-	43,842	342,101	4,391,770	(191,059)	-	4,586,654	6,200,137
Electricity, gas and water	-	59,723	-	29,220	(435)	-	88,508	398,768
Construction	-	41,972	-	1,167,166	(28,986)	-	1,180,152	3,116,187
Wholesale & retail trade and restaurants & hotels	-	-	-	3,101,268	(127,944)	-	2,973,324	3,485,208
Transport, storage, and communication	-	179,382	155,846	518,187	(9,843)	18,788	862,360	218,554
Finance, insurance, and business services	5,906,430	893,359	2,805,000	1,063,636	(62,175)	692,383	11,298,633	31,625,525
Real estate	-	9,638	1,260	753,602	(16,226)	-	748,274	361,418
Community, social and personal services	-	-	-	91,693	(7,165)	-	84,528	105,040
Households	-	-	-	9,533,888	(210,287)	-	9,323,601	3,551,040
Others	-	-	-	107,732	(1,605)	356,635	462,762	210,540
	5,906,430	1,249,258	3,304,207	20,890,380	(658,209)	1,067,806	31,759,872	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)	1,378,096	32,070,162	49,467,174

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

38. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit Risk (continued)

Bank 2007	Short term funds, securities purchased under resale agreements and placements with financial institutions		Available- for-sale securities	Loans, advances and financing	Specific provision and general provision	Other assets	On balance sheet total	Commitment and contingencies
	RM'000	Held-for- trading securities RM'000						
Agriculture, hunting, forestry and fishing	-	23,660	-	117,329	(1,778)	-	139,211	93,561
Mining and quarrying	-	-	-	34,946	(530)	-	34,416	163,156
Manufacturing	-	16,446	334,670	5,127,661	(225,833)	335	5,253,279	6,402,702
Electricity, gas and water	-	138,441	-	28,815	(437)	669	167,488	377,743
Construction	-	38,056	497	1,512,810	(34,180)	95	1,517,278	3,954,270
Wholesale & retail trade and restaurants & hotels	-	-	-	3,811,760	(124,916)	-	3,686,844	4,000,521
Transport, storage, and communication	-	54,703	181,847	521,347	(10,675)	1,373	748,595	401,284
Finance, insurance, and business services	4,298,502	255,726	3,857,902	1,445,962	(29,619)	988,622	10,817,095	31,660,222
Real estate	-	50,465	102	1,032,166	(25,647)	118	1,057,204	341,416
Community, social and personal services	-	-	-	105,019	(13,038)	-	91,981	82,521
Households	-	-	-	11,943,691	(259,180)	-	11,684,511	4,645,471
Others	-	-	-	49,720	(753)	364,925	413,892	120,425
	4,298,502	577,497	4,375,018	25,731,226	(726,586)	1,356,137	35,611,794	52,243,292
Other assets not subject to credit risk	-	-	-	-	-	366,284	366,284	-
	4,298,502	577,497	4,375,018	25,731,226	(726,586)	1,722,421	35,978,078	52,243,292
Bank 2006								
Agriculture, hunting, forestry and fishing	-	21,342	-	93,881	(1,399)	-	113,824	98,083
Mining and quarrying	-	-	-	38,337	(1,085)	-	37,252	96,674
Manufacturing	-	43,842	342,101	4,391,770	(191,059)	-	4,586,654	6,200,137
Electricity, gas and water	-	59,723	-	29,220	(435)	-	88,508	398,768
Construction	-	41,972	-	1,167,166	(28,986)	-	1,180,152	3,116,187
Wholesale & retail trade and restaurants & hotels	-	-	-	3,101,268	(127,944)	-	2,973,324	3,485,208
Transport, storage, and communication	-	179,382	155,846	518,187	(9,843)	18,788	862,360	218,554
Finance, insurance, and business services	5,906,430	893,359	2,805,000	1,063,636	(62,175)	651,974	11,258,224	31,625,525
Real estate	-	9,638	1,260	753,602	(16,226)	-	748,274	361,418
Community, social and personal services	-	-	-	91,693	(7,165)	-	84,528	105,040
Households	-	-	-	9,533,888	(210,287)	-	9,323,601	3,551,040
Others	-	-	-	107,732	(1,605)	360,815	466,942	210,540
	5,906,430	1,249,258	3,304,207	20,890,380	(658,209)	1,031,577	31,723,643	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)	1,340,720	32,032,786	49,467,174

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

38. FINANCIAL RISK MANAGEMENT (continued)

(c) Interest rate risk

Interest rate risk is the risk to earnings and economic value of the Bank 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 of loans and withdrawal of deposits.

Group	Non-trading book					Non interest sensitive	Trading book	Effective interest rate	
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years			Total	rate
2007	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Assets									
Cash and short term funds	544,000	-	-	-	-	597,316	-	1,141,316	4.16
Securities purchased under resale agreements	1,119,391	1,311,518	-	-	-	-	-	2,430,909	3.53
Deposits and placements with financial institutions	-	431,702	294,575	-	-	-	-	726,277	5.77
Held-for-trading securities	-	-	-	-	-	-	577,497	577,497	3.82
Available-for-sale securities	1,130,729	1,078,578	323,926	1,306,671	514,350	20,764	-	4,375,018	3.60
Loans, advances and financing									
- performing	16,651,909	1,687,566	1,687,267	1,149,058	346,741	2,797,026	-	24,319,567	6.68
- non-performing	-	-	-	-	-	685,073	-	685,073	
Other assets	-	-	-	-	-	1,760,884	-	1,760,884	
	19,446,029	4,509,364	2,305,768	2,455,729	861,091	5,861,063	577,497	36,016,541	
Liabilities									
Deposits from customers	11,886,934	3,409,643	5,319,054	898,314	44,701	2,874,749	-	24,433,395	2.99
Deposits and placements of banks and financial institutions	2,542,958	1,436,529	507,037	-	-	230,434	-	4,716,958	3.82
Bills and acceptances payable	13,315	13,504	6,354	-	-	2,994,508	-	3,027,681	2.87
Amount due to Cagamas	53,188	3,475	119,328	140,124	-	-	-	316,115	3.81
Other liabilities	-	-	-	-	-	778,222	-	778,222	
	14,496,395	4,863,151	5,951,773	1,038,438	44,701	6,877,913	-	33,272,371	
On-balance sheet interest sensitivity gap	4,949,634	(353,787)	(3,646,005)	1,417,291	816,390				
Off-balance sheet interest sensitivity gap	(854,131)	2,696,240	140,994	(1,901,163)	(81,940)				
Total interest sensitivity gap	4,095,503	2,342,453	(3,505,011)	(483,872)	734,450				

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

38. FINANCIAL RISK MANAGEMENT (continued)

(c) Interest rate risk (continued)

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			
Assets									
Cash and short term funds	2,190,266	-	-	-	-	236,775	-	2,427,041	4.90
Securities purchased									
under resale agreements	252,980	2,548,982	303,093	-	-	-	-	3,105,055	3.57
Deposits and placements									
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	-	-	-	-	-	1,378,096	-	1,378,096	
	15,656,072	6,346,987	1,832,185	1,347,556	694,357	4,943,747	1,249,258	32,070,162	
Liabilities									
Deposits from customers	8,331,389	2,656,461	4,750,856	913,019	106,700	2,228,735	-	18,987,160	2.93
Deposits and placements of banks and financial institutions	1,943,708	776,167	390,277	-	-	19,560	-	3,129,712	3.78
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	-	-	-	-	-	575,390	-	575,390	
	13,873,591	3,578,635	5,396,784	1,229,935	106,700	5,474,072	-	29,659,717	
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 2007

38. FINANCIAL RISK MANAGEMENT (continued)

(c) Interest rate risk (continued)

Bank 2007	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				
Assets									
Cash and short term funds	544,000	-	-	-	-	597,316	-	1,141,316	4.16
Securities purchased under resale agreements	1,119,391	1,311,518	-	-	-	-	-	2,430,909	3.53
Deposits and placements with financial institutions	-	431,702	294,575	-	-	-	-	726,277	5.77
Held-for-trading securities	-	-	-	-	-	-	577,497	577,497	3.82
Available-for-sale securities	1,130,729	1,078,578	323,926	1,306,671	514,350	20,764	-	4,375,018	3.60
Loans, advances and financing									
- performing	16,651,909	1,687,566	1,687,267	1,149,058	346,741	2,797,026	-	24,319,567	6.68
- non-performing	-	-	-	-	-	685,073	-	685,073	
Other assets	-	-	-	-	-	1,722,421	-	1,722,421	
	19,446,029	4,509,364	2,305,768	2,455,729	861,091	5,822,600	577,497	35,978,078	
Liabilities									
Deposits from customers	11,886,934	3,409,643	5,319,054	898,314	44,701	2,874,749	-	24,433,395	2.99
Deposits and placements of banks and financial institutions	2,543,367	1,436,529	507,037	-	-	230,434	-	4,717,367	3.82
Bills and acceptances payable	13,315	13,504	6,354	-	-	2,994,508	-	3,027,681	2.87
Amount due to Cagamas	53,188	3,475	119,328	140,124	-	-	-	316,115	3.81
Other liabilities	-	-	-	-	-	778,148	-	778,148	
	14,496,804	4,863,151	5,951,773	1,038,438	44,701	6,877,839	-	33,272,706	
On-balance sheet interest sensitivity gap	4,949,225	(353,787)	(3,646,005)	1,417,291	816,390				
Off-balance sheet interest sensitivity gap	(854,131)	2,696,240	140,994	(1,901,163)	(81,940)				
Total interest sensitivity gap	4,095,094	2,342,453	(3,505,011)	(483,872)	734,450				

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

38. FINANCIAL RISK MANAGEMENT (continued)

(c) Interest rate risk (continued)

Bank 2006	<----- 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				
Assets									
Cash and short term funds	2,190,266	-	-	-	-	236,775	-	2,427,041	4.90
Securities purchased under resale agreements	252,980	2,548,982	303,093	-	-	-	-	3,105,055	3.57
Deposits and placements 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	-	-	-	-	-	1,340,720	-	1,340,720	
	15,656,072	6,346,987	1,832,185	1,347,556	694,357	4,906,371	1,249,258	32,032,786	
Liabilities									
Deposits from customers	8,331,389	2,656,461	4,750,856	913,019	106,700	2,228,735	-	18,987,160	2.93
Deposits and placements of banks and financial institutions	1,944,730	776,167	390,277	-	-	19,560	-	3,130,734	3.78
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	-	-	-	-	-	575,206	-	575,206	
	13,874,613	3,578,635	5,396,784	1,229,935	106,700	5,473,888	-	29,660,555	
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				

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 2007

38. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its financial obligations as and when they fall due, such as upon the maturity of deposits and draw-down of loans.

The Banks manages liquidity risk in accordance with the liquidity framework, comprising liquidity policies, controls and limits 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 cash flow mismatch limits, monitoring of liquidity early warning indicators, stress test analysis of cash flows in liquidity crisis scenarios and establishment of a comprehensive contingency funding plan.

The following table shows the maturity analysis of the Bank's assets and liabilities based on contractual terms.

Group 2007	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Total RM'000
Assets							
Cash and short term funds	998,632	-	-	-	-	142,684	1,141,316
Securities purchased under resale agreement	2,430,909	-	-	-	-	-	2,430,909
Deposits and placements with financial institutions	431,702	195,335	99,240	-	-	-	726,277
Held-for-trading securities	81,538	-	19,994	246,848	229,117	-	577,497
Available-for-sale securities	2,209,307	268,209	55,716	1,306,671	514,350	20,765	4,375,018
Loans, advances and financing	8,829,872	1,905,725	689,279	4,075,872	9,503,892	-	25,004,640
Other assets	14,405	530	91,101	163,074	-	1,491,774	1,760,884
	14,996,365	2,369,799	955,330	5,792,465	10,247,359	1,655,223	36,016,541
Liabilities							
Deposits from customers	18,157,348	2,027,636	3,291,419	898,314	44,701	13,977	24,433,395
Deposits and placements of banks and financial institutions	3,788,279	339,603	167,434	-	-	421,642	4,716,958
Bills and acceptances payables	2,518,997	365,391	-	-	-	143,293	3,027,681
Amount due to Cagamas	56,663	5,255	114,074	140,123	-	-	316,115
Other liabilities	-	-	-	1,201	-	777,021	778,222
	24,521,287	2,737,885	3,572,927	1,039,638	44,701	1,355,933	33,272,371
Net maturity mismatches	(9,524,922)	(368,086)	(2,617,597)	4,752,827	10,202,658		

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

38. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

Group 2006	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Total RM'000
Assets							
Cash and short term funds	2,335,562	-	-	-	-	91,479	2,427,041
Securities purchased under resale agreement	2,801,962	303,093	-	-	-	-	3,105,055
Deposits and placements 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	-	-	-	-	-	1,378,096	1,378,096
	14,920,533	2,243,119	1,068,034	3,871,494	8,477,092	1,489,890	32,070,162
Liabilities							
Deposits from customers	13,324,930	1,741,143	2,883,184	913,019	106,699	18,185	18,987,160
Deposits and placements of banks and financial institutions	2,424,481	386,088	4,190	-	-	314,953	3,129,712
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	-	-	-	-	-	575,390	575,390
	21,694,058	2,614,272	2,947,276	1,229,935	106,699	1,067,477	29,659,717
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 2007

38. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

Bank 2007	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Total RM'000
Assets							
Cash and short term funds	998,632	-	-	-	-	142,684	1,141,316
Securities purchased under resale agreement	2,430,909	-	-	-	-	-	2,430,909
Deposits and placements with financial institutions	431,702	195,335	99,240	-	-	-	726,277
Held-for-trading securities	81,539	-	19,994	246,848	229,116	-	577,497
Available-for-sale securities	2,209,308	268,209	55,716	1,306,671	514,349	20,765	4,375,018
Loans, advances and financing	8,829,872	1,905,725	689,279	4,075,872	9,503,892	-	25,004,640
Other assets	14,405	530	91,101	163,074	-	1,453,311	1,722,421
	14,996,367	2,369,799	955,330	5,792,465	10,247,357	1,616,760	35,978,078
Liabilities							
Deposits from customers	18,157,348	2,027,636	3,291,419	898,314	44,701	13,977	24,433,395
Deposits and placements of banks and financial institutions	3,788,688	339,603	167,434	-	-	421,642	4,717,367
Bills and acceptances payables	2,518,997	365,391	-	-	-	143,293	3,027,681
Amount due to Cagamas	56,663	5,255	114,074	140,123	-	-	316,115
Other liabilities	-	-	-	1,201	-	776,947	778,148
	24,521,696	2,737,885	3,572,927	1,039,638	44,701	1,355,859	33,272,706
Net maturity mismatches	(9,525,329)	(368,086)	(2,617,597)	4,752,827	10,202,656		

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

38. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

Bank 2006	Up to 3 months RM'000	3 to 6 months RM'000	6 to 12 months RM'000	1 to 5 years RM'000	Over 5 years RM'000	Non-specific maturity RM'000	Total RM'000
Assets							
Cash and short term funds	2,335,562	-	-	-	-	91,479	2,427,041
Securities purchased under resale agreement	2,801,962	303,093	-	-	-	-	3,105,055
Deposits and placements 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	-	-	-	-	-	1,340,720	1,340,720
	14,920,533	2,243,119	1,068,034	3,871,494	8,477,092	1,452,514	32,032,786
Liabilities							
Deposits from customers	13,324,930	1,741,143	2,883,184	913,019	106,699	18,185	18,987,160
Deposits and placements of banks and financial institutions	2,425,503	386,088	4,190	-	-	314,953	3,130,734
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	-	-	-	-	-	575,206	575,206
	21,695,080	2,614,272	2,947,276	1,229,935	106,699	1,067,293	29,660,555
Net maturity mismatches	(6,774,547)	(371,153)	(1,879,242)	2,641,559	8,370,393		

The contractual maturity profile 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 (included in the "Up To 3 months" time band) but historically 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 contingent liabilities (such as letters of credit) are reimbursable by customers.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

38. FINANCIAL RISK MANAGEMENT (continued)

(e) Compliance & 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.

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.

39. 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 2007

39. 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	2007		2006	
	Carrying amount RM'000	Estimated fair value RM'000	Carrying amount RM'000	Estimated fair value RM'000
Financial assets				
Loan, advances and financing*	25,389,379	25,389,379	20,538,140	20,538,140
Financial liabilities				
Deposits from customers	24,433,395	24,454,477	18,987,160	19,006,893
Deposits and placements of banks and other financial institutions	4,716,958	4,691,114	3,129,712	3,129,405
Recourse obligation on loans sold to Cagamas	316,115	316,449	560,030	558,505
Bank				
Financial assets				
Loan, advances and financing*	25,389,379	25,389,379	20,538,140	20,538,140
Financial liabilities				
Deposits from customers	24,433,395	24,454,477	18,987,160	19,006,893
Deposits and placements of banks and other financial institutions	4,717,367	4,691,523	3,130,734	3,130,427
Recourse obligation on sold to Cagamas	316,115	316,449	560,030	558,505

* The general provisions for the Group and the Bank amounting to RM384,739,000 (2006: RM305,969,000) and RM384,739,000 (2006: RM305,969,000) 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 2007

39. 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
2007			
Foreign exchange contracts			
- forwards	1,669,644	2,868	8,068
- swaps	8,630,572	1,158,994	112,987
Interest rate related contracts			
- forwards	1,275,000	180	244
- swaps	18,190,506	89,317	1,239,308
2006			
Foreign exchange contracts			
- forwards	901,834	2,277	2,235
- swaps	5,835,312	686,594	68,216
Interest rate related contracts			
- forwards	10,829,000	17,222	1,688
- swaps	12,693,228	92,360	759,814

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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

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

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

- (a) The fair values of cash and balances with Bank Negara Malaysia and placements and balances with banks, agents and related companies are considered to approximate their carrying values because most of these are of negligible credit risk and either short term in nature or repriced frequently.
- (b) Fair values of securities that are actively traded is determined by quoted bid prices. For non-actively traded securities, independent broker quotations are obtained. Fair values of equity securities are estimated using a number of methods, including net tangible assets, earnings multiples and discounted cash flow analysis. Where discounted cash flow technique is used, the estimated future cash flows are discounted using applicable prevailing market or indicative rates of similar instruments at the balance sheet date.
- (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.

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