

BANGKOK BANK BERHAD (299740 W)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2006

BANGKOK BANK BERHAD
(Incorporated in Malaysia)

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BANGKOK BANK BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The principal activities of the Bank are banking and related financial services. The principal activities of the subsidiary are the provision of nominees services.

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

RESULTS

	Group and Bank RM'000
Net profit for the year	<u>17,690</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

No dividend has been paid or declared by the Bank since the end of the previous financial year. The directors do not propose any final dividend in respect of the financial year ended 31 December 2006.

DIRECTORS

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

Prasong Uthaisangchai	
Rushda Theeratharathorn	
Y. Bhg. Professor Dato' Ruslan Khalid	
Staporn Kavitanon	
Toh Chong	
YAM Tunku Muhriz Ibni Almarhum	(appointed on 5 October 2006)
Tuanku Munawir	
Chris Chia Woon Liat	(appointed on 5 October 2006)
Loke Tan Cheng	(appointed on 22 December 2006)
YAM Dato' Seri Syed Zainol Anwar Jamalullail	(resigned on 6 June 2006)
Saksith Tejasakulsin	(resigned on 3 January 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 the acquisition of shares in or debentures of the Bank or any body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the directors as shown in Note 22 to the financial statements or the fixed salary of a full-time employee of the Bank) by reason of a contract made by the Bank or a related corporation with any director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

DIRECTORS' INTEREST

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

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

OTHER STATUTORY INFORMATION (CONTD.)

- (a) (ii) to ensure that any current assets which were unlikely to realise their values 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 not otherwise dealt with in this report or financial statements of the Group and of the Bank which would render:
 - (i) the amount written off for bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; and
 - (ii) the values attributed to the 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 the financial statements of the Group and of the Bank which would render any amount stated in the financial statements misleading.
- (e) At the date of this report, there does not exist:
 - (i) any charge on the assets of the Group or 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 of the Group or 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 or of the Bank to meet their 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 or of the Bank for the financial year in which this report is made.

BUSINESS OVERVIEW FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 AND OUTLOOK FOR THE FINANCIAL YEAR 2007

Bangkok Bank Berhad recorded a 19% rise in net profit after tax for the financial year ended 31 December 2006 amounting to RM17.7 million compared with RM14.9 million reported during the previous financial year.

The higher profit after tax for 2006 was mainly attributable to the increase in net interest income as well as higher non-interest income.

Net interest income for 2006 totalled RM31.3 million is higher than RM25.6 million recorded a year ago. There has been substantial growth in loan outstanding from RM666 million at end December 2005 to RM869 million as new loans granted and loan utilization expanded.

At the same time, non-interest income improved to RM10.1 million in 2006 from RM8.2 million recorded in 2005. The increase is largely due to higher foreign exchange gain from favourable exchange rates and higher volume of foreign transactions.

In the domestic economy, forward looking indicators are also positive, providing indication of continued expansion in private investment activity and household consumption activities. Growth would continue to be driven by domestic demand, both by private sector and public sectors as well as external sector amidst firm commodity prices. The contribution from the public sector reflects the continued disbursements of the development outlay with the acceleration in activity of the on-going projects and the progress in the implementation of the new high impact projects in education, agriculture, and rural development under the Ninth Malaysian Plan.

The Bank will continue to expand its loan base concentrating largely on small and medium enterprises. At the same time, the Bank is targeting to increase the non-interest income especially from treasury activities. To support the expansionary intent, the Bank will enhance its risk management framework to ensure that there is strong, well-defined, independent risk oversight of the various activities.

BOARD COMMITTEES

The Board has established various Board Committees with terms of reference specified by Bank Negara Malaysia to promote corporate governance. These committees are:

(a) Nomination Committee

The Committee comprises non-executive directors and the Chief Executive Officer. The Chairman of the Committee is an independent non-executive director.

BOARD COMMITTEES (CONTD.)

(a) Nomination Committee (Contd.)

The Committee's primary function is to nominate and recommend candidates for appointment to the Board after taking into account the required mix of expertise and experience appropriate for the Board as well as make recommendations on the appointment of the Chief Executive Officer and key senior management.

Composition of Committee:

Chairman : YBhg. Professor Dato' Ruslan Khalid - Independent Non-Executive Director

Members : YAM Dato' Seri Syed Zainol Anwar Jamalullail Almarhum Tuanku Syed Putra Jamalullail - Independent Non-Executive Director (resigned on 6 June 2006)

Prasong Uthaisangchai - Non-Executive Director

Rushda Theeratharathon - Non-Executive Director (appointed on 6 June 2006)

Toh Chong - Non-Executive Director (appointed on 6 June 2006)

Loke Tan Cheng (appointed on 2 March 2007)

Saksith Tejasakulsin (resigned on 3 January 2007)

(b) Remuneration Committee

The Committee comprises non-executive directors, including the Chairman who is an independent non-executive director.

The Committee's primary function is to recommend a framework of remuneration for non-executive directors.

The Committee is also responsible for recommending specific remuneration packages for the executive directors and the Chief Executive Officer and key senior management.

Details of the remuneration of the directors for the year ended 31 December 2006 are set out in Note 22 to the financial statements.

Directors' fees are formally approved by shareholders of the Company at Annual General Meeting based on the recommendation of the Board.

BOARD COMMITTEES (CONTD.)

(b) Remuneration Committee (Contd.)

Composition of Committee:

Chairman : YBhg. Professor Dato' Ruslan Khalid - Independent Non-Executive Director

Members : YAM Dato' Seri Syed Zainol Anwar Jamalullail Almarhum Tuanku Syed Putra Jamalullail - Independent Non-Executive Director (resigned on 6 June 2006)

Prasong Uthaisangchai - Non-Executive Director

Rushda Theeratharathorn - Non-Executive Director (appointed on 6 June 2006)

Toh Chong - Non-Executive Director (appointed on 6 June 2006)

(c) Risk Management Committee

The Committee comprises non-executive directors. The Committee's primary function is to oversee the effectiveness of senior management in managing credit, market, operational, legal and other risks and to ensure that the risk management process is in place and functioning.

Composition of Committee:

Chairman : YBhg. Professor Dato' Ruslan Khalid - Independent Non-Executive Director

Members : Rushda Theeratharathorn - Non-Executive Director

Toh Chong - Non-Executive Director

(d) Audit Committee

The Committee comprises non-executive directors, including the Chairman who is an independent non-executive director.

The Committee's primary function is to assist the Board of Directors in discharging its statutory duties and responsibilities relating to accounting and reporting practices of the Bank and of its subsidiaries.

BOARD COMMITTEES (CONTD.)

(d) Audit Committee (Contd.)

In addition, the objectives of the Committee are as follows:

- (i) to review the adequacy and integrity of the Bank's internal control systems and management information systems, including systems for compliance with laws, regulations, rules, directives and guidelines;
- (ii) to reinforce the independence of the external auditors and thereby help assure that they will have free rein in the audit process;
- (iii) to provide emphasis on the internal audit function by increasing the objectivity and independence of the internal auditors and provide forum for discussion that is independence of the Management;
- (iv) evaluate the quality of the audits conducted by the internal auditors and external auditors;
- (v) provide assurance that the financial information presented by management is relevant, reliable and timely;
- (vi) oversee compliance with laws and regulations and observance of a proper code of conduct; and
- (vii) to enhance the perceptions held by stakeholders (including shareholders, regulators, creditors and employees) of the credibility and objectivity of financial reports.

Composition of Committee:

Chairman : YAM Dato' Seri Syed Zainol Anwar Jamalullail Almarhum Tuanku Syed Putra Jamalullail - Independent Non-Executive Director (resigned on 6 June 2006)

Chris Chia Woon Liat - Independent Non-Executive Director
(appointed Chairman on 3 November 2006)

Members : YBhg. Professor Dato' Ruslan Khalid - Independent Non-Executive Director (appointed Acting Chairman on 6 June 2006 and resigned Acting Chairman on 3 November 2006)

Prasong Uthaisangchai (resigned as a member on 22 December 2006)

Rushda Theeratharathorn - Non-Executive Director

Toh Chong - Non-Executive Director

YAM Tunku Muhriz Ibni Almarhum Tuanku Munawir - Independent Non-Executive Director (appointed on 22 December 2006)

BOARD COMMITTEES (CONTD.)**(e) Membership and Meetings of the Committees**

	Attendance/Number of meetings			
	Nomination Committee	Remuneration Committee	Risk Management Committee	Audit Committee
Director				
YBhg Professor Dato' Ruslan Khalid	Chairman 5/5	Chairman 4/4	Chairman Nil	Member 5/5
Prasong Uthaisangchai	Member 5/5	Member 4/4	-	Member 5/5
Saksith Tejasakulsin	Member 5/5	-	-	-
Rushda Theeratharathorn	Member 3/3	Member 3/3	Member Nil	Member 5/5
Staporn Kavitanon	-	-	-	-
Toh Chong	Member 3/3	Member 3/3	Member Nil	Member 5/5
Tunku Muhriz Ibni Almarhum Tuanku Munawir	-	-	-	Member 1/1
Chris Chia Woon Liat	-	-	-	Chairman 1/1

(f) Audit and Control Functions

The Audit & Control Department (ACD) played a key role in assisting the Audit Committee to oversee that management has in place a sound system of risk management, internal controls and governance system. This was achieved through the review of and recommendations for improvements to current risk management, internal control systems and governance processes to provide reasonable assurance that such system continue to operate satisfactorily and effectively. In addition, reviews on compliance with established policies, procedures, guidelines and statutory requirements were also carried out.

The Chief Internal Auditor reports functionally to the Audit Committee and administratively to the Chief Executive Officer. The scope of internal Audit covers the audit of all units and operations. It is the responsibility of the ACD to provide the Audit Committee with independent and objective reports on the state of risk management, internal controls and governance processes. The audit reports, which provide the result of audit conducted in terms of the risk management of the unit, effectiveness of internal control, compliance with internal and regulatory requirements and overall management of the unit, are submitted to the Audit Committee for their review.

BOARD COMMITTEES (CONTD.)

(f) Audit and Control Functions (Contd.)

The Audit Committee reviews and approves the ACD's annual audit plan and human resource requirements to ensure that the function is adequately resourced with competent and proficient internal auditors. The internal audit functions were performed in accordance with the Audit Charter and Bank Negara Malaysia's Garis Panduan 10 (GP10) – Guidelines for Minimum Audit Standards for Internal Audit of Financial Institutions. The International Standards for the Professional Practice of Internal Auditing (SPPIA) of the Institute of Internal Auditors (IIA) and the Practice Advisories issued by IIA are used where relevant as authoritative guides.

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

Loke Tan Cheng

Professor Dato' Ruslan Khalid

Kuala Lumpur, Malaysia

6 April 2007

BANGKOK BANK BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Loke Tan Cheng and Professor Dato' Ruslan Khalid, being two of the directors of Bangkok Bank Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 13 to 59 are drawn up in accordance with applicable MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities modified by Bank Negara Malaysia and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Bank as at 31 December 2006 and of the results and the 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

Loke Tan Cheng

Professor Dato' Ruslan Khalid

Kuala Lumpur, Malaysia
6 April 2007

STATUTORY DECLARATION
PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Loke Tan Cheng, being the director primarily responsible for the financial management of Bangkok Bank Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 13 to 59 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 Loke Tan Cheng at
Kuala Lumpur in Wilayah Persekutuan
on 6 April 2007

Loke Tan Cheng

Before me,

299740 W

**REPORT OF THE AUDITORS TO THE MEMBERS OF
BANGKOK BANK BERHAD
(Incorporated in Malaysia)**

We have audited the financial statements set out on pages 13 to 59. These financial statements are the responsibility of the Bank's directors.

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

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

In our opinion:

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

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**REPORT OF THE AUDITORS TO THE MEMBERS OF
BANGKOK BANK BERHAD (CONTD.)
(Incorporated in Malaysia)**

We are satisfied that the financial statements of the subsidiary 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' report on the financial statements of the subsidiary was 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

Gloria Goh Ewe Gim
No. 1685/04/09(J)
Partner

Kuala Lumpur, Malaysia
6 April 2007

BANGKOK BANK BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS AS AT 31 DECEMBER 2006

	Note	Group		Bank	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
ASSETS					
Cash and short-term funds	4	111,678	170,445	111,667	170,434
Deposits and placements with Bank Negara Malaysia	5	24,300	50,000	24,300	50,000
Available-for-sale securities	6	31,339	16,195	31,339	16,195
Held-to-maturity securities	7	82,279	126,002	82,279	126,002
Loans, advances and financing	8	843,510	636,157	843,510	636,157
Other assets	9	4,443	4,513	4,443	4,513
Statutory deposit with Bank Negara Malaysia	10	23,300	18,200	23,300	18,200
Investment in subsidiary	11	-	-	10	10
Property and equipment	12	9,082	9,403	9,082	9,403
Deferred tax assets	13	6,141	6,235	6,141	6,235
TOTAL ASSETS		1,136,072	1,037,150	1,136,071	1,037,149
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits from customers	14	705,176	660,516	705,176	660,516
Deposits and placements of licensed banks		32,982	5,006	32,982	5,006
Bills and acceptances payable		34,333	24,930	34,333	24,930
Other liabilities	15	10,166	11,567	10,165	11,566
Tax payable		481	21	481	21
TOTAL LIABILITIES		783,138	702,040	783,137	702,039
Share capital	16	265,000	265,000	265,000	265,000
Statutory reserve	17	98,494	89,649	98,494	89,649
Revaluation reserve		79	(55)	79	(55)
Accumulated losses		(10,639)	(19,484)	(10,639)	(19,484)
SHAREHOLDERS' EQUITY		352,934	335,110	352,934	335,110
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,136,072	1,037,150	1,136,071	1,037,149
COMMITMENTS AND CONTINGENCIES	25	786,545	722,684	786,545	722,684

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

BANGKOK BANK BERHAD
(Incorporated in Malaysia)

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Group and Bank	
		2006 RM'000	2005 RM'000
Interest and Islamic income	18	52,031	42,821
Interest expense	19	<u>(20,729)</u>	<u>(17,223)</u>
Net interest income		31,302	25,598
Loans loss and allowance	20	<u>(5,133)</u>	<u>(3,367)</u>
		26,169	22,231
Non-interest income	21	<u>10,090</u>	<u>8,164</u>
Net income		36,259	30,395
Overhead expenses	22	<u>(10,557)</u>	<u>(10,916)</u>
Profit before taxation		25,702	19,479
Taxation	23	<u>(8,012)</u>	<u>(4,561)</u>
Net profit for the year		<u>17,690</u>	<u>14,918</u>
Earnings per share (sen)	24		
- basic		6.68	5.63
- diluted		<u>6.68</u>	<u>5.63</u>

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

BANGKOK BANK BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006

Group and Bank

	Share capital RM'000	Non- distributable Statutory reserve RM'000	Revaluation reserve RM'000	Accumulated losses RM'000	Total RM'000
At 1 January 2005	265,000	82,191	-	(26,944)	320,247
Net profit for the year	-	-	-	14,918	14,918
Unrealised net loss on revaluation of available- for-sale securities	-	-	(55)	-	(55)
Transfer to statutory reserve	-	7,458	-	(7,458)	-
At 31 December 2005	<u>265,000</u>	<u>89,649</u>	<u>(55)</u>	<u>(19,484)</u>	<u>335,110</u>
At 1 January 2006	265,000	89,649	(55)	(19,484)	335,110
Net profit for the year	-	-	-	17,690	17,690
Unrealised net gain on revaluation of available- for-sale securities	-	-	134	-	134
Transfer to statutory reserve	-	8,845	-	(8,845)	-
At 31 December 2006	<u>265,000</u>	<u>98,494</u>	<u>79</u>	<u>(10,639)</u>	<u>352,934</u>

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

BANGKOK BANK BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	25,702	19,479	25,702	19,479
Adjustments for:				
Depreciation	530	584	530	584
Loans loss and allowance, net	5,133	3,367	5,132	3,367
Impairment loss recognised in profit or loss	30	-	30	-
Amortisation of premium less accretion of discount	3,988	4,046	3,988	4,046
Interest-in-suspense	1,108	473	1,108	473
Dividend income	(61)	(61)	(61)	(61)
Operating profit before working capital changes	36,430	27,888	36,429	27,888
Increase in loans, advances and financing	(213,593)	(50,645)	(213,593)	(50,645)
Decrease/(increase) in deposits and placements with Bank Negara Malaysia	25,700	(41,917)	25,700	(41,917)
Decrease/(increase) in other assets	69	(300)	69	(300)
(Increase)/decrease in statutory deposit with Bank Negara Malaysia	(5,100)	1,400	(5,100)	1,400
(Decrease)/increase in deposits from customers	44,660	48,722	44,660	48,722
Increase in deposits and placements of licensed banks	27,976	4,838	27,976	4,838
Increase in bills and acceptances payable	9,402	18,463	9,403	18,463
Decrease in other liabilities	(1,401)	(246)	(1,401)	(246)
Cash used in operations	(75,857)	8,203	(75,857)	8,203
Taxes paid	(7,441)	(7,208)	(7,441)	(7,208)
Net cash (used in)/generated from operating activities	(83,298)	995	(83,298)	995

BANGKOK BANK BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006 (CONTD.)

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(239)	(375)	(239)	(375)
Purchase of investment securities, net	(15,274)	(20,495)	(15,274)	(20,495)
Proceeds from maturity of investment securities	40,000	43,400	40,000	43,400
Dividends received	44	61	44	61
Proceeds from disposal of property and equipment	-	552	-	552
Net cash generated from investing activities	<u>24,531</u>	<u>23,143</u>	<u>24,531</u>	<u>23,143</u>
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS				
	(58,767)	24,138	(58,767)	24,138
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR				
	<u>170,445</u>	<u>146,307</u>	<u>170,434</u>	<u>146,296</u>
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR				
	<u>111,678</u>	<u>170,445</u>	<u>111,667</u>	<u>170,434</u>
Cash and cash equivalents comprise:				
Cash and short term funds	<u>111,678</u>	<u>170,445</u>	<u>111,667</u>	<u>170,434</u>

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

BANGKOK BANK BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006

1. CORPORATE INFORMATION

The principal activities of Bangkok Bank Berhad ("the Bank") are banking and related financial services. The principal activity of its subsidiary is described in Note 11. There have been no significant changes in the nature of the principal activities during the financial year.

The Bank is a public limited liability licensed bank, incorporated and domiciled in Malaysia. The principal place of business of the Bank is located at 105, Jalan Tun H.S. Lee, 50000 Kuala Lumpur.

The Bank is a wholly-owned subsidiary of its holding and ultimate holding company, Bangkok Bank Public Company Limited, a bank incorporated in Thailand.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 6 April 2007.

2. BASIS OF PREPARATION

(a) Basis of Preparation

The financial statements of the Group and of the Bank have been prepared under the historical cost convention unless otherwise indicated in this summary of significant accounting policies. The financial statements comply with the provisions of the Companies Act, 1965 and applicable MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities modified by Bank Negara Malaysia guidelines.

Bank Negara Malaysia has granted indulgence to the Bank from complying with the requirement on the impairment of loans and financing under the revised BNM/GP8 for the previous financial year ended 31 December 2005 and financial year ended 31 December 2006. Therefore, the allowance for bad and doubtful debts and financing of the Bank has been computed based on the existing requirement of BNM/GP3, which remains consistent with the basis adopted in previous years.

2. BASIS OF PREPARATION (CONTD.)

(b) Adoption of New and Revised FRS

At the beginning of the financial year, the Group and the Company had adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 January 2006, as follows:

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

The adoption of these new or revised FRSs does not have any significant changes in accounting policies or financial impact on the Group and the Bank.

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

(c) Significant Accounting Estimates and Judgements

The preparation of financial statement in accordance with FRSs requires the use of certain accounting estimates and exercise of judgement. Estimates and judgements are continually evaluated and are based on past experience, reasonable expectations of future events and other factors.

The key estimates made by management in the process of applying the Group's accounting policies is in relation to allowances for bad and doubtful debts. The Bank has developed certain criteria based on Bank Negara Malaysia guidelines to identify potential bad and doubtful debts and the relevant allowances to provide.

2. BASIS OF PREPARATION (CONTD.)

(c) Significant Accounting Estimates and Judgements (Contd.)

The Directors are of the opinion, that there are no key assumptions concerning the future nor other key sources of estimation uncertainty at balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The Group has not early adopted the following new and revised FRSs for the financial period beginning 1 January 2006:

FRS 117	Leases
FRS 124	Related Party Disclosures
FRS 139	Financial Instruments: Recognition and Measurement

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiary and Basis of Consolidation

(i) Subsidiary

Subsidiary is entity over which the Group has the ability to control the financial and operating policies so as to obtain benefits from its 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, investment in subsidiary is stated at cost less impairment losses. On disposal of such investment, the difference between net disposal proceeds and its carrying amount is included in profit or loss.

(ii) Basis of Consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiary at each balance sheet date. The financial statements of the subsidiary are prepared for the same reporting date as the Bank.

Subsidiaries are fully 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(a) Subsidiary and Basis of Consolidation (Contd.)

(ii) Basis of Consolidation (Contd.)

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

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

(b) Revenue Recognition

(i) Interest and Financing Income Recognition

Interest income and profit sharing from Islamic debt securities are recognised on an accrual basis. Interest income on housing and term loans is accounted for on a daily accrual basis by reference to the rest periods as stipulated in the loan agreements. Interest income includes the amortisation of premium or accretion of discount. Interest income on securities is recognised on an effective yield basis.

Where an account has turned non-performing, interest accrued previously but has not been received is reversed out of income, and set off against the accrued interest receivable in the balance sheet with retroactive adjustment made from the date of first default. Subsequently, interest earned on non-performing accounts shall be recognised as income on a cash basis until such time as the accounts are no longer classified as non-performing.

Customers' accounts are classified as non-performing where repayments are in arrears for three (3) months or more from the first day of default for loans and overdrafts. Trade bills, bankers' acceptances and trust receipts are classified as non-performing when they are due and unpaid for three (3) months from the first day of default.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Revenue Recognition (Contd.)

(ii) Fee and Other Income Recognition

Other fees and commission on a variety of services and facilities extended to customers are recognised on inception of such transactions.

(iii) Dividend Income

Dividend income is recognised when the right to receive payment is established.

(iv) Rental Income

Rental income is recognised on an accrual basis in accordance with the substance of the relevant agreement.

(c) Allowance for Bad and Doubtful Debts

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

A general allowance based on a certain percentage of the loan portfolio, net of interest in suspense and specific allowance for bad and doubtful debts is made by the Bank against possible losses which are not specifically identified. The general allowance made by the Bank conforms with the minimum rate specified by Bank Negara Malaysia.

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 management, there is no prospect of recovery.

When computing specific allowances for non-performing loans, no value is assigned to the realisable value of the collateral for non-performing loans above 5 years.

(d) Securities

Securities include all equity instruments (excluding investment in subsidiary, associates and joint ventures), Government securities, corporate debt securities issued on conventional or Islamic principles and asset-backed securities. Securities are classified under the following categories and valuation methods as described thereon.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(d) Securities (Contd.)

(i) Held-For-Trading

Securities are classified as held-for-trading if they are acquired principally for the purpose of benefiting from actual or expected short-term price movement or to lock in arbitrage profits. The securities held-for-trading will be stated at fair value and any gain or loss arising from a change in their fair values and the derecognition of securities held-for-trading are recognised in the income statement.

(ii) Held-To-Maturity

Securities held-to-maturity are financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent to hold to maturity. Held-to-maturity securities are stated at cost adjusted for amortisation of premium or accretion of discount, if any, calculated on the effective yield basis, from the date of purchase to maturity date, less impairment losses. Amortisation of premium, accretion of discount and impairment as well as gain or loss arising from derecognition of securities held-to-maturity are recognised in the income statement.

(iii) Available-For-Sale

Securities available-for-sale are financial assets that are not classified as held-for-trading or held-to-maturity. The securities available-for-sale are measured at fair value or at 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, until the financial asset is sold, collected, disposed of or impaired, at which time the cumulative gain or loss previously recognised in equity will be transferred to the income statements.

(e) Property 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 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 are stated at cost less accumulated depreciation and any accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(e) Property and Equipment and Depreciation (Contd.)

Freehold land has an unlimited useful life and therefore is not depreciated. Depreciation of other property and equipment is provided for on a straight-line method to allocate their cost to their residual values over their estimated useful lives at the following annual rates:

Buildings	2 - 10%
Motor vehicles	16%
Office equipment, furniture and fittings, and computer equipment	8% - 40%

During the financial year, the Group had reviewed its depreciation rates for certain items of buildings from 2% to 2-10% based on the estimation of the useful lives of these items. The effects of this change in depreciation rates have not been further disclosed as they are considered immaterial to the results of the Group and of the Bank.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period the asset is derecognised.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each balance sheet date.

(f) Impairment of Assets

At each balance sheet date, the Group and the Bank review the carrying amounts of the assets, other than financial instruments to determine whether there is any indication of impairment. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 assessment of the time value of money and the risks specific to that asset. Impairment losses of continuing operations are recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Impairment of Assets (Contd.)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed 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. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(g) Bills and Acceptances Payable

Bills and acceptances payable represents the Group's and the Bank's own bills and acceptance rediscounted and outstanding in the market.

(h) Liabilities

Deposits from customers, 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 expected to be paid in the future for goods and services received.

(i) Foreign Currencies

Transactions in foreign currencies are initially converted into Ringgit Malaysia, being the currency of the primary economic environment in which the Group operates ("the functional currency") at rates of exchange ruling at the transaction dates, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. At each balance sheet date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rates ruling at that date, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Non-monetary items which are carried at historical cost are translated using the historical rate as of the date of acquisition and non monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(i) Foreign Currencies (Contd.)

All exchange rate differences are taken to the income statement.

The principal exchange rates for every unit of foreign currency ruling at balance sheet date used are as follows:

	2006	2005
Singapore Dollar	2.30	2.27
Thai Baht	0.10	0.09
United States Dollar	3.52	3.78

(j) Employee Benefits

(i) Short Term 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 of the Bank. Short-term accumulating compensated balances such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined Contribution Plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the income statement as incurred.

(iii) Termination Benefits

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits as a liability and an expense when it is demonstrably committed to either terminate the employment of current employees according to a detailed plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer. Benefits falling due more than twelve months after balance sheet date are discounted to present value.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(k) 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, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case, the deferred tax is also charged or credited to equity, or when it arises from a business combination that is an acquisition, in which case, the deferred tax is included in the resulting goodwill or negative goodwill.

(l) Cash and Cash Equivalents

For the purpose of the cash flow statements, cash and cash equivalents include cash and bank balances and short-term funds with remaining maturity of less than one month.

(m) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(m) Financial Instruments (Contd.)

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, 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 charged directly to 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 are as described in their respective specific notes above. The accounting policies for other financial instruments are as follows:

(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, other than in the context of a business combination, 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. Cost of issuing equity securities in connection with a business combination are included in the cost of acquisition.

(n) Provisions

Provisions 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.

4. CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and Bank Negara Malaysia	7,554	11,545	7,543	11,534
Money at call and deposit placements maturing within one month	104,124	158,900	104,124	158,900
	<u>111,678</u>	<u>170,445</u>	<u>111,667</u>	<u>170,434</u>

The weighted average effective interest rates at the balance sheet date were as follows:

	Group and Bank	
	2006	2005
	%	%
	per annum	per annum
Licensed banks	3.61	3.00
Bank Negara Malaysia	<u>3.57</u>	<u>3.07</u>

5. DEPOSITS AND PLACEMENTS WITH BANK NEGARA MALAYSIA

	Group and Bank	
	2006	2005
	RM'000	RM'000
Bank Negara Malaysia	<u>24,300</u>	<u>50,000</u>

The weighted average effective interest rate and the average maturities of deposits at the balance sheet date were 3.64% per annum (2005: 3.15% per annum) and 74 days (2005: 42 days) respectively.

6. AVAILABLE-FOR-SALE SECURITIES

	Group and Bank	
	2006	2005
	RM'000	RM'000
In Malaysia:		
<u>At fair value</u>		
Money market instruments:		
Malaysian Government Securities ("MGS")	30,353	15,279
Quoted securities in Malaysia:		
Debt converted shares	114	44
	<u>30,467</u>	<u>15,323</u>

6. AVAILABLE-FOR-SALE SECURITIES (CONTD.)

	Group and Bank	
	2006	2005
	RM'000	RM'000
<u>At cost *</u>		
Unquoted securities in Malaysia:		
Shares	872	1,439
Less: Accumulated impairment losses	-	(567)
	<u>872</u>	<u>872</u>
	<u>31,339</u>	<u>16,195</u>

* Unquoted equity securities are stated at cost less accumulated impairment losses as the fair value of these securities cannot be reliably measured in the absence of quoted market prices.

7. HELD-TO-MATURITY SECURITIES

	Group and Bank	
	2006	2005
	RM'000	RM'000
In Malaysia:		
Money market instruments:		
Malaysian Government Securities ("MGS")	89,102	121,936
Cagamas Bonds	-	10,060
	<u>89,102</u>	<u>131,996</u>
Unquoted securities in Malaysia:		
Private debt securities	844	847
	<u>89,946</u>	<u>132,843</u>
Less: Amortisation of premium net of accretion of discount	(6,836)	(6,007)
Less: Accumulated impairment losses	(831)	(834)
	<u>82,279</u>	<u>126,002</u>

(i) Indicative fair value of securities:

	Group and Bank	
	2006	2005
	RM'000	RM'000
MGS	82,446	116,371
Cagamas Bonds	-	10,029
Unquoted securities - private debt securities	<u>13</u>	<u>13</u>

7. HELD-TO-MATURITY SECURITIES (CONTD.)

(ii) The maturity structure of money market instruments held for investments is as follows:

	Group and Bank	
	2006	2005
	RM'000	RM'000
Maturing within one year	74,066	42,894
One year to three years	15,036	89,102
	<u>89,102</u>	<u>131,996</u>

(iii) The weighted average effective interest rate as at balance sheet date was 3.67% (2005: 3.58%) per annum.

8. LOANS, ADVANCES AND FINANCING

	Group and Bank	
	2006	2005
	RM'000	RM'000
Overdrafts	99,563	97,209
Term loans		
Housing loans	12,356	13,256
Syndicated term loan	1,075	1,433
Other term loans	140,611	91,193
Revolving credits	68,984	22,035
Bills receivable	15,347	10,717
Trust receipts	57,305	38,477
Bankers' acceptances	437,336	365,470
Other financing	35,323	24,949
Staff loans	1,579	1,540
	<u>869,479</u>	<u>666,279</u>
Unearned interest	(4,311)	(2,894)
	<u>865,168</u>	<u>663,385</u>
General allowance for bad and doubtful debts ("GA")	(13,997)	(20,546)
Specific allowance for bad and doubtful debts ("SA")	(7,661)	(6,682)
Net loans, advances and financing	<u>843,510</u>	<u>636,157</u>
Total loans, advances and financing less SA	<u>857,507</u>	<u>656,703</u>

8. LOANS, ADVANCES AND FINANCING (CONTD.)

(i) The maturity structure of loans, advances and financing are as follows:

	Group and Bank	
	2006	2005
	RM'000	RM'000
Maturing within one year	736,434	571,321
One year to three years	19,225	15,039
Three years to five years	41,657	24,556
Over five years	67,852	52,469
	<u>865,168</u>	<u>663,385</u>

(ii) Loans, advances and financing according to purpose are as follows:

	Group and Bank	
	2006	2005
	RM'000	RM'000
Purchase of securities	501	1,378
Purchase of transport vehicles	112	101
Purchase of residential properties	13,822	14,692
Purchase of non-residential properties	35,945	19,974
Purchase of fixed assets other than land and building	2,455	7,574
Personal use	9,733	12,434
Construction	32,160	4,784
Working capital	770,440	602,448
Others	-	-
	<u>865,168</u>	<u>663,385</u>

(iii) Loans, advances and financing according to type of customer are as follows:

	Group and Bank	
	2006	2005
	RM'000	RM'000
Domestic non-bank financial institutions	36,705	6,933
Domestic business enterprises		
- Small medium enterprises	281,652	149,702
- Others	522,808	479,338
Other domestic entities	83	42
Individuals	23,920	27,370
	<u>865,168</u>	<u>663,385</u>

8. LOANS, ADVANCES AND FINANCING (CONTD.)

(iv) Loans, advances and financing according to interest/profit rate sensitivity are as follows:

	Group and Bank	
	2006	2005
	RM'000	RM'000
Fixed rate		
Housing loan	1,462	1,433
Other fixed rate loan/financing	116	97
Variable rate		
BLR plus	321,266	242,890
Cost-plus	498,412	380,270
Other variable rates	43,912	38,695
	<u>865,168</u>	<u>663,385</u>

(v) Movements in the non-performing loans, advances and financing are as follows:

	Group and Bank	
	2006	2005
	RM'000	RM'000
Balance as at 1 January	18,383	16,598
Classified as non-performing during the year	11,313	7,390
Reclassified as performing during the year	(619)	(904)
Amount recovered	(1,720)	(4,701)
Amount written off	(11,079)	-
Balance as at 31 December	<u>16,278</u>	<u>18,383</u>
Specific allowance	<u>(7,661)</u>	<u>(6,682)</u>
Net non-performing loans, advances and financing	<u>8,617</u>	<u>11,701</u>
Ratio of net non-performing loans, advances and financing to total loans, advances and financing less SA	<u>1.00%</u>	<u>1.78%</u>

(vi) Movements in the allowance for bad and doubtful debts are as follows:

	Group and Bank	
	2006	2005
	RM'000	RM'000
General Allowance ("GA")		
Balance as at 1 January	20,546	18,000
Allowance made during the year	4,288	3,467
Transfer to specific allowance	(8,670)	(921)
Amount written off	(2,167)	-
Balance as at 31 December	<u>13,997</u>	<u>20,546</u>
GA% of gross loans, advances and financing less SA	<u>1.63%</u>	<u>3.13%</u>

8. LOANS, ADVANCES AND FINANCING (CONTD.)

(vi) Movements in the allowance for bad and doubtful debts are as follows: (Contd.)

	Group and Bank	
	2006	2005
	RM'000	RM'000
Specific Allowance ("SA")		
Balance as at 1 January	6,682	5,590
Allowance made during the year	1,620	171
Transfer from general allowance	8,670	921
Recovered and written back	(400)	-
Amount written off	(8,911)	-
Balance as at 31 December	<u>7,661</u>	<u>6,682</u>

(vii) Non-performing loans according to purpose are as follows:

	Group and Bank	
	2006	2005
	RM'000	RM'000
Purchase of residential properties	1,224	2,822
Working capital	15,054	15,561
	<u>16,278</u>	<u>18,383</u>

(viii) The weighted average effective interest rate for loans, advances and financing at the balance sheet date was 5.84% (2005: 5.24%) per annum.

9. OTHER ASSETS

	Group and Bank	
	2006	2005
	RM'000	RM'000
Other receivables, deposits and prepayments	2,311	2,381
Tax recoverable	2,132	2,132
	<u>4,443</u>	<u>4,513</u>

10. STATUTORY DEPOSIT WITH BANK NEGARA MALAYSIA

The non-interest bearing statutory deposit is maintained with Bank Negara Malaysia in compliance with Section 37(1)(c) of the Central Bank of Malaysia Ordinance, 1958 (revised 1994), the amounts of which are determined as a set percentage of total eligible liabilities.

11. INVESTMENT IN SUBSIDIARY

	Bank	
	2006	2005
	RM'000	RM'000
Unquoted shares, at cost	10	10

Details of the subsidiary, which is incorporated in Malaysia, are as follows:

Name of company	Percentage of equity held		Principal activity
	2006	2005	
BBL Nominees (Tempatan) Sdn. Bhd.	100	100	Provision of nominee services to local clients of the Bank

12. PROPERTY AND EQUIPMENT

	Freehold land and buildings* RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings, computer equipment, and related software RM'000	Total RM'000
Group and Bank				
2006				
Cost				
At 1 January	13,712	703	4,469	18,884
Additions	-	-	239	239
Derecognition of equipment written off	-	-	(544)	(544)
At 31 December	13,712	703	4,164	18,579

12. PROPERTY AND EQUIPMENT (CONTD.)

	Freehold land and buildings* RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings, computer equipment, and related software RM'000	Total RM'000
Group and Bank (Contd.)				
Depreciation				
At 1 January	5,400	504	3,577	9,481
Charge for the year	240	59	231	530
Derecognition of equipment written off	-	-	(514)	(514)
At 31 December	<u>5,640</u>	<u>563</u>	<u>3,294</u>	<u>9,497</u>
Net Book Value				
At 31 December	<u>8,072</u>	<u>140</u>	<u>870</u>	<u>9,082</u>
2005				
Cost				
At 1 January	13,086	1,449	4,823	19,358
Additions	36	3	336	375
Transfers	590	-	(644)	(54)
Derecognition due to disposals	-	(749)	(46)	(795)
At 31 December	<u>13,712</u>	<u>703</u>	<u>4,469</u>	<u>18,884</u>
Depreciation				
At 1 January	5,229	541	3,370	9,140
Charge for the year	171	167	246	584
Derecognition due to disposals	-	(204)	(39)	(243)
At 31 December	<u>5,400</u>	<u>504</u>	<u>3,577</u>	<u>9,481</u>
Net Book Value				
At 1 January	<u>8,312</u>	<u>199</u>	<u>892</u>	<u>9,403</u>

* Included in the above is freehold land costing RM714,490 (2005: RM714,490).

12. PROPERTY AND EQUIPMENT (CONTD.)

Included in the property and equipment of the Group and the Bank are the following cost of fully depreciated assets which are still in use:

	2006	2005
	RM'000	RM'000
Buildings	4,067	4,067
Motor vehicles	335	335
Office equipment, furniture and fittings, and computer equipment	2,603	2,695
	<u>7,005</u>	<u>7,097</u>

13. DEFERRED TAX ASSETS

	Group and Bank	
	2006	2005
	RM'000	RM'000
At 1 January	6,235	5,345
Recognised in the income statement (Note 23)	(94)	890
At 31 December	<u>6,141</u>	<u>6,235</u>
Presented after appropriate offsetting as follows:		
Deferred tax assets	6,260	6,350
Deferred tax liabilities	(119)	(115)
	<u>6,141</u>	<u>6,235</u>

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

Group and Bank**Deferred tax assets**

	General and specific allowance	Others	Total
	RM'000	RM'000	RM'000
At 1 January 2006	5,753	597	6,350
Recognised in the income statement	101	(191)	(90)
At 31 December 2006	<u>5,854</u>	<u>406</u>	<u>6,260</u>

13. DEFERRED TAX ASSETS (CONTD.)**Deferred tax assets (Contd.)**

	General and specific allowance RM'000	Others RM'000	Total RM'000
At 1 January 2005	5,040	597	5,637
Recognised in the income statement	713	-	713
At 31 December 2005	<u>5,753</u>	<u>597</u>	<u>6,350</u>

Deferred tax liabilities

	Capital allowances RM'000	Others RM'000	Total RM'000
At 1 January 2006	(108)	(7)	(115)
Recognised in the income statement	(4)	-	(4)
At 31 December 2006	<u>(112)</u>	<u>(7)</u>	<u>(119)</u>
At 1 January 2005	(283)	(9)	(292)
Recognised in the income statement	175	2	177
At 31 December 2005	<u>(108)</u>	<u>(7)</u>	<u>(115)</u>

14. DEPOSITS FROM CUSTOMERS

	Group and Bank	
	2006	2005
	RM'000	RM'000
Fixed deposits	547,295	517,182
Negotiable instruments of deposits	61,950	56,950
Current accounts	78,523	66,532
Savings deposits	10,344	14,358
Others	7,064	5,494
	<u>705,176</u>	<u>660,516</u>

14. DEPOSITS FROM CUSTOMERS (CONTD.)

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

	Group and Bank	
	2006	2005
	RM'000	RM'000
Due within six months	418,137	464,153
Six months to one year	165,492	92,373
One year to three years	20,366	2,406
Over three years	5,250	15,200
	<u>609,245</u>	<u>574,132</u>

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

	Group and Bank	
	2006	2005
	RM'000	RM'000
Government and statutory bodies	7,063	5,494
Business enterprises	504,797	424,718
Individuals	174,901	207,964
Others	18,415	22,340
	<u>705,176</u>	<u>660,516</u>

- (iii) The weighted average effective interest rate for deposits from customers at the balance sheet date was 3.19% (2005: 2.70%) per annum.

15. OTHER LIABILITIES

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Accruals	817	989	817	989
Other payables	9,349	10,578	9,348	10,577
	<u>10,166</u>	<u>11,567</u>	<u>10,165</u>	<u>11,566</u>

16. SHARE CAPITAL

	Number of Ordinary Shares of RM1 each		Amount	
	2006 '000	2005 '000	2006 RM'000	2005 RM'000
Authorised	300,000	300,000	300,000	300,000
Issued and fully paid	265,000	265,000	265,000	265,000

17. STATUTORY RESERVE

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

18. INTEREST AND ISLAMIC INCOME

	Group and Bank	
	2006 RM'000	2005 RM'000
Loans and advances	41,602	32,558
Deposits and placements with banks and other financial institutions	5,376	4,689
Available-for-sale securities	1,033	205
Held-to-maturity securities	7,778	8,856
Profit sharing from Islamic debt securities	230	559
	56,019	46,867
Amortisation of premium net of accretion of discount	(3,988)	(4,046)
	52,031	42,821

19. INTEREST EXPENSE

	Group and Bank	
	2006 RM'000	2005 RM'000
Deposits from customers	18,369	16,842
Deposits and placements of licensed banks	2,360	381
	20,729	17,223

20. LOANS LOSS AND ALLOWANCE, NET

	Group and Bank	
	2006	2005
	RM'000	RM'000
General allowance for bad and doubtful debts	(4,288)	(3,467)
Specific allowance for bad and doubtful debts	(1,620)	(171)
Writeback of specific allowance for bad and doubtful debts	400	-
Bad debts recovered	375	271
	<u>(5,133)</u>	<u>(3,367)</u>

21. NON-INTEREST INCOME

	Group and Bank	
	2006	2005
	RM'000	RM'000
Fee income:		
Commission	2,811	2,531
Service charges and fees	657	579
Guarantee fees	823	914
	<u>4,291</u>	<u>4,024</u>
Investment income:		
Gross dividends from investment securities	61	61
Other income:		
Foreign exchange gain		
- realised	4,458	3,232
- unrealised	479	66
Rental income	794	776
Others	7	5
	<u>5,799</u>	<u>4,140</u>
	<u>10,090</u>	<u>8,164</u>

22. OVERHEAD EXPENSES

	Group and Bank	
	2006	2005
	RM'000	RM'000
Personnel costs	6,432	6,723
Establishment costs	1,805	1,912
Marketing expenses	129	120
Administration and general expenses	2,101	2,098
Other non-interest expenses	90	63
	<u>10,557</u>	<u>10,916</u>
 (i) Included in personnel costs are:		
Defined contribution plan		
- Employees Provident Fund	667	609
- termination benefits	34	64
	<u>34</u>	<u>64</u>
 (ii) Included in the above overhead expenses are:		
Directors' remuneration (Note iii)	1,269	1,866
Hire of equipment	26	19
Auditors' remuneration:		
- statutory audit	48	41
- other services	40	39
Loss on derecognition on equipment	30	-
Depreciation	530	584
	<u>530</u>	<u>584</u>
 (iii) Directors' remuneration		
Chief Executive Officer:		
Salary and other remuneration	756	774
Bonus	57	57
Benefits-in-kind	88	88
Other executive directors:		
Salary and other remuneration	-	124
Bonus	-	21
	<u>901</u>	<u>1,064</u>
Non-executive directors:		
Fees	424	200
Other remuneration	32	690
Benefits-in-kind	-	30
	<u>456</u>	<u>920</u>
Total	<u>1,357</u>	<u>1,984</u>
Total excluding benefits-in-kind	<u>1,269</u>	<u>1,866</u>

22. OVERHEAD EXPENSES (CONTD.)

The chief executive officer received total remuneration above RM900,000 while all other directors received total remuneration below RM100,000 each.

23. TAXATION

	Group and Bank	
	2006	2005
	RM'000	RM'000
Income tax:		
Current year	7,881	6,249
Under/(over) provision in prior years	37	(798)
Deferred tax:		
Relating to reduction in Malaysian income tax rate	446	-
Relating to origination and reversal of temporary differences (Note 13)	(352)	(890)
Tax expense for the year	<u>8,012</u>	<u>4,561</u>

Income tax is calculated at the Malaysian statutory tax rate of 28% (2005: 28%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 27% from the current year's rate of 28%, effective year of assessment 2007 and to 26% effective year of assessment 2008. The computation of deferred tax as at 31 December 2006 has reflected these changes.

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

	Group and Bank	
	2006	2005
	RM'000	RM'000
Profit before taxation	<u>25,702</u>	<u>19,479</u>
Taxation at Malaysian statutory tax rate of 28% (2005: 28%)	7,197	5,454
Effect of changes in Malaysian income tax rate	446	-
Effect of expenses not deductible for tax purposes	332	163
Income not subject to tax	-	(258)
Under/(over) provision in prior years	37	(798)
Tax expense for the year	<u>8,012</u>	<u>4,561</u>

24. EARNINGS PER SHARE

Basic earnings per share of the Group is calculated by dividing the net profit attributable to shareholders for the financial year by the number of ordinary shares in issue during the financial period as follows:

	Group and Bank	
	2006	2005
Net profit for the year (RM'000)	17,690	14,918
Number of ordinary shares in issue ('000)	265,000	265,000
Basic earnings per share (sen)	<u>6.68</u>	<u>5.63</u>

There is no dilutive potential in the ordinary shares as at 31 December 2006.

25. 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.

Risk weighted exposures of the Bank as at the balance sheet date:

	Credit		Risk		Credit		Risk	
	Principal Amount	Equivalent Amount*	weighted amount	Principal Amount	Equivalent Amount*	weighted amount	Principal Amount	Equivalent Amount*
	←	2006	→	←	2005	→	←	2005
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	29,832	29,832	29,122	26,576	26,576	25,865		
Transaction-related contingent items	29,566	14,783	14,158	35,924	17,962	17,049		
Short-term self-liquidating trade-related contingencies	49,251	9,850	9,850	65,748	13,150	13,150		
Irrevocable commitments to extend credit								
- maturity more than one year	601	300	300	2,683	1,341	1,341		
- maturity less than one year	544,018	-	-	506,860	-	-		
Forward foreign exchange contracts								
- less than one year	127,159	1,697	1,132	69,776	758	517		
Miscellaneous	6,118	-	-	15,117	-	-		
Total	<u>786,545</u>	<u>56,462</u>	<u>54,562</u>	<u>722,684</u>	<u>59,787</u>	<u>57,922</u>		

25. COMMITMENTS AND CONTINGENCIES (CONTD.)

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

The forward foreign exchange contracts are subject to market risk and credit risk.

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 31 December 2006, the amount of contracts which were not hedged and, hence, exposed to market risk is RM5,163,000 (2005: RM2,917,000).

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 31 December 2006, the amounts of credit risk, measured in terms of the cost to replace the profitable contracts, was RM1,697,000 (2005: RM758,000). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

26. INTEREST RATE RISK

The Group and the Bank are exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The following table indicates the effective interest rates at the balance sheet date and the periods in which the financial instruments reprice or mature, whichever is earlier.

26. INTEREST RATE RISK (CONTD.)

Group	← Non-trading book →					Non- interest sensitive RM'000	Trading book RM'000	Effective interest Total RM'000	Effective interest rate %
	Up to 1 month RM'000	> 1-3 months RM'000	> 3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000				
As at									
31 December									
2006									
Assets									
Cash and short-term funds	104,124	-	-	-	-	7,554	-	111,678	3.57
Deposits and placements with Bank Negara Malaysia	-	24,300	-	-	-	-	-	24,300	3.64
Available-for-sale securities	-	-	-	-	-	-	31,339	31,339	n/a
Held-to-maturity securities	-	15,104	52,138	15,024	-	13	-	82,279	3.67
Loans, advances and financing									
- performing	115,812	241,126	368,179	54,555	67,598	-	-	847,270	5.24
- non-performing *	-	-	-	-	-	(3,760)	-	(3,760)	n/a
Other non-interest sensitive balances	-	-	-	-	-	42,966	-	42,966	n/a
Total assets	219,936	280,530	420,317	69,579	67,598	46,773	31,339	1,136,072	

26. INTEREST RATE RISK (CONTD.)

Group	← Non-trading book →					Non- interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	> 1-3 months RM'000	> 3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000				
As at									
31 December									
2006 (Contd.)									
Liabilities									
Deposits from customers	324,603	124,347	230,610	25,616	-	-	-	705,176	3.19
Deposits and placements of licensed banks	17,623	14,098	-	-	-	1,261	-	32,982	5.43
Bills and acceptances payable	7,488	21,665	5,180	-	-	-	-	34,333	3.50
Other non-interest sensitive balances	-	-	-	-	-	10,647	-	10,647	n/a
Total liabilities	349,714	160,110	235,790	25,616	-	11,908	-	783,138	
Shareholders' equity	-	-	-	-	-	352,934	-	352,934	n/a
Total liabilities and shareholders' equity	349,714	160,110	235,790	25,616	-	364,842	-	1,136,072	
On-balance sheet interest sensitivity gap representing total interest sensitivity gap	(129,778)	120,420	184,527	43,963	67,598	(318,069)	31,339		

* This is arrived at after deducting the general allowance and specific allowance from gross non-performing loans outstanding.

26. INTEREST RATE RISK (CONTD.)

Group	← Non-trading book →					Non- interest sensitive RM'000	Trading book RM'000	Effective interest	
	Up to 1 month RM'000	> 1-3 months RM'000	> 3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000			Total RM'000	rate %
As at 31 December 2005									
Assets									
Cash and short-term funds	158,900	-	-	-	-	11,545	-	170,445	3.08
Deposits and placements with Bank Negara Malaysia	-	50,000	-	-	-	-	-	50,000	3.15
Available-for-sale securities	-	-	-	-	-	-	16,195	16,195	n/a
Held-to-maturity securities	-	-	40,950	85,039	-	13	-	126,002	3.58
Loans, advances and financing									
- performing	124,784	245,127	198,230	34,643	42,218	-	-	645,002	5.24
- non- performing *	-	-	-	-	-	(8,845)	-	(8,845)	n/a
Other non-interest sensitive balances	-	-	-	-	-	38,351	-	38,351	n/a
Total assets	283,684	295,127	239,180	119,682	42,218	41,064	16,195	1,037,150	

26. INTEREST RATE RISK (CONTD.)

Group	← Non-trading book →					Non- interest sensitive RM'000	Trading book RM'000	Effective interest Total RM'000	Effective interest rate %
	Up to 1 month RM'000	> 1-3 months RM'000	> 3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000				
As at									
31 December									
2005									
(Contd.)									
Liabilities									
Deposits from customers	369,397	108,099	165,414	17,606	-	-	-	660,516	2.70
Deposits and placements of licensed banks	-	4,914	-	-	-	92	-	5,006	4.19
Bills and acceptances payable	3,162	12,251	9,517	-	-	-	-	24,930	2.50
Other non-interest sensitive balances	-	-	-	-	-	11,588	-	11,588	n/a
Total liabilities	372,559	125,264	174,931	17,606	-	11,680	-	702,040	
Shareholders' equity	-	-	-	-	-	335,110	-	335,110	n/a
Total liabilities and shareholders' equity	372,559	125,264	174,931	17,606	-	346,790	-	1,037,150	
On-balance sheet interest sensitivity gap representing total interest sensitivity gap	(88,875)	169,863	64,249	102,076	42,218	(305,726)	16,195		

* This is arrived at after deducting the general allowance and specific allowance from gross non-performing loans outstanding.

26. INTEREST RATE RISK (CONTD.)

Bank	← Non-trading book →					Non- interest sensitive RM'000	Trading book RM'000	Total RM'000	Effective interest rate %
	Up to 1 month RM'000	> 1-3 months RM'000	> 3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000				
As at 31 December 2006									
Assets									
Cash and short-term funds	104,124	-	-	-	-	7,543	-	111,667	3.57
Deposits and placements with Bank Negara Malaysia	-	24,300	-	-	-	-	-	24,300	3.64
Available-for-sale securities	-	-	-	-	-	-	31,339	31,339	n/a
Held-to-maturity securities	-	15,104	52,138	15,024	-	13	-	82,279	3.67
Loans, advances and financing									
- performing	115,812	241,126	368,179	54,555	67,598	-	-	847,270	5.24
- non-performing *	-	-	-	-	-	(3,760)	-	(3,760)	n/a
Other non-interest sensitive balances	-	-	-	-	-	42,976	-	42,976	n/a
Total assets	219,936	280,530	420,317	69,579	67,598	46,772	31,339	1,136,071	
Liabilities									
Deposits from customers	324,603	124,347	230,610	25,616	-	-	-	705,176	3.19
Deposits and placements of licensed banks	17,623	14,098	-	-	-	1,261	-	32,982	5.43
Bills and acceptances payable	7,488	21,665	5,180	-	-	-	-	34,333	3.50
Other non-interest sensitive balances	-	-	-	-	-	10,646	-	10,646	n/a
Total liabilities	349,714	160,110	235,790	25,616	-	11,907	-	783,137	

26. INTEREST RATE RISK (CONTD.)

Bank	← Non-trading book →					Non- interest sensitive	Trading book	Total	Effective interest rate
	Up to 1 month	> 1-3 months	> 3-12 months	1-5 years	Over 5 years				
As at 31 December 2006									
(Contd.)									
Shareholders'									
equity	-	-	-	-	-	352,934	-	352,934	n/a
Total liabilities and shareholders'									
equity	349,714	160,110	235,790	25,616	-	364,841	-	1,136,071	
On-balance sheet interest sensitivity gap representing total interest sensitivity gap	(129,778)	120,420	184,527	43,963	67,598	(318,069)	31,339		

* This is arrived at after deducting the general allowance and specific allowance from gross non-performing loans outstanding.

26. INTEREST RATE RISK (CONTD.)

Bank	← Non-trading book →					Non- interest sensitive RM'000	Trading book RM'000	Effective interest Total RM'000	Effective interest rate %
	Up to 1 month RM'000	> 1-3 months RM'000	> 3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000				
As at 31 December 2005									
Assets									
Cash and short-term funds	158,900	-	-	-	-	11,534	-	170,434	3.08
Deposits and placements with Bank Negara Malaysia	-	50,000	-	-	-	-	-	50,000	3.15
Available-for-sale securities	-	-	-	-	-	-	16,195	16,195	n/a
Held-to-maturity securities	-	-	40,950	85,039	-	13	-	126,002	3.58
Loans, advances and financing									
- performing	124,784	245,127	198,230	34,643	42,218	-	-	645,002	5.24
- non-performing *	-	-	-	-	-	(8,845)	-	(8,845)	n/a
Other non-interest sensitive balances	-	-	-	-	-	38,361	-	38,361	n/a
Total assets	283,684	295,127	239,180	119,682	42,218	41,063	16,195	1,037,149	
Liabilities									
Deposits from customers	369,397	108,099	165,414	17,606	-	-	-	660,516	2.70
Deposits and placements of licensed banks	-	4,914	-	-	-	92	-	5,006	4.19
Bills and acceptances payable	3,162	12,251	9,517	-	-	-	-	24,930	2.50
Other non-interest sensitive balances	-	-	-	-	-	11,587	-	11,587	n/a
Total liabilities	372,559	125,264	174,931	17,606	-	11,679	-	702,039	

26. INTEREST RATE RISK (CONTD.)

Bank	Non-trading book					Non- interest sensitive RM'000	Trading book RM'000	Effective interest Total RM'000	Effective interest rate %
	Up to 1 month RM'000	> 1-3 months RM'000	> 3-12 months RM'000	1-5 years RM'000	Over 5 years RM'000				
As at									
31 December 2005									
(Contd.)									
Shareholders' equity	-	-	-	-	-	335,110	-	335,110	n/a
Total liabilities and shareholders' equity	372,559	125,264	174,931	17,606	-	346,789	-	1,037,149	
On-balance sheet interest sensitivity gap representing total interest sensitivity gap	(88,875)	169,863	64,249	102,076	42,218	(305,726)	16,195		

* This is arrived at after deducting the general allowance and specific allowance from gross non-performing loans outstanding.

27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

	Group and Bank	
	2006 RM'000	2005 RM'000
Income		
Interest on advances to holding company and its branches	129	56
Expenditure		
Interest on advances from holding company and its branches	571	70
Amount due to		
Deposits and placements from holding company and its branches	2,486	4,974

27. SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (CONTD.)

	Group and Bank	
	2006	2005
	RM'000	RM'000
Amount due from		
Cash and short-term funds placed with holding company and its branches	21,523	3,536

The directors are of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from that obtainable in transactions with unrelated parties.

28. CAPITAL ADEQUACY

The capital adequacy ratios of the Bank as at the balance sheet date, are as follows:

	2006	2005
Core capital ratio:		
Credit risk	37.80%	46.15%
Credit and market risks	35.45%	41.13%
Risk-weighted capital ratio:		
Credit risk	39.32%	49.03%
Credit and market risks	36.88%	43.70%

(i) The components of Tier-1 and Tier-2 capital (excluding deferred tax assets) of the Bank are as follows:

	2006	2005
	RM'000	RM'000
Tier-1 Capital		
Paid-up share capital	265,000	265,000
Statutory reserve	98,494	89,649
Accumulated losses	(10,639)	(19,484)
Less: Deferred tax assets	(6,141)	(6,235)
Total Tier-1 Capital	346,714	328,930
Tier-2 Capital		
General allowance for doubtful debts	13,997	20,546
Total Tier-2 Capital	13,997	20,546

28. CAPITAL ADEQUACY

- (i) The components of Tier-1 and Tier-2 capital (excluding deferred tax assets) of the Bank are as follows (Contd.):

	2006	2005
	RM'000	RM'000
Total capital	360,711	349,476
Less: Investment in subsidiary	(10)	(10)
Capital base	<u>360,701</u>	<u>349,466</u>

- (ii) The breakdown of risk-weighted assets (excluding deferred tax assets) of the Bank in the various categories of risk-weights are as follows:

	Principal	Risk-	Principal	Risk-
	2006	Weighted	2005	Weighted
	RM'000	2006	RM'000	2005
		RM'000		RM'000
0%	230,302	-	352,434	-
10%	-	-	10,019	1,002
20%	71,053	14,211	47,298	9,460
50%	13,347	6,673	11,123	5,561
100%	896,348	<u>896,348</u>	696,720	<u>696,720</u>
Total risk-weighted assets for credit risk		917,232		712,743
Total risk-weighted assets for market risk		<u>60,827</u>		<u>87,038</u>
Total risk-weighted assets for credit and market risks		<u>978,059</u>		<u>799,781</u>

29. FINANCIAL INSTRUMENTS**Financial Risk Management Policies**

Risk management is one of the critical success factors in banking and is an essential element of the Bank's overall business strategy. The Board of Directors recognises that a critical factor in the Bank's continued survival, profitability and success depends on the effectiveness of its risk management capabilities and risk return management. Therefore, the Bank's financial risk management policies seek to ensure that adequate financial resources are available for the development of the Bank's business whilst managing its foreign exchange, interest rate, credit and liquidity risks. The Bank operates within clearly defined guidelines that are approved by the Board.

29. FINANCIAL INSTRUMENTS (CONTD.)

Major areas of the Bank's risk management are as follows:

(a) Credit Risk Management

Credit risk is the potential loss of revenue and principal losses in the form of specific allowances as a result of partial or total default of a loan by the borrower. As such, management of credit risk is not only vital in protecting the Bank's assets quality but also to sustain profits. Various credit committees are set up to supervise credit activities and management of credit risks.

The Bank's credit risk grading system is used to grade the quality of all commercial and business loans. A key objective of the rating system is to track the movement of the Bank's credit risk profile and to assist in the early detection of weak borrowers to commence early rehabilitation and to prevent the emergence of new NPLs.

An effective preventive measure to identify and manage emerging problem loans is the independent review of performing loans by a special unit. This review is carried out with the prime objective of implementing prompt pre-emptive measures on loans where credit risks have increased.

For corrective measures, loans which are in excess or are three months in arrears and above would be under the purview of the Loan Review and Rehabilitation Committee. This committee would meet monthly to direct efforts towards effective collection, restructuring and rehabilitation of delinquent loans to prevent and recover NPLs expeditiously.

(b) Market Risk Management

Market risk is the risk of loss arising from movement in the level of market prices or rates, the two key components being interest rate risk and foreign currency exchange risk.

In order to manage risk in investment holding, the Bank mark-to-market its investment positions and makes comparisons against predetermined market risk limits. The market risk limits are set taking into consideration the risk appetite of the Bank, which has traditionally been prudent.

Foreign currency exchange risk arises from exchange rate movements, which may affect the profit of the Bank from its foreign exchange open positions taken from time to time. This risk is principally managed by setting predetermined limits on open foreign exchange positions against these limits and the setting and monitoring of cut-loss mechanisms.

29. FINANCIAL INSTRUMENTS (CONTD.)**(b) Market Risk Management (Contd.)**

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rates and shifts in the composition of the assets and liabilities. The Bank's Asset Liabilities Committee regularly reviews the interest rate outlook, assesses the vulnerability of net interest income and develops strategies to mitigate interest rate risk.

(c) Liquidity Risk Management

Liquidity risk relates to the ability of the Bank to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost.

The primary tool used for monitoring liquidity is the Bank Negara Malaysia New Liquidity Framework ("NLF"). The NLF is further supplemented with the Bank's internal liquidity risk management policies set by the Board of Directors and incorporated in the Asset Liabilities Management policies and procedures. These policies ensure that the liquidity surpluses are within the limit. The liquidity risk management activities are carried out through a combination of Cash Flow Report, maintenance of high quality long-term and short-term marketable securities that can be readily converted to cash, diversification of the funding base and proactive management of the Bank's customer deposits.

(d) Fair Values

The following table summarises the carrying amounts and fair values of the financial assets and liabilities, which were not presented at fair value in the Group and the Bank's balance sheets:

	Group and Bank			
	2006		2005	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Available-for-sale securities	31,339	35,324	16,195	20,080
Held-to-maturity securities	82,279	82,459	126,002	126,413
Loans and advances	843,510	843,510	636,157	636,157

The fair values of the Bank's quoted securities, money market instruments and Islamic debt securities are estimated at their market values as disclosed in Notes 6 and 7.

29. FINANCIAL INSTRUMENTS (CONTD.)**(d) Fair Values (Contd.)**

The fair value of loans is based on the carrying value of the loans and accrued interest receivable net of allowance for bad and doubtful debts as most of the loans are floating rate loans.

The nominal/notional amount and net fair value of financial instruments not recognised in the balance sheet are:

	Group and Bank			
	2006		2005	
	Nominal/ notional amount RM'000	Net fair value RM'000	Nominal/ notional amount RM'000	Net fair value RM'000
Forward foreign exchange contracts	127,159	479	69,776	66

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

(i) Cash and Cash Equivalents, Deposits and Placements with Bank Negara Malaysia, Deposits from Customers and Banks, Bills and Acceptances Payable, Other Assets/Liabilities

The carrying amounts approximate fair values due to the relatively short-term maturity of these financial instruments.

(ii) Securities Held-For-Trading, Held-To-Maturities and Available-For-Sale

The fair value of quoted securities is determined by reference to stock exchange quoted market bid prices at the close of business at the balance sheet date. The fair value of money market instruments is determined by reference to market bid prices at the close of the business on the balance sheet date.

The fair values of investments in unquoted shares and private debt securities approximate their carrying amounts due to the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

29. FINANCIAL INSTRUMENTS (CONTD.)

(d) Fair Values (Contd.)

(iii) Derivative Financial Instruments

The fair value of the forward foreign currency contracts is the estimated amount which the Bank would expect to pay or receive on the termination of the outstanding position arising from such contracts. At the end of the financial year, the fair value of such contracts is determined by reference to the current forward exchange rate for contracts of similar maturity profiles.