

Company No. 115793P

**Standard Chartered Bank Malaysia Berhad**  
(Company No. 115793 P)  
(Incorporated in Malaysia)  
**and its subsidiaries**

**Financial statements for the financial year  
ended 31 December 2006**

Domiciled in Malaysia  
Principal place of business  
Level 16, Menara Standard Chartered  
No. 30, Jalan Sultan Ismail  
50250 Kuala Lumpur

**Standard Chartered Bank Malaysia Berhad**

(Company No. 115793 P)

(Incorporated in Malaysia)

**and its subsidiaries**

**Directors' report for the financial year ended 31 December 2006**

The Directors have pleasure in submitting their report and the audited financial statements of the Group and of the Company (the Bank) for the year ended 31 December 2006.

**Principal activities**

The principal activities of the Group and the Bank are banking and related financial services which also include Islamic Banking business. The principal activities of the subsidiaries are stated in Note 11 to the financial statements.

There have been no significant changes in the activities of the Bank and its subsidiaries during the financial year.

**Results**

	<b>Group and Bank RM'000</b>
Profit before taxation	629,526
Tax expense	<u>(181,074)</u>
Profit for the year	<u><u>448,452</u></u>

**Dividends**

Since the end of the previous financial year, the Bank paid an interim ordinary dividend of 175% per share less tax totalling RM 157,500,000 in respect of the financial year ended 31 December 2006 on 24 August 2006.

The Directors now recommend the payment of a final gross dividend of 229% per share, less income tax, amounting to RM 208,780,000 in respect of the current financial year on the issued and fully paid-up ordinary shares of the Bank.

**Reserves and provisions**

There were no material transfers to or from reserves and provisions during the year.

**Bad and doubtful debts and financing**

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad debts and financing and the making of provisions for doubtful debts and financing, and satisfied themselves that all known bad debts and financing had been written off and adequate provisions made for doubtful debts and financing.

At the date of this report, the Directors are not aware of any circumstances, which would render the amount written off for bad debts and financing, or the amount of the provision for doubtful debts and financing, in the financial statements of the Group and of the Bank inadequate to any substantial extent.

**Current assets**

Before the financial statements of the Group and of the Bank were made out, the Directors took reasonable steps to ascertain that the value of any current assets, other than debts and financing, which were unlikely to be realised in the ordinary course of business, as shown in the accounting records of the Group and of the Bank, have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Group and of the Bank misleading.

**Valuation methods**

At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing methods of valuation of assets or liabilities in the Group's and the Bank's financial statements misleading or inappropriate.

**Contingent and other liabilities**

At the date of this report there does not exist:-

- (a) 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
- (b) any contingent liabilities in respect of the Group and of the Bank that has arisen since the end of the financial year other than in the ordinary course of banking business.

No contingent or other liability of the Group and of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Group and of the Bank to meet its obligations as and when they fall due.

**Change of circumstances**

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, that would render any amount stated in the financial statements misleading.

**Items of an unusual nature**

The results of the operations of the Group and of the Bank for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Group and of the Bank for the current financial year in which this report is made.

**Business plan and strategy**

**2006 Results**

The Bank continues to show double digit growth in profitability, registering a pre-tax profit of RM 630 million, an increase of 12% against RM 562 million in the previous year. The Bank has continued to deliver excellent (post-tax) return on equity of 24.7%. Revenue growth has been steady without compromising on cost efficiencies, resulting in a slight improvement in cost to income ratio from 44% to 43%.

Total net income grew 10.2% to RM 1,290 million, comprising growth in both net interest income and non-interest income. Net interest income of RM 864 million represents a 11% growth against 2005 and was achieved on the back of strong asset growth of 12%. However, net interest margin declined to 2.34% from 2.41% previously, attributable to the continued margin squeeze from intense competition coupled with continued excess liquidity in banking system which changed the balance sheet mix towards higher proportion of lower-yielding liquid assets. Non-interest income increased 3% to RM 393 million from RM 381 million in 2005, attributable mainly to (i) gain on sale of "available for sale" securities, (ii) increased activity and volatility in the foreign exchange and money market.

Total operating expenses increased by 7.6% attributable to higher personnel cost arising from continuous effort in building bench-strength and talent management, to support business expansion. The Bank has continued to invest in new technology and product development, to strengthen the operating platform aimed at building capacity, improving customer service and enhancing its product offering. The Bank has also opened five new branches as part of its continued initiative to reach out to a wider customer base. Despite these investments, cost increase has been kept at a marginal level due to continuous productivity improvements.

Gross loans, advances and financing was relatively flat at RM 20.1 billion, as the interest rate hikes and our credit underwriting standards took its toll on demand for credit, coupled with maturity of several large corporate loans during the year. There was a slight increase in gross non-performing loans (NPL) to RM 798 million from RM 764 million previously, mainly due to mortgage loans. The net NPL ratio remains low at 2.38%.

Deposits growth has been strong, recording an increase of RM 5.4 billion or 24%. Current Account deposits grew by 25%, while growth in Fixed/Investment deposits was at 16%. Risk weighted capital ratio has remained strong at 13.15% (2005: 13.05%) after incorporating market risk capital requirements.

**Strategy and Economic Environment**

The Malaysian economy has continued to remain resilient despite facing greater external challenges, coupled with softening of the property market. GDP is expected to grow by 5.5% - 5.8% reflecting a broad based growth and driven by stronger domestic demand, primarily private sector activities.

The banking sector continues its transition towards greater liberalization with Bank Negara Malaysia gradually introducing measures on a phased approach to level the playing field, tighten risk management and strengthen consumer protection. Foreign banks were given leeway to open more branches while the granting of new Islamic Banking licences resulted in the entry of new foreign banks keen to tap into the growing market. Inflationary pressures continued to drive interest rate increases in the first half of the year, with the Overnight Policy Rate increasing by 50 basis points ("bps") to 3.50% in April 2006, resulting in banks correspondingly raising the base lending rate by 50 bps. With the easing of inflationary pressures in the second half of the year, OPR had remained stable during that period.

## **Company No. 115793P**

Standard Chartered Bank Malaysia Berhad ("the Bank") has made good progress during the year and has further strengthened its market position in both the Consumer and Wholesale Banking segments. For the Wholesale business, the Bank achieved the following :

- Joint lead arranger for USD 1.1 billion syndication deal for CIMB group's acquisition of Southern Bank.
- first bank in Malaysia to offer Commodity Derivative products
- became lead manager for Khazanah Nasional Berhad's RM 1.0 billion Sukuk issuance
- enhanced Transaction Banking capabilities with the introduction of cross-border vendor financing

The Consumer business continues to deliver good earnings quality and growth. The key focus was on infrastructure development, with the opening of 5 new branches this year, as well as greater emphasis on cost efficiencies.

The Bank's MyDream account was its first ever corporate trust product, while further enhancements were made to the highly successful MortgageOne product with the launch of LinkOne. The Bank's contribution to the promotion and development of SME was recognized with the 2006 Sahabat SMB Award.

The strong momentum achieved last year on Islamic Banking continued, with the launch of the world's first ever Islamic cross currency derivative and Forward Rate agreement, coupled with the region's first Islamic Profit Rate Swap. Islamic variants were also introduced for the Bank's Business Financing loans.

Rating Agency Malaysia has maintained the Bank's credit rating at AAA reflecting their continued recognition of the Bank's superior asset quality, commendable profit track record, stable funding and liquidity positions and the strong financial flexibility of its Group office, Standard Chartered Plc.

On Corporate and Social Responsibility (CSR), the Bank has continued to play an active role in championing the HIV/AIDS prevention and education programme, and the "Seeing is Believing" programme to restore sight to people. The success of these initiatives was reflected by the Bank being awarded the International Stevie Award for Best Corporate Social Responsibility at the 2006 Annual International Business Awards.

### **Plan for 2007**

The Bank will continue to work on a focused strategic agenda to achieve its ambition to be the best international bank, leading the way in Asia, Africa and the Middle East. Over the past few years, the Bank has built significant momentum to lead the way in product innovation, service, performance culture, corporate governance and enhancing shareholder value. The strategic agenda for 2007 is set out below :

- Accelerate growth in both Consumer and Wholesale Banking, while focusing on priority markets
- Deepen client relationships in Wholesale Banking
- Excel in service and innovation
- Lead by example in corporate responsibility

## Statement of Corporate Governance

The Bank is committed to uphold good corporate governance practices in line with the Malaysian Code of Corporate Governance (the "Code") and in conformity with the Bank Negara Malaysia ("BNM") Guidelines on Corporate Governance for Licensed Institutions (Revised BNM/GP1) which was effective on 1 October 2005 and all related guidelines issued by BNM prior thereto.

## Board of Directors

### Composition of the Board of Directors

The Board of Directors (the "Board") comprises members from diverse professional backgrounds, experiences and are appropriately qualified to discharge their responsibilities. The Board currently has ten (10) members, the majority of whom are Non-Executive Directors. The Directors who served since the date of the last report are:-

#### Members

Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman  
Dato' Lim Say Chong  
Dato' Mat Amir bin Jaffar  
Datuk Abu Hassan bin Kendut  
Kaikhushru Shiavax Nargolwala  
Goh Yiu Kiang Euleen  
Karen Fawcett  
Jaspal Singh Bindra (appointed on 13 June 2006)  
Christian Andreas Werner (appointed on 13 June 2006)  
Julian Francis Wynter (appointed on 23 January 2007)  
John Filmeridis (resigned on 13 June 2006)  
Shayne Keith Nelson (resigned on 23 January 2007)

#### Status of Directorship

Independent Non-Executive Director  
Independent Non-Executive Director  
Independent Non-Executive Director  
Independent Non-Executive Director  
Non-Independent Non-Executive Director  
Non-Independent Non-Executive Director  
Non-Independent Non-Executive Director  
Non-Independent Non-Executive Director  
Non-Independent Executive Director  
Non-Independent Non-Executive Director  
Non-Independent Executive Director  
(redesignated to Non-Independent Non-Executive Director on 13 November 2006)

The composition complies with BNM Guidelines which requires at least one-third of the board members to be independent directors.

### Roles and responsibilities of the Board

Besides carrying out its statutory responsibilities, the Board approves the Bank's long-term objectives and commercial strategy and the annual operating budget. It oversees the management of the business and the Bank's affairs and regularly monitors the Bank's performance against budget and plans. Matters reserved for the Board's decision include material acquisitions and disposals of assets which are outside the ordinary course of business, allocation of capital, delegation of authority and the Bank's financial reporting. The Board carries out various functions and responsibilities laid down by BNM in guidelines and directives that are issued by BNM from time to time. The Board also operates under an approved terms of reference which set out their roles and responsibilities towards the Bank.

### Appointments to the Board

The appointment and re-appointment of Directors to the Bank's Board had been approved by BNM pursuant to the Banking and Financial Institutions Act, 1989 ("BAFIA") and in compliance with the guidelines issued by BNM.

In accordance with the Bank's Articles of Association, all newly appointed Directors are subjected to re-election by shareholders at the next Annual General Meeting. The Articles further provides for one third of the remaining directors to retire from office by rotation and be subjected to re-election at the Annual General Meeting of the Bank. As guided by BNM's Guidelines, re-appointment or re-election of Directors are made with the prior approval of BNM.

### Board's conduct of its affairs and board meetings

The Board has established specialised Board Committees to assist it to more effectively carry out its responsibilities and provide oversight over the Bank's operations. These committees are the Nomination Committee, the Audit Committee and the Risk Committee. These committees operate under clearly defined terms of reference approved by the Board.

The Bank has obtained a waiver from BNM from establishing a Remuneration Committee on 28 April 2006. Although the Bank is exempted from establishing a Remuneration Committee as required under the Revised Guidelines, the Board take note of all remuneration and performance appraisal policies determined by the Group.

### Frequency and attendance of each director at board meetings

The Board meets regularly and has a formal schedule of matters specifically reserved for its decision. During the financial year 2006, the Board met six (6) times to deliberate on and consider a variety of significant matters that required its guidance and approval. The record of the attendance at the Board Meetings is as follows:

<u>Members</u>	<u>Attendance and Number of Board Meetings</u>
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman	6/6
Dato' Lim Say Chong	5/6
Dato' Mat Amir bin Jaffar	5/6
Datuk Abu Hassan bin Kendut	6/6
Kaikhushru Shiavax Nargolwala	6/6
Goh Yiu Kiang Euleen	5/6
Karen Fawcett	5/6
Jaspal Singh Bindra (appointed on 13 June 2006)	3/4
Christian Andreas Werner (appointed on 13 June 2006)	3/4
Julian Francis Wynter (appointed on 23 January 2007)	-
John Filmeridis (resigned on 13 June 2006)	2/2
Shayne Keith Nelson (resigned on 23 January 2007)	5/6

### Key information and background of Directors

The Bank is led by an experienced Board from diverse backgrounds and collectively has a wide range of business and management experience, knowledge and capabilities in areas that include banking, financial services, accounting and economics.

**(a) Tan Sri Dato' Mohd Sheriff bin Mohd Kassim**

Tan Sri Dato' Mohd Sheriff bin Mohd Kassim was appointed to the Board as an Independent Non-Executive Director on 2 March 2004 and as Chairman effective 23 March 2005. He held various positions in Civil Service since 1963 and was appointed as the Secretary General to the Treasury in the Malaysian Ministry of Finance in 1991. He later took up the position of Managing Director in Khazanah Nasional Berhad in 1994 till 2003. He holds a Bachelor of Arts (Honours) in Economics from the University of Malaya, a Diploma in Economic Development from Oxford University in the UK and a Masters in Arts (Economics) from Vanderbilt University in USA.

**(b) Dato' Lim Say Chong**

Dato' Lim Say Chong was appointed to the Board as an Independent Non-Executive Director on 1 July 1994. He was the Group Managing Director of Chemical Company of Malaysia Berhad from 1989 to September 2004 and held several senior positions during his 30 year career with the ICI Group in Malaysia and abroad. He holds a Bachelor of Arts (Honours) Degree from the University of Malaya and a Master of Business Administration Degree from the University of British Columbia, Canada. He has also completed an Advanced Management Programme at the Harvard Business School, USA.

**(c) Dato' Mat Amir bin Jaffar**

Dato' Mat Amir bin Jaffar was appointed to the Board as an Independent Non-Executive Director on 1 July 2001. He began his career in the Civil Service as a diplomatic officer with the Ministry of Foreign Affairs in 1966, and rose through the ranks. Over the years, he held the role of Malaysia's High Commissioner to India and United Kingdom. Earlier he was also Ambassador to Burma, Germany and China, before his mandatory retirement from civil service in 1997. He holds a Bachelor of Arts (Honours) from the University of Malaya.

**(d) Datuk Abu Hassan bin Kendut**

Datuk Abu Hassan bin Kendut was appointed to the Board as an Independent Non-Executive Director on 18 July 2005. He is a member of the Malaysian Institute of Certified Public Accountants ("MICPA") and the Malaysian Institute of Accountants. He was a past President of MICPA, and was formerly the Senior Partner of Coopers & Lybrand (currently known as PricewaterhouseCoopers).

**(e) Kaikhushru Shiavax Nargolwala**

Kaikhushru Shiavax Nargolwala was appointed to the Board as a Non-Independent Non-Executive Director on 31 March 1998. He joined Standard Chartered PLC in 1998 and was appointed to the Standard Chartered PLC's Board of Directors on 7 May 1999. He is currently the Group Executive Director, Asia Governance, Risk & GSAM where he is responsible for governance in Asia and the Group's Risk and Special Assets Management functions. Prior to joining Standard Chartered PLC, he had worked in the Bank of America for nineteen years. Prior to that, he was with Peat Marwick Mitchell & Co. in London where he practiced as a Chartered Accountant. He has a Bachelors degree in Economics from the University of Delhi, India and is a Fellow of the Institute of Chartered Accountants in England and Wales.



**(f) Goh Yiu Kiang Euleen**

Goh Yiu Kiang Euleen was appointed to the Board as a Non-Independent Non-Executive Director on 5 April 2001. Her last position prior to her retirement from Standard Chartered Bank in March 2006 was as the Chief Executive Officer of the Standard Chartered Bank in Singapore. She had worked with Price Waterhouse prior to joining the Standard Chartered Group's audit department in 1984 and has since worked extensively in Europe and Asia, holding senior positions in market risk, asset and liability management and sales. She has traveled extensively throughout the Standard Chartered Group's operations in the course of her duties. She is a Chartered Accountant with professional qualifications in banking and taxation.

**(g) Karen Fawcett**

Karen Fawcett was appointed to the Board as a Non-Independent Non-Executive Director on 18 October 2005. She is currently the Group Head of Transactional Banking responsible for the global performance of Trade Finance, Cash Management, Securities Services, Commercial Banking and Internet Banking Channels for Wholesale Banking Group. Prior to joining the Standard Chartered Group, Karen was a partner at Booz Allen Hamilton, focusing on financial services. She graduated with an MBA from INSEAD, Fontainebleau, France in 1988 and MA Economics from Cambridge in 1987.

**(h) Jaspal Singh Bindra**

Jaspal Singh Bindra was appointed to the Board as a Non-Independent Non-Executive Director on 13 June 2006. He is currently the Regional Chief Executive Officer, South East and South Asia, with responsibility for Afghanistan, Bangladesh, Brunei, India, Indonesia, Malaysia, Mauritius, Nepal, Sri Lanka, Thailand, Vietnam and SCOPE, India. Jaspal joined Standard Chartered Group in 1998 after four years with UBS Investment Banking. He began his career with Bank of America in 1984 and worked with them across Treasury, Capital Markets and Consumer Banking in India and Singapore. He is a qualified Chartered Accountant with an MBA.

**(i) Christian Andreas Werner**

Christian Andreas Werner was appointed to the Board of SCBMB on 13 June 2006 as a Non-Executive Director. He is currently the Global Product Head for New Ventures and Shared Distribution in the Consumer Bank. Based in Singapore, he is accountable for worldwide distribution including branches and call centers as well as our Priority Banking customer segment. He started his banking career as a trainee at Deutsche Bank in 1978. Between 1986 and 2004, he was working with Citibank, Standard Chartered Bank and Olympus Capital Holdings Asia in senior retail banking and credit card positions covering both Central Europe for Citibank and Asia for Standard Chartered and Olympus Capital. He holds a German Master degree in Economics from Johannes-Gutenberg-University in Mainz/Germany and an Executive Master degree in Business Management from London Business School.

**(j) Julian Francis Wynter**

Julian Francis Wynter was appointed to the Board of SCBMB on 23 January 2007 as the Managing Director and Chief Executive Officer. In his role, he brings with him 30 years of extensive experience in the banking industry. He joined Standard Chartered in 1992 in a senior relationship manager role covering European Corporates until 2000, when he was appointed as CEO of Japan. In 2003, he was appointed Head of Audit, Consumer Banking - a global position overseeing 56 countries. Prior to joining Standard Chartered, he had built his banking expertise with Citibank London and Hong Kong, Merrill Lynch London and Hong Kong and Banque Bruxelles Lambert, London. His area of coverage included investment banking, local corporates and insurance banking. A British citizen - he is a graduate of Oxford University.

## Committees

### a) Nomination Committee

#### Membership and composition

The members of Nomination Committee are:

Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman

Dato' Lim Say Chong

Kaikhushru Shiavax Nargolwala

Goh Yiu Kiang Euleen

Karen Fawcett

Julian Francis Wynter (appointed as a member on 23 January 2007)

Shayne Keith Nelson (ceased to be a member on 23 January 2007)

All of the Nomination Committee members are non-executive directors except for Mr. Julian Francis Wynter.

#### Functions and responsibilities and terms of reference

The Nomination Committee is empowered by the Board to bring to the Board recommendations as to the minimum requirements (including skills, experience, qualifications and competencies) for appointees to the Board and for the Chief Executive Officer ("CEO"). During the year, an established set of criteria was approved by the Board as the policy on Fit and Proper Criteria for Appointment of Directors in the Bank which provides guidance for the Committee to determine the overall suitability of the candidate.

In addition, the Nomination Committee regularly review the overall structure, size and the composition in accordance with the criteria set and make recommendations to the Board with regard to any adjustments that are deemed necessary. This includes identifying and nominating for the approval of the board, candidates to fill Board vacancies as and when they arise, subject to such application for approval to BNM as may be required from time to time. During the year, the Nomination Committee has made assessment of two (2) new directors and re-appointment of four (4) existing directors and was convinced that their appointments/re-appointments would assist in achieving a mix of Board Members that represents a diversity of background and experience that would best complement the current Board effectiveness.

The Nomination Committee is also tasked to determine and implement a process for the evaluation of the performance and effectiveness of the Board, its committees and each individual director. The Board has adopted a self-evaluation guide by the Nomination Committee. The purpose of the evaluation is to determine whether the Board and its committees are functioning effectively and to increase the effectiveness of the Board. By including individual directors, the evaluation is intended to capitalize on the strengths that each director brings to the Board and enhance each director's contribution.

#### Number of meetings held

The Nomination Committee meets at least once a year and during the financial year 2006, the committee met three (3) times and the attendance of the members are as follows:

<u>Members</u>	<u>Attendance and Number of Meetings</u>
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim - Chairman	3/3
Dato' Lim Say Chong	2/3
Kaikhushru Shiavax Nargolwala	3/3
Goh Yiu Kiang Euleen	2/3
Karen Fawcett	3/3
Julian Francis Wynter (appointed on 23 January 2007)	-
Shayne Keith Nelson (ceased to be a member on 23 January 2007)	3/3

**b) Audit Committee**

The Audit and Examination Committee was established in August 1994 and this committee was later renamed to the Audit and Risk Committee in February 2005. Pursuant to the issuance of the Revised Guidelines by BNM, the Board has split the Audit and Risk Committee into the Audit Committee and the Risk Committee respectively in February 2006.

**Membership and composition**

The members of the Audit Committee are:

Datuk Abu Hassan bin Kendut - Chairman

Tan Sri Dato' Mohd Sheriff bin Mohd Kassim

Dato' Lim Say Chong

Dato' Mat Amir bin Jaffar

Goh Yiu Kiang Euleen (appointed as a member of Audit Committee on 6 February 2006)

All of the Audit Committee members are independent non-executive directors, with the exception of Ms. Goh Yiu Kiang Euleen who is a non-independent non-executive director.

**Terms of Reference**

The primary functions of Audit Committee are to assist the Board to:

- examine the manner in which management ensures and monitors the accuracy, quality and objectivity of the Bank's financial reporting to external bodies, including shareholders and regulators in accordance with the Law and appropriate accounting standards.
- examine the manner in which management ensures and monitors the effectiveness and appropriateness of management accounting practices and other internal control systems.
- ensure compliance with any and all banking regulations which relate to the responsibilities and obligations of a locally incorporated bank, as defined by the BAFIA, BNM and the Financial Services Authority, UK from time to time, and any other appropriate regulators and bodies which are or will become relevant to the conduct of our business.

**Number of meetings held**

The Audit Committee meets on a quarterly basis and during the financial year 2006, the committee met four (4) times and the attendance of the members are as follows:

<u>Members</u>	<u>Attendance and Number of Meetings</u>
Datuk Abu Hassan Kendut - Chairman	4/4
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim	4/4
Dato' Lim Say Chong	4/4
Dato' Mat Amir bin Jaffar	4/4
Goh Yiu Kiang Euleen (appointed as a member of the Audit Committee on 6 February 2006)	2/3

### c) Risk Committee

#### Membership and composition

The members of the Risk Committee are:  
Dato' Lim Say Chong - Chairman  
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim  
Dato' Mat Amir bin Jaffar  
Datuk Abu Hassan bin Kendut  
Goh Yiu Kiang Euleen

All of the Risk Committee members are independent non-executive directors, with the exception of Ms. Goh Yiu Kiang Euleen who is a non-independent non-executive director.

#### Terms of Reference

The primary functions of the Risk Committee are to assist the Board to:

- review and recommend risk management strategies, policies and risk tolerance for the Board's approval;
- review and assess adequacy of risk management policies and framework in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively; and
- ensure infrastructure, resources and systems are in place for risk management, i.e. to ensure that the staff responsible for implementing risk management system perform those duties independently of the financial institutions' risk taking activities.

#### Number of meetings held

The Risk Committee meets on a quarterly basis and during the financial year 2006, the committee met four (4) times and the attendance of the members are as follows:

<u>Members</u>	<u>Attendance and Number of Meetings</u>
Dato' Lim Say Chong - Chairman	4/4
Tan Sri Dato' Mohd Sheriff bin Mohd Kassim	4/4
Dato' Mat Amir bin Jaffar	4/4
Datuk Abu Hassan bin Kendut	4/4
Goh Yiu Kiang Euleen	2/3

#### Risk Management

Through its risk management structure, the Bank seeks to manage efficiently the core risks: credit, market and liquidity risk, which arise directly through the Bank's commercial activities whilst operational, business, country, reputational, social, environmental and ethical compliance and legal risk are normal consequences of any business undertaking. The key element of risk management philosophy is for the risk functions to operate as an independent control working in partnership with the business units to provide a competitive advantage to the Bank. Detailed description of the primary risk management tools used by the Bank, are documented in Note 34 to the financial statements.

The basic principles of risk management followed by the Bank include:

- ensuring that business activities are controlled on the basis of risk adjusted returns;
- managing risk within agreed parameters with risk quantified wherever possible;
- assessing risk at the outset and throughout the time that we continue to be exposed to it;
- abiding by all applicable laws, regulations and governance standards of the country in which we do business;
- applying high and consistent ethical standards to our relationship with all customers, employees and other stakeholders; and
- undertaking activities in accordance with fundamental control standards. These controls include the disciplines of planning, monitoring, segregation, authorization and approval, recording, reconciliation and valuation.

### **Internal Audit and Control activities**

The Board is committed to managing risk and to controlling its business and financial activities in a manner which enables it to maximize profitable business opportunities, avoid or reduce risks which can cause loss or reputational damage, ensure compliance with applicable laws and regulations, and enhance resilience to external events. This is supported by the risk management framework described above, which is underpinned by policy statements, written procedures and control manuals.

The Bank has also established a management structure that clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated. Various risk committees are established to regularly review the Bank's risk profile. The performance of the Group's business is reported regularly to senior management and the Board. Performance trends and forecasts, as well as actual performance against budgets and prior periods, are closely monitored. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets. These controls include appropriate segregation of duties, the regular reconciliation of accounts and the valuation of assets and positions.

The effectiveness of the Bank's internal control system is reviewed regularly by the Board of Directors, its committees and Group Internal Audit.

The internal audit function is organised on a Group basis. Group Internal Audit monitors compliance with policies and standards and the effectiveness of internal controls structures of the Group and highlights significant findings in respect of any non-compliance. The work of Group Internal Audit is focused on areas of greatest risk as determined by a risk assessment approach. Group Internal Audit reports regularly to the Audit Committee. The annual audit plan is reviewed and approved by the Audit Committee. All medium and high risk issues are tracked and reported to Audit Committee and immediate corrective action is required.

### **Related Party Transactions**

There are no other significant related party transactions other than as reported in Note 27.

### **Management Report**

The Board, as a whole, receives and reviews regular reports from the management on the key operating statistics, legal and regulatory matters and minutes of the Management Committee Meetings. In addition, the CEO holds a monthly briefing to the independent directors on the performance and operations of the Bank and any strategic, financial, operational, compliance or governance issues.

From time to time between meetings, the management (ordinarily by way of the Chief Executive Officer), advise the Board of any significant developments through a suitable method of communication.

### **Ratings Statement**

Rating Agency Malaysia Berhad (RAM) had reaffirmed the long- and short-term general bank ratings of Standard Chartered Bank Malaysia Berhad to be AAA and P1, respectively, in September 2006.

**Company No. 115793P****Board of Directors and their interests in shares**

According to the register of Directors' shareholdings maintained by the Bank pursuant to Section 134 of the Companies Act, 1965, the Directors' beneficial interests in the shares of the Bank and its related corporation at year end are as follows:-

	As at 1.1.2006 / at date of appointment	Number of shares		As at 31.12.2006 / at date of resignation
		Acquired	Disposed	
<b>In Standard Chartered PLC</b>				
<u>Ordinary shares of US\$0.50 each</u>				
Kaikhushru Shiavax Nargolwala	147,340	619,533 (A)	(619,533)	147,340
Goh Yiu Kiang Euleen	33,129	401,390 (B)	(319,957)	114,562
John Filmeridis	70,872	38,382 (C)	-	109,254
Shayne Keith Nelson	5,209	139	-	5,348
Karen Fawcett	15,633	71,018 (D)	(68,499)	18,152
Jaspal Singh Bindra	10,357	162,195	(162,195)	10,357
Christian Andreas Werner	12,135	-	-	12,135
	As at 1.1.2006 / at date of appointment	Number of options		As at 31.12.2006 / at date of resignation
		Awarded/ Granted	Lapsed/ Exercised	
<u>Deferred Bonus Share Plan</u>				
Kaikhushru Shiavax Nargolwala	24,941	17,667	(25,166)	17,442
Goh Yiu Kiang Euleen	3,909	-	(3,909)	-
Shayne Keith Nelson	3,518	2,593	-	6,111
Karen Fawcett	-	1,518	-	1,518
Jaspal Singh Bindra	4,625	-	-	4,625
<u>Supplemental Executive Share Option Scheme</u>				
John Filmeridis	32,012	-	-	32,012
<u>Executive Share Option Scheme</u>				
Kaikhushru Shiavax Nargolwala	743,991	-	(594,367)	149,624
Goh Yiu Kiang Euleen	385,740	-	(334,957)	50,783
John Filmeridis	50,228	-	-	50,228
Shayne Keith Nelson	177,590	-	-	177,590
Karen Fawcett	194,380	-	(68,499)	125,881
Jaspal Singh Bindra	270,676	-	(162,195)	108,481
Christian Andreas Werner	40,308	-	-	40,308
<u>International Sharesave Scheme</u>				
Goh Yiu Kiang Euleen	959	-	-	959
Karen Fawcett	1,697	878	-	2,575
Shayne Keith Nelson	1,439	-	-	1,439
Jaspal Singh Bindra	2,472	-	-	2,472
Christian Andreas Werner	959	-	-	959
<u>Restricted Share Scheme</u>				
Goh Yiu Kiang Euleen	8,272	-	-	8,272
Shayne Keith Nelson	10,031	-	-	10,031
John Filmeridis	33,630	-	-	33,630
Karen Fawcett	4,737	-	-	4,737
Jaspal Singh Bindra	3,038	-	-	3,038
Christian Andreas Werner	7,175	-	-	7,175

**Company No. 115793P**

<u>Options Over Performance Share Plan</u>	As at 1.1.2006	Number of options		As at 31.12.2006
	/ at date of appointment	Awarded/ Granted	Lapsed/ Exercised	/ at date of resignation
Kaikhushru Shiavax Nargolwala	194,298	89,382	-	283,680
Goh Yiu Kiang Euleen	109,206	-	(69,667)	39,539
John Filmeridis	70,719	20,905	(38,382)	53,242
Shayne Keith Nelson	55,871	15,679	-	71,550
Karen Fawcett	3,860	13,503	-	17,363
Jaspal Singh Bindra	136,236	-	-	136,236
Christian Andreas Werner	17,618	-	-	17,618

- (A) Acquired by way of the exercise of Deferred Bonus Share Plan and Executive Share Option Scheme.  
(B) Acquired by way of the exercise of Deferred Bonus Share Plan, Executive Share Option Scheme, Options over Performance Share Plan and reinvestment of dividends received.  
(C) Acquired by way of the exercise of Options Over Performance Share Plan.  
(D) 68,499 shares were acquired by way of the exercise of Executive Share Option Scheme.

The other Directors did not hold or deal in the shares of the Bank or its related corporations during the financial year.

**Issue of shares and debentures**

During the year, the Group and the Bank had redeemed the 190,000 cumulative Redeemable Preference Shares ("RPS") of RM1.00 each at a premium of RM999 per share.

There were no other changes in the issued and paid-up capital of the Bank during the financial year.

There were no debentures issued during the financial year.

**Options granted over unissued shares**

No options were granted to any person to take up unissued shares of the Bank during the year.

**Directors' benefits**

Since the end of the previous financial year, no Director of the Bank has received nor become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in Note 25 to the financial statements) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangements to which the Bank is a party whereby Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate except for shares and options given under the Standard Chartered Deferred Bonus Share Plan, Executive Share Option Scheme, Restricted Share Scheme, International Sharesave Scheme, Supplemental Executive Share Option Scheme and Options Over Performance Share Plan.

**Holding companies**

The Directors regard Standard Chartered Holdings (Asia Pacific) B.V., a company incorporated in The Netherlands, as the immediate holding company of the Bank and Standard Chartered PLC, a company incorporated in Great Britain, as the ultimate holding company of the Bank.

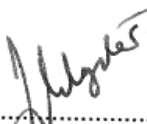
**Auditors**

The auditors, Messrs KPMG, have indicated their willingness to accept re-appointment.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors:



.....  
Tan Sri Dato' Mohd Sheriff Bin Mohd Kassim



.....  
Julian Francis Wynter  
Kuala Lumpur  
Date: 27 February 2007



**Company No. 115793P**

**Standard Chartered Bank Malaysia Berhad**  
(Company No. 115793 P)  
(Incorporated in Malaysia)  
**and its subsidiaries**

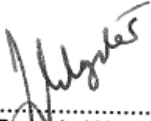
**Statement by Directors pursuant to  
Section 169(15) of the Companies Act, 1965**

In the opinion of the Directors, the financial statements set out on pages 21 to 96 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by Malaysian Accounting Standards Board as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the state of affairs of the Group and of the Bank as at 31 December 2006 and of the results of their operations and cash flows for the year ended on that date.

Signed in accordance with a resolution of the Directors:



.....  
Tan Sri Dato' Mohd Sheriff Bin Mohd Kassim



.....  
Julian Francis Wynter  
Kuala Lumpur  
Date: 27 February 2007


Company No. 115793P

**Standard Chartered Bank Malaysia Berhad**  
(Company No. 115793 P)  
(Incorporated in Malaysia)  
**and its subsidiaries**

**Statutory Declaration pursuant to  
Section 169(16) of the Companies Act, 1965**

I, Foong Pik Yee, the officer primarily responsible for the financial management of Standard Chartered Bank Malaysia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 21 to 96 are, to the best of my knowledge and belief, 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 above named in Kuala Lumpur on 27 February 2007.

  
.....  
Foong Pik Yee

Before me:





**KPMG (Firm No. AF 0758)**  
Chartered Accountants  
Wisma KPMG  
Jalan Dungun, Damansara Heights  
50490 Kuala Lumpur, Malaysia

Telephone +60 (3) 2095 3388  
Fax +60 (3) 2095 0971  
Internet [www.kpmg.com.my](http://www.kpmg.com.my)

**Report of the auditors to the members of  
Standard Chartered Bank Malaysia Berhad**  
(Company No. 115793 P)  
(Incorporated in Malaysia)

We have audited the financial statements set out on pages 21 to 96. The preparation of the financial statements is 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 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 financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion,

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board so as to give a true and fair view of:
  - (i) the state of affairs of the Group and of the Bank at 31 December 2006 and the results of their operations and cash flows for the year ended on that date; and
  - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and of the Bank; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the said Act.



Company No. 115793P

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Bank's financial statements 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 audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under sub-section (3) of Section 174 of the Act.

KPMG  
Firm Number: AF 0758  
Chartered Accountants

Kuala Lumpur  
Date: 27 February 2007

Seow Yoo Lin  
Partner  
Approval Number: 1497/02/07(J)

**Standard Chartered Bank Malaysia Berhad**

(Company No. 115793P)

(Incorporated in Malaysia)

**and its subsidiaries****Balance Sheets at 31 December 2006**

	Note	Group		Bank	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<b>Assets</b>					
Cash and short term funds	3	5,220,283	5,932,189	5,220,283	5,932,189
Deposits and placements with banks and other financial institutions	4	7,189,100	2,161,700	7,189,100	2,161,700
Securities purchased under resale agreements		60,927	74,451	60,927	74,451
Securities held for trading	5	1,658,788	624,745	1,658,788	624,745
Securities available-for-sale	6	3,614,151	5,055,017	3,614,151	5,055,017
Loans, advances and financing	7	19,461,056	19,710,226	19,461,056	19,710,226
Other receivables	9	1,173,450	609,296	1,173,450	609,296
Statutory deposits with Bank Negara Malaysia	10	605,441	592,000	605,441	592,000
Investments in subsidiaries	11	-	-	22	22
Property, plant and equipment	12	58,429	64,075	58,429	64,075
Deferred tax assets	29	86,605	84,747	86,605	84,747
<b>Total assets</b>		<b>39,128,230</b>	<b>34,908,446</b>	<b>39,128,252</b>	<b>34,908,468</b>
<b>Liabilities</b>					
Deposits from customers	13	27,736,049	22,369,732	27,736,049	22,369,732
Deposits and placements of banks and other financial institutions	14	4,168,665	4,765,936	4,168,665	4,765,936
Obligations on securities sold under repurchase agreements		1,642,326	2,820,168	1,642,326	2,820,168
Bills and acceptances payable		687,094	550,229	687,094	550,229
Recourse obligations on loans sold to Cagamas		555,789	745,052	555,789	745,052
Other payables	15	1,971,265	1,401,906	1,971,287	1,401,928
Tax payable		12,968	36,592	12,968	36,592
Subordinated debt	16	380,000	380,000	380,000	380,000
Redeemable preference shares	17	-	190,000	-	190,000
<b>Total liabilities</b>		<b>37,154,156</b>	<b>33,259,615</b>	<b>37,154,178</b>	<b>33,259,637</b>
<b>Equity</b>					
Share capital	18	125,000	125,000	125,000	125,000
Reserves	19	1,849,074	1,523,831	1,849,074	1,523,831
<b>Equity attributable to equity holders of the Bank</b>		<b>1,974,074</b>	<b>1,648,831</b>	<b>1,974,074</b>	<b>1,648,831</b>
<b>Total liabilities and equity</b>		<b>39,128,230</b>	<b>34,908,446</b>	<b>39,128,252</b>	<b>34,908,468</b>
<b>Commitments and contingencies</b>	33	<b>98,729,952</b>	<b>74,267,823</b>	<b>98,729,952</b>	<b>74,267,823</b>

The notes set out on pages 26 to 96 form an integral part of, and should be read in conjunction with, these financial statements.

**Standard Chartered Bank Malaysia Berhad**  
 (Company No. 115793P)  
 (Incorporated in Malaysia)  
**and its subsidiaries**

**Income statements for the financial year ended  
 31 December 2006**

	Note	Group and Bank	
		2006 RM'000	2005 RM'000
Interest income	21	1,845,036	1,530,933
Interest expense	22	(980,870)	(750,635)
Net interest income		864,166	780,298
Net income from Islamic Banking operations	41	32,557	9,754
		896,723	790,052
Other operating income	23	393,387	380,684
Total net income		1,290,110	1,170,736
Other operating expenses	24	(551,550)	(512,609)
Operating profit		738,560	658,127
Allowance for bad and doubtful debts and financing	26	(109,034)	(96,368)
Profit before taxation		629,526	561,759
Tax expense	28	(181,074)	(169,631)
Profit for the year		448,452	392,128
Attributable to:-			
Equity holders of the Bank		448,452	392,128
Basic earnings per share (sen)	32	359	314
Dividends per ordinary share - net (sen)	20	293	70

The notes set out on pages 26 to 96 form an integral part of, and should be read in conjunction with, these financial statements.

**Standard Chartered Bank Malaysia Berhad**  
(Company No. 115793P)  
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**Statement of changes in equity for the financial year ended  
31 December 2006**

GROUP & BANK	Note	Non Distributable Reserves					Distributable Reserves		Total RM'000
		Share capital RM'000	Share premium RM'000	Statutory reserves RM'000	Capital redemption reserves RM'000	AFS reserves RM'000	Cash flow hedge reserves RM'000	Retained profits RM'000	
At 1 January 2005		125,000	375,000	125,000	-	13,417	-	913,657	1,552,074
Unrealised net loss on revaluation of securities available-for-sale		-	-	-	-	(2,746)	-	-	(2,746)
Realised gains from disposal of securities available-for-sale transferred to income statements		-	-	-	-	(12,539)	-	-	(12,539)
Unrealised loss on cash flow hedge		-	-	-	-	-	(1,086)	-	(1,086)
Net losses recognised directly in equity		-	-	-	-	(15,285)	(1,086)	-	(16,371)
Profit for the year		-	-	-	-	-	-	392,128	392,128
Total recognised income and expense for the year		-	-	-	-	(15,285)	(1,086)	392,128	375,757
Dividends (ordinary shares):-									
- 2004 final	20	-	-	-	-	-	-	(190,800)	(190,800)
- 2005 interim	20	-	-	-	-	-	-	(88,200)	(88,200)
At 31 December 2005		<b>125,000</b>	<b>375,000</b>	<b>125,000</b>	<b>-</b>	<b>(1,868)</b>	<b>(1,086)</b>	<b>1,026,785</b>	<b>1,648,831</b>
At 1 January 2006		125,000	375,000	125,000	-	(1,868)	(1,086)	1,026,785	1,648,831
Redemption of Redeemable Preference shares		-	-	-	190	-	-	(190)	-
Unrealised net gain on revaluation of securities available-for-sale		-	-	-	-	35,083	-	-	35,083
Realised gains from disposal of securities available-for-sale transferred to income statements		-	-	-	-	(24,104)	-	-	(24,104)
Unrealised gain on cash flow hedge		-	-	-	-	-	23,312	-	23,312
Net gains recognised directly in equity		-	-	-	190	10,979	23,312	(190)	34,291
Profit for the year		-	-	-	-	-	-	448,452	448,452
Total recognised income and expense for the year		-	-	-	190	10,979	23,312	448,262	482,743
Dividends (ordinary shares):-									
- 2006 interim	20	-	-	-	-	-	-	(157,500)	(157,500)
At 31 December 2006		<b>125,000</b>	<b>375,000</b>	<b>125,000</b>	<b>190</b>	<b>9,111</b>	<b>22,226</b>	<b>1,317,547</b>	<b>1,974,074</b>
		Note 18	Note 19	Note 19	Note 19	Note 19	Note 19	Note 19	

The notes set out on pages 26 to 96 form an integral part of, and should be read in conjunction with, these financial statements.

**Standard Chartered Bank Malaysia Berhad**

(Company No. 115793P)

(Incorporated in Malaysia)

**and its subsidiaries****Cash flow statements for the financial year ended****31 December 2006**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Cash flows from operating activities</b>		
Profit before taxation	629,526	561,759
Adjustment for :		
Dividend income	(713)	(713)
Depreciation	18,491	30,372
Gain on disposal of property, plant and equipment	(81)	(259)
Gain on disposal of securities available-for-sale	(33,479)	(17,416)
Amortisation of premium less accretion of discount on securities available for sale	25,081	29,394
Operating profit before working capital changes	<u>638,825</u>	<u>603,137</u>
Changes in working capital:		
Deposits and placements with banks and other financial institutions	(5,027,400)	(1,486,186)
Securities purchased under resale agreement	13,524	862,851
Securities held for trading	(1,034,043)	81,126
Loans, advances and financing	249,170	(2,257,691)
Other receivables	(533,417)	(254,483)
Statutory deposits with Bank Negara Malaysia	(13,441)	(92,000)
Deposits from customers	5,366,317	5,700,099
Deposits and placements of banks and other financial institutions	(597,271)	(2,661,184)
Securities sold under repurchase agreements	(1,177,842)	1,345,942
Bills and acceptances payable	136,865	347,201
Recourse obligations on loans sold to Cagamas	(189,263)	(10,750)
Other payables	571,000	306,527
Cash (used in)/generated from operations	<u>(1,596,976)</u>	<u>2,484,589</u>
Income taxes paid	(219,891)	(201,763)
<b>Net cash (used in)/generated from operating activities</b>	<b><u>(1,816,867)</u></b>	<b><u>2,282,826</u></b>
<b>Cash flows from investing activities</b>		
Dividend received	713	713
Purchase of property, plant and equipment	(12,845)	(21,424)
Proceeds from disposal of property, plant and equipment	81	259
Purchase of securities available-for-sale	(14,603,129)	(12,133,870)
Proceeds from disposal of securities available-for-sale	16,067,641	10,782,002
<b>Net cash generated from/(used in) investing activities</b>	<b><u>1,452,461</u></b>	<b><u>(1,372,320)</u></b>



**Cash flow statements for the financial year ended  
31 December 2006 (continued)**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Cash flows from financing activities</b>		
Redemption of preference shares	(190,000)	-
Dividends paid	(157,500)	(279,000)
<b>Net cash used in financing activities</b>	<u><u>(347,500)</u></u>	<u><u>(279,000)</u></u>
<b>Net (decrease)/ increase in cash and cash equivalents</b>	(711,906)	631,506
<b>Cash and cash equivalents brought forward</b>	5,932,189	5,300,683
<b>Cash and cash equivalents carried forward</b>	<u><u>5,220,283</u></u>	<u><u>5,932,189</u></u>
<b>Cash and cash equivalents comprise:</b>		
Cash and short term funds (Note 3)	<u><u>5,220,283</u></u>	<u><u>5,932,189</u></u>

The notes set out on pages 26 to 96 form an integral part of, and should be read in conjunction with, these financial statements.

## **Standard Chartered Bank Malaysia Berhad**

(Company No. 115793 P)

(Incorporated in Malaysia)

### **and its subsidiaries**

## **Notes to the financial statements**

### **1. Basis of preparation of the financial statements**

#### **(a) Statement of Compliance**

The financial statements of the Group and the Bank have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standard Board as modified by Bank Negara Malaysia Guidelines. The financial statements also incorporate those activities relating to Islamic Banking which have been undertaken by the Bank. Islamic Banking refers generally to the acceptance of deposits and granting of financing under the Shariah principles.

The MASB has issued a number of Financial Reporting Standards (FRSs) that are effective for financial years beginning on or after 1 January 2006, or which are available for early adoption. The adoption of these new/ revised FRSs does not have any significant financial impact to the financial statements of the Group and the Bank.

In this set of financial statements, the Group and the Bank have chosen not to early adopt the following FRSs:

- i. FRS 117, Leases, which is effective for financial periods beginning on or after 1 October 2006;
- ii. FRS 124, Related Party Disclosure, which is effective for financial period beginning on or after 1 October 2006;
- iii. FRS 139, Financial Instruments: Recognition and Measurement, for which the MASB has yet to announce the effective date of the standard; and
- iv. Amendment to FRS 119<sub>2004</sub>, Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures, which is effective for financial period beginning on or after 1 January 2007

The impact of applying FRS 117 Leases, FRS 124 Related Party Disclosure and FRS 139 Financial Instruments: Recognition and Measurement on this financial statements upon first adoption of the standards as required by paragraph 30(b) of FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors are not required to be disclosed by virtue of exemptions provided under paragraph 67B of FRS 117, paragraph 22A of FRS 124 and paragraph 103AB of FRS 139 respectively. As for Amendment to FRS 119<sub>2004</sub> Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures, the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, hence, adoption of this amendment will only impact the format and extent of disclosures presented in the financial statements. The Group will apply this amendment from financial periods beginning on 1 January 2007.

On 15 August 2006, the MASB issued FRS 6, Exploration for and Evaluation of Mineral Resources which will be effective for annual periods beginning on or after 1 January 2007 and for which is not applicable to the Group. Hence, no further disclosure is warranted.

The financial statements were approved by the Board of Directors on 27 February 2007.

## 1. Basis of preparation of the financial statements (continued)

### (b) Functional and presentation currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Bank's functional currency. All financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.

### (c) Use of estimates and judgements

The preparation of financial statements in conformity with the MASB approved accounting standards for entities other than private entities requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Group's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ from these estimates.

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are described in the following notes:

- i. Estimation of recoverable amount based on the discounted cash flow methodology for impaired loan (Note (i))
- ii. Estimation of expected life of financial assets (Note (ac))
- iii. Fair value estimation of financial assets (Note 36 (iii)) and liabilities (Note 36 (i), (iii) and (iv))

## 2. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by Group entities, unless otherwise stated.

### (a) Basis of measurement

The financial statements have been prepared under the historical cost basis except as mentioned in the respective notes.

### (b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries made up to the end of the financial year.

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. Subsidiaries are consolidated using the purchase method of accounting.

Investment in subsidiaries in the Bank's balance sheet are stated at cost, less impairment loss, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

## 2. Significant accounting policies (continued)

### (c) Cash and short term funds

Cash and short term funds are held for the purpose of meeting short term commitments and readily convertible into cash without significant risk of changes in value.

For the purpose of the cash flow statements, cash and cash equivalents comprise cash and short term funds.

### (d) Deposits and placements with banks and other financial institutions

Deposits and placements with banks and other financial institutions are stated at placement value.

### (e) Securities held-for-trading

Securities are classified as held-for-trading if they are acquired or incurred principally for the purpose of selling or repurchasing them in the near term, or they are part of a portfolio of identified securities that the Bank manages together and for which there is evidence of a recent actual pattern of short-term profit taking. Securities classified as held-for-trading are stated at fair value and any gains or losses arising from a change in the fair value, or on the derecognition of the securities, are recognised in the income statement.

No security is reclassified into or out of the held-for-trading category while it is held. Interest from the held-for-trading securities (including zero coupon debt instruments), calculated using the effective interest method, is recognised in the income statement.

### (f) Securities held-to-maturity

Securities held-to-maturity are securities with fixed or determinable payments and fixed maturities that the Group and the Bank has the positive intent and ability to hold to maturity and which are not designated as held-for-trading or available-for-sale. These securities are measured at amortised cost using the effective interest method. A gain or loss is recognised in the income statement when the securities are derecognised. Amortisation of premium or accretion of discount for securities are also recognised in the income statement.

Any sale or reclassification of a significant amount of securities held-to-maturity not close to their maturity would result in the reclassification of all securities held-to-maturity to securities available-for-sale, and prevent the Group and the Bank from classifying similar class of securities as securities held-to-maturity for the current and following two financial years.

### (g) Securities available-for-sale

Securities available-for-sale are securities that are not classified as held-for-trading or held-to-maturity, and are measured at fair value. Securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

Unrealised gains or losses arising from a change in the fair value of securities available-for-sale are recognised directly in equity through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses, which are recognised in the income statement. The cumulative gains or losses arising on disposal of securities available-for-sale which were previously recognised in equity, will be transferred to the income statement upon derecognition of the securities.

Interest from securities available-for-sale (including zero coupon debt instruments), calculated using the effective interest method, is recognised in the income statement while dividends on available-for-sale equity instruments are recognised in the income statements when the Group's and the Bank's right to receive the payment is established.

## 2. Significant accounting policies (continued)

### (h) Impairment of securities

The carrying amount of the Group's and the Bank's securities are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment on the securities or group of securities. If any such evidence exists, the Group and the Bank will apply the following:

*i) Securities carried at amortised cost*

The impairment loss is measured as the difference between the securities' carrying amount and the present value of estimated future cash flows discounted at its original effective interest rate. The carrying amount of the securities is reduced through the use of an allowance account. The amount of the loss is recognised in the income statement.

If, in subsequent periods, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

*ii) Securities carried at cost*

The amount of impairment loss is measured as the difference between the carrying amount of securities and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. Such impairment loss shall not be reversed.

*iii) Securities available-for-sale*

The cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the income statement even though the securities have not been derecognised. The amount of cumulative loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that securities previously recognised in the income statement.

Impairment losses recognised in the income statement for an investment in an equity investment classified as available-for-sale, is reversed through the income statement.

If, in subsequent periods, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment was recognised in the income statement, that portion of impairment loss is reversed through the income statement.

## 2. Significant accounting policies (continued)

### (i) Loans, advances and financing

Loans, advances and financing are carried at their outstanding principal and interest balances net of unearned interest/income, general and specific allowances for bad and doubtful debts and financing.

The carrying amount of the Group's and the Bank's loans, advances and financing are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If such evidence exists, the recoverable amount of the loans, advances and financing is estimated. A specific allowance is provided in the income statement whenever the carrying amount of the loans, advances and financing exceeds its recoverable amount (present value of estimated future cash flows discounted at customer rate). The estimated future cash flows are based on projection of liquidation proceeds, realisation of assets or estimates of future operating cash flows.

A general allowance is maintained by the Group and the Bank against risks which are not specifically identified. The percentage is in compliance with the minimum requirement of 1.5% set by Bank Negara Malaysia.

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

For loans converted into debt or equity instruments, these financial instruments are measured at their fair value. The difference between the net book value of the restructured loans (outstanding amounts of loans, advances and financing net of specific allowance) and the fair value of the debt or equity instruments will be the gain or loss from the conversion exercise.

Where the net book value of the restructured loans is higher than the fair value of the debt or equity instruments, the loss shall be recognised in the income statement in the current financial year.

Where the fair value of the debt or equity instrument is higher than the net book value of the restructured loans, the gain from the conversion exercise is transferred to the Impairment loss account, which would be netted off from the "Securities" account in the balance sheet.

## 2. Significant accounting policies (continued)

### (j) Property, plant and equipment

#### *i. Recognition and measurement*

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the assets to its location and the costs of dismantling and removing the assets and restoring the site on which the asset is located.

#### *ii. Subsequent costs*

Subsequent costs incurred in replacing part of an item of property, plant and equipment are included in the asset's carrying amount or are 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. All other repairs and maintenance costs are charged to income statement during the financial period in which they are incurred.

#### *iii. Depreciation*

While freehold land is not depreciated, leasehold land is depreciated over the period of their respective leases. Depreciation of other property, plant and equipment is calculated to write off the cost of the property, plant and equipment on a straight line basis over the estimated useful life of the assets concerned.

The principal annual rates used are:-

Leasehold land	Over the unexpired period of the lease ranging from 47 to 50 years
Buildings and refurbishment	Over the estimated useful life of the building of up to 50 years or unexpired period of lease of the building, whichever is shorter.
Premises, plant and equipment	10% - 33%
Office Equipment	12.5% - 33%
Furniture and fittings	12.5% - 33%
Motor vehicles	20% - 33%

Leasehold land with unexpired lease term of more than 50 years are classified as long term lease and leasehold land with unexpired lease term of less than 50 years are classified as short term lease.

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

#### *iv. Change in estimates*

During the year, the Group revised the annual depreciation rates of the office equipment to 12.5% - 33% (previously 20% to 33%) so as to better reflect their estimated useful lives. The revision was accounted for as a change in accounting estimates, which is applied prospectively.

The change in accounting estimates had resulted in a decrease in depreciation charge of RM195,000 for the financial year.

## 2. Significant accounting policies (continued)

### (k) Deposits from customers

Demand deposits, savings deposits, fixed/ investment deposits, negotiable instruments of deposits and other deposits are stated at placement value.

### (l) Deposits and placements of banks and other financial institutions

Deposits and placements of banks and other financial institutions are stated at placement value.

### (m) Repurchase and resale agreements

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

Conversely, obligations on securities sold under repurchase agreements are securities which the Group and the Bank has sold from its portfolio, with a commitment to repurchase at future dates. Such financing transactions and the obligations to repurchase the securities in its entirety are reflected as a liability on the balance sheet. The securities sold under repurchase agreements are treated as pledged assets and continue to be recognised as assets in the balance sheet.

### (n) Bills and acceptances payable

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

### (o) Recourse obligations on loans sold to Cagamas

Recourse obligations on loans sold to Cagamas represents the outstanding balance in respect of loans (excluding Islamic financing) which were sold to Cagamas Berhad with recourse to the Bank.

### (p) Provisions

A provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation (legal or constructive) as a result of a past event and a reliable estimate can be made of the amount. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### (q) Subordinated debt

Subordinated debt is carried at its face value. Interest expense on subordinated debt of the Group and the Bank are recognised on an accrual basis.

### (r) Redeemable preference shares

The redeemable preference shares ("RPS") are classified as debt instruments and hence are reported as liabilities. Accordingly, the annual net dividend payment of the RPS is classified as an interest expense in the income statement.

On 5th June 2006, the Bank had fully redeemed the RPS as set out in Note 17.



## 2. Significant accounting policies (continued)

### (s) Impairment

The carrying amount of the Group's and the Bank's assets, other than deferred tax assets and financial assets (excluding investments in subsidiaries and securities), 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. An impairment loss is recognised whenever the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for the same asset.

The recoverable amount is the greater of the asset's fair value less costs to sell and its value in use. In assessing value in use, 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised. The reversal is recognised in the income statement, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

### (t) Staff retirement and service benefits

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

Short-term employee benefit obligations in respect of salaries, annual bonuses, paid annual leave and sick leave are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Bank contributes to the Employees Provident Fund ("EPF") for eligible employees on a monthly basis. Obligations for contributions to EPF are recognised as an expense in the income statement as incurred.

## 2. Significant accounting policies (continued)

### (t) Staff retirement and service benefits

#### (ii) *Defined benefit plans*

The Bank makes contributions to an approved defined benefit scheme in respect of eligible employees.

The Bank's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the market yield at the balance sheet date of the plan's investment. The calculation is performed by a qualified actuary on the basis of triennial valuations using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

#### (iii) *Share-based compensation*

The Bank participates in equity-settled and cash-settled share based compensation plan for the employees that is offered by the ultimate holding company, Standard Chartered Plc. The fair value of the services received in exchange for the grant of the options is recognised as an expense in the income statement over the vesting periods of the grant.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Bank revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement.

### (u) Derivative financial instruments and hedge accounting

Derivatives are recognised at fair value with changes in fair value recognised in the income statement, unless they are part of a hedging relationship which qualifies for hedge accounting. The Group and the Bank designate certain derivatives as hedges, which are accounted for on an equivalent basis as for the underlying assets, liabilities or net positions. The Group and the Bank designate these derivatives as either:-

## 2. Significant accounting policies (continued)

### (u) Derivative financial instruments and hedge accounting (continued)

#### (i) Fair Value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged items.

#### (ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through income statement. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

### (v) Operating lease

Rentals payable under operating leases are accounted for on the straight line basis over the period of the lease and are included in the income statement as "establishment costs".

### (w) Recognition of interest income

Interest income is recognised in the income statement for financial assets measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future receipts through the expected life of the financial assets.

Where an account is classified as non-performing, recognition of interest income is suspended and shall be accounted for on a cash basis. Interest accrued and recognised as income prior to the date the loans are classified as non-performing are reversed out of income.

Customers' accounts are classified as "non-performing" where repayments are in arrears for more than 90 days for loans and overdrafts, and 30 days after maturity date for trade bills, bankers' acceptances and trust receipts. The policy on suspension of interest adopted by the Bank complies with that required by revised BNM/GP8.

## 2. Significant accounting policies (continued)

### (x) Recognition of fees and other income

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

Dividends from securities held-for-trading, available-for-sale and held-to-maturity are recognised when the right to receive the payment is established.

Service charges and processing fees are recognised when earned.

### (y) Tax expense

Tax expense comprises current and deferred tax. Tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences are not recognised for the initial recognition of assets or liabilities that at the time of the transaction affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

### (z) Recognition of interest and financing expense

Interest expense and attributable profits (on activities relating to Islamic Banking business) on deposits and borrowings of the Group and the Bank are recognised on an effective interest method. The effective interest rate is the rate that exactly discounts estimated future payments through the expected life of the financial liabilities.

### (aa) Profit equalisation reserves

Profit equalisation reserves ("PER") is a mechanism to reduce the fluctuations in the profit rate payable to the depositors for the Islamic Banking Operations. It is provided based on the framework of the Rate of Return issued by Bank Negara Malaysia. The amount of PER is appropriated from or written back to the total gross income of the Islamic Banking Operations. PER is reflected under other liabilities of the Bank.

## 2. Significant accounting policies (continued)

### (ab) Currency translations

Individual foreign currency assets and liabilities are stated in the balance sheet at spot rates of exchange, which closely approximate those ruling at the balance sheet date. Income statement items are translated at rates prevailing on transaction dates. Exchange gains and losses are recognised in the income statement in the period they arise.

### (ac) Effective interest rate

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group and the Bank estimate cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

During the year, the Group revised the expected life of certain loans, advances and financing. The revision was accounted for as a change in accounting estimates, according to FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors.

The change in accounting estimates had resulted in a reduction in interest income of RM 28,763,000 for the financial year.

**3. Cash and short term funds**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Cash and balances with banks and other financial institutions	118,445	157,404
Money at call and deposit placements maturing within one month	5,101,838	5,774,785
	<u>5,220,283</u>	<u>5,932,189</u>

**4. Deposits and placements with banks and other financial institutions**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Licensed banks	50,000	-
Bank Negara Malaysia	7,139,100	2,161,700
	<u>7,189,100</u>	<u>2,161,700</u>

**5. Securities held-for-trading**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<u>At fair value</u>		
Quoted securities:-		
Malaysian Government treasury bills	89,734	24,451
Malaysian Government bonds / securities	183,442	81,654
Government Islamic bonds	295,172	45,002
Bank Negara Malaysia bills	478,712	88,849
Cagamas bonds	34,530	80,214
Private Debt Securities	577,198	304,575
	<u>1,658,788</u>	<u>624,745</u>

**6. Securities available-for-sale**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<u>At fair value</u>		
Quoted securities:-		
Malaysian Government treasury bills	39,321	-
Malaysian Government securities	453,995	399,265
Bank Negara Malaysia bills	-	952
Cagamas bonds	84,761	726,475
Negotiable instruments of deposit	2,209,894	3,511,659
Government Islamic bonds	325,656	-
Khazanah Islamic bonds	-	4,969
Private debt securities	468,091	382,298
	<u>3,581,718</u>	<u>5,025,618</u>
Unquoted securities:-		
Equity shares	12,131	9,097
Private debt securities	20,302	20,302
	<u>3,614,151</u>	<u>5,055,017</u>

**7. Loans, advances and financing****(i) By type**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Overdrafts	946,286	1,098,486
Term loans/financing		
- Housing loans/financing	11,050,459	11,022,898
- Syndicated term loan/financing	-	15,000
- Lease receivables	26,995	-
- Other term loans/financing	4,055,844	4,523,178
Bills receivable	958,069	1,185,062
Claims on customers under acceptance credits	690,921	552,778
Staff loans/financing (of which loans to Directors - Nil for 2006 and 2005)	99,455	103,048
Loans/financing to banks and other financial institutions	126,455	151,560
Credit card receivables	1,432,387	1,421,695
Revolving credit	911,858	357,665
	<u>20,298,729</u>	<u>20,431,370</u>
Less unearned interest and income	<u>(211,147)</u>	<u>(68,738)</u>
Gross loans, advances and financing	20,087,582	20,362,632
Less allowance for bad and doubtful debts and financing :-		
Specific	(328,116)	(357,396)
General	<u>(298,410)</u>	<u>(295,010)</u>
Total net loans, advances and financing	<u>19,461,056</u>	<u>19,710,226</u>

**(ii) By type of customer**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Domestic banking institutions	126,455	151,560
Domestic non-bank financial institutions	562,498	629,507
<i>Stockbroking companies</i>	-	-
<i>Others</i>	<u>562,498</u>	<u>629,507</u>
Domestic business enterprises	4,349,003	3,978,349
<i>Small medium enterprises</i>	<u>1,465,586</u>	<u>1,484,796</u>
<i>Others</i>	<u>2,883,417</u>	<u>2,493,553</u>
Government and statutory bodies	103	-
Individuals	14,834,371	14,794,638
Other domestic entities	173	535,964
Foreign entities	214,979	272,614
	<u>20,087,582</u>	<u>20,362,632</u>

**7. Loans, advances and financing (continued)****(iii) By interest/profit rate sensitivity**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Fixed rate		
Housing loans/financing	94,686	93,608
Other fixed rate loan/financing	1,877,936	1,694,100
Variable rate		
BLR plus	13,217,367	13,407,018
Cost plus	2,519,632	2,910,415
Other variable rates	2,377,961	2,257,491
	<u>20,087,582</u>	<u>20,362,632</u>

**(iv) By sector**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Agriculture	114,334	64,972
Mining and quarrying	3,970	4,254
Manufacturing	1,303,618	1,387,680
Electricity, gas and water	1,353	4,199
Construction	141,305	109,074
Real estate	96,102	30,292
Purchase of landed property	13,217,647	13,187,592
- Residential	11,299,661	11,332,113
- Non-residential	1,917,986	1,855,479
Wholesale & retail trade and restaurants & hotels	1,543,724	1,337,084
Transport, storage and communication	166,345	196,076
Finance, insurance and business services	835,882	906,723
Purchase of securities	11	11
Consumption credit	2,514,836	2,501,932
Others	148,455	632,743
	<u>20,087,582</u>	<u>20,362,632</u>



**8. Non-performing loans/financing (NPL/NPF)****(i) Movements in the non-performing loans, advances and financing**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	763,787	834,320
Classified as non-performing during the financial year	534,798	419,738
Reclassified as performing during the financial year	(225,475)	(230,270)
Amount recovered during the financial year	(115,769)	(117,205)
Amount written off	(159,591)	(139,724)
Loans/financing converted to securities	-	(3,072)
At 31 December	<u>797,750</u>	<u>763,787</u>
Specific allowance	<u>(328,116)</u>	<u>(357,396)</u>
Net non-performing loans, advances and financing	<u>469,634</u>	<u>406,391</u>
Ratio of net non-performing loans, advances and financing to net loans, advances and financing (net of general allowance)	<u>2.38%</u>	<u>2.03%</u>

**(ii) Movements in allowance for bad and doubtful debts**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>General Allowance</b>		
At 1 January	295,010	253,710
Allowance made during the financial year	3,400	41,300
At 31 December	<u>298,410</u>	<u>295,010</u>
As a percentage of total gross loans less specific allowance	<u>1.5%</u>	<u>1.5%</u>
<b>Specific Allowance</b>		
At 1 January	357,396	415,602
Allowance made during the financial year	252,241	167,847
Amount written back in respect of recoveries	(183,574)	(139,019)
Amount written off	(97,947)	(83,962)
Amount transferred to allowance for diminution in value	-	(3,072)
At 31 December	<u>328,116</u>	<u>357,396</u>

**8. Non-performing loans/financing (NPL/NPF) (continued)****(iii) NPL/NPF by sector**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Agriculture	455	480
Mining and quarrying	651	488
Manufacturing	84,497	100,980
Construction	9,082	13,881
Real estate	-	4,490
Purchase of landed property	601,242	514,792
- Residential	566,190	492,565
- Non-residential	35,052	22,227
Wholesale & retail trade and restaurants & hotels	20,773	21,535
Transport, storage and communication	1,036	644
Finance, insurance and business services	13,862	15,123
Consumption credit	58,932	84,709
Others	7,220	6,665
	<u>797,750</u>	<u>763,787</u>

**9. Other receivables**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Derivatives (Note 36)	767,410	405,025
Interest/Income receivable	99,806	45,844
Other receivables, deposit and prepayments	306,234	158,427
	<u>1,173,450</u>	<u>609,296</u>

**10. 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 (revised 1994); the amounts of which are determined as set percentages of total eligible liabilities.

**11. Investments in subsidiaries**

	<b>Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Unquoted shares in Malaysia, at cost	<u>22</u>	<u>22</u>

The subsidiaries of the Bank are as follows:-

<b>Name</b>	<b>Principal activity</b>	<b>Country of incorporation</b>	<b>Percentage of equity held</b>	
			<b>2006</b>	<b>2005</b>
Cartaban (Malaya) Nominees Sdn. Bhd.	Nominee services	Malaysia	100%	100%
Cartaban Nominees (Tempatan) Sdn. Bhd.	Nominee services	Malaysia	100%	100%
Cartaban Nominees (Asing) Sdn. Bhd.	Nominee services	Malaysia	100%	100%

All income and expenditure of the subsidiaries have been taken up by the Bank.

The amount owing to subsidiaries are in respect of current accounts maintained by the subsidiaries with the Bank.

12. Property, plant and equipment

Group and Bank

Cost	Freehold land RM'000	Long term leasehold land RM'000	Short term leasehold land RM'000	Buildings and refurbishment RM'000	Premises, plant and equipment RM'000	Office equipment RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Total RM'000
At 1 January 2006	168	309	936	68,447	6,724	113,933	17,435	3,460	211,412
Additions	-	-	-	2,368	515	6,708	3,021	233	12,845
Disposal	-	-	-	-	-	-	-	(847)	(847)
At 31 December 2006	168	309	936	70,815	7,239	120,641	20,456	2,846	223,410

Accumulated Depreciation

At 1 January 2006	-	15	12	35,735	6,435	92,582	10,366	2,192	147,337
Charge for the year	-	15	9	7,966	298	8,218	1,428	557	18,491
Disposal	-	-	-	-	-	-	-	(847)	(847)
At 31 December 2006	-	30	21	43,701	6,733	100,800	11,794	1,902	164,981

Net book value

At 31 December 2006	168	279	915	27,114	506	19,841	8,662	944	58,429
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12 Property, plant and equipment (continued)

Group and Bank	Freehold land	Long term leasehold land	Short term leasehold land	Buildings and refurbishment	Premises, plant and equipment	Office equipment	Furniture and fittings	Motor vehicles	Total
Cost	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2005	168	1,095	150	63,469	6,646	100,293	16,064	2,200	190,085
Additions	-	-	-	4,978	78	13,652	1,371	1,345	21,424
Disposal	-	-	-	-	-	(12)	-	(85)	(97)
Transfers	-	(786)	786	-	-	-	-	-	-
At 31 December 2005	168	309	936	68,447	6,724	113,933	17,435	3,460	211,412
<b>Accumulated Depreciation</b>									
At 1 January 2005	-	-	3	23,774	5,213	77,971	8,263	1,838	117,062
Charge for the year	-	15	9	11,961	1,222	14,623	2,103	439	30,372
Disposal	-	-	-	-	-	(12)	-	(85)	(97)
At 31 December 2005	-	15	12	35,735	6,435	92,582	10,366	2,192	147,337
<b>Net book value</b>									
At 31 December 2005	168	294	924	32,712	289	21,351	7,069	1,268	64,075

**13. Deposits from customers****(i) By type of deposit**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Demand deposits	7,671,280	6,121,692
Savings deposits	2,776,916	1,914,024
Fixed / investment deposits	15,649,177	13,476,481
Negotiable instruments of deposits	1,638,676	857,535
	<u>27,736,049</u>	<u>22,369,732</u>

**(ii) By type of customers**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Government and statutory bodies	11,188	23,225
Business enterprises	12,775,292	8,578,695
Individuals	12,596,118	12,095,153
Others	2,353,451	1,672,659
	<u>27,736,049</u>	<u>22,369,732</u>

**14. Deposits and placements of banks and other financial institutions**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Licensed banks	2,178,398	1,965,492
Licensed merchant banks	-	50,000
Bank Negara Malaysia	37,838	34,746
Other financial institutions	1,952,429	2,715,698
	<u>4,168,665</u>	<u>4,765,936</u>

**15. Other payables**

	<b>Group</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Derivatives (Note 36)	654,688	356,554
Interest/profit payable	190,055	167,296
Provision for retirement benefit scheme (Note 30)	5,502	3,242
Other payables and accruals	1,121,020	874,814
	<u>1,971,265</u>	<u>1,401,906</u>

**15. Other payables (continued)**

	<b>Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Derivatives (Note 36)	654,688	356,554
Interest/profit payable	190,055	167,296
Provision for retirement benefit scheme (Note 30)	5,502	3,242
Amount owing to subsidiary companies	22	22
Other payables and accruals	1,121,020	874,814
	<u>1,971,287</u>	<u>1,401,928</u>

**16. Subordinated debt**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Subordinated debt	<u>380,000</u>	<u>380,000</u>

On 14 December 2004, the Bank entered into a BBA (Bai Bithaman Ajil) Transaction Sale Agreement and Musyarakah Contribution Agreement with a third party for the issuance of RM 380 million Islamic Subordinated debt ("the Debt") for the funding of its Islamic Banking ("IB") operations.

Terms and conditions of the Debt are as follows:-

- a) The Debt is unsecured and bears a profit margin of 7% per annum payable semi- annually from the date of issue.
- b) The Debt is to be repaid in full upon expiry of 7 years from the date of issue through the following:-
  - i) bullet repayment by cash; or
  - ii) issuance of 380 million Irredeemable Non Cumulative Preferences shares at an issue price of RM1.00 each.

The cash repayment represents a subordinated obligation of the Bank, subordinated to all the other liabilities and obligation of the Bank ( except for those that are also subordinated by their terms ). Any cash repayment shall be subject to approval from Bank Negara Malaysia.

- c) For capital adequacy requirements, the debt shall be made available for absorption of losses incurred by IB operations prior to its repayment at the end of 7 years.

**17. Redeemable preference shares**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Redeemable Preference Shares of RM 1.00 each Authorised	<u>300,000</u>	<u>300,000</u>
Issued and fully paid	<u>-</u>	<u>190,000</u>

## 17. Redeemable preference shares (continued)

On 21 December 2001, 190,000 Cumulative Redeemable Preference Shares ("RPS") of RM1.00 each were issued at a premium of RM999 per share to Standard Chartered Bank. The RPS are to be redeemed within 10 years from the date of issue. Early redemption of the RPS is at the Bank's option subject to Bank Negara Malaysia's approval.

The fixed cumulative dividend payable of 7.5% net on the issued value of the RPS shall be paid in priority to any dividend in respect of any other class of shares in the capital of Standard Chartered Bank Malaysia Berhad ("SCBMB"), other than any such class which shall rank pari passu with the RPS with respect to rights to dividends. The RPS do not confer any further right of participation in the profits of SCBMB.

On 5 June 2006, the Bank fully redeemed the 190,000 RPS of RM1.00 each at a premium of RM999 each for a total consideration of RM190,000,000. Following the redemption, an amount of RM190,000 in respect of the nominal amount of the RPS was transferred from retained profits to capital redemption reserves.

## 18. Share capital

	Group and Bank	
	2006 RM'000	2005 RM'000
<b>Authorised</b>		
Ordinary Shares of RM1 each	700,000	700,000
Irredeemable Non-cumulative preference shares of RM 0.10 each	38,000	38,000
	<u>738,000</u>	<u>738,000</u>
<b>Issued and fully paid</b>		
Ordinary Shares of RM1 each	<u>125,000</u>	<u>125,000</u>

## 19. Reserves

	Group and Bank	
	2006 RM'000	2005 RM'000
<i>Non-distributable :</i>		
Share premium	375,000	375,000
Statutory reserves	125,000	125,000
Capital Redemption Reserve (Note 17)	190	-
AFS reserves	9,111	(1,868)
Cash flow hedge reserves	22,226	(1,086)
	<u>531,527</u>	<u>497,046</u>
<i>Distributable :</i>		
Retained profits	<u>1,317,547</u>	<u>1,026,785</u>
	<u>1,849,074</u>	<u>1,523,831</u>

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

Subject to agreement by the Inland Revenue Board, the Bank has sufficient tax exempt income and tax credit under Section 108 of the Income Tax Act, 1967 to frank in full all of its retained profits as at 31 December 2006 if paid out as dividends.

**20. Dividends**

Dividends paid in respect of the year ended 31 December are as follows:-

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Ordinary:-		
Final paid:-		
Nil ( 2004 - 212% per share less tax )	-	190,800
Interim paid:-		
175% per share less tax in respect of year ended 2006 ( 2005 - 98% per share less tax )	157,500	88,200
	<u>157,500</u>	<u>279,000</u>

The Directors propose a final gross dividend of 229% per share, less income tax, amounting to RM 208,780,000 in respect of the current financial year on the issued and fully paid-up ordinary shares of the Bank. These dividends will be recognised in subsequent financial reports upon approval by the shareholders.

**21. Interest income**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Loans and advances		
- Interest income other than recoveries from NPLs	1,207,469	1,110,505
- Recoveries from NPLs	79,693	60,441
Money at call and deposit placements with banks and other financial institutions	428,558	244,071
Securities held-for-trading	18,471	12,578
Securities available-for-sale	150,873	162,520
	<u>1,885,064</u>	<u>1,590,115</u>
Amortisation of premium less accretion of discount	(7,095)	(25,124)
Interest suspended	(32,933)	(34,058)
Total interest income	<u>1,845,036</u>	<u>1,530,933</u>

**22. Interest expense**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Deposits and placements of banks and other financial institutions	160,320	175,070
Deposits from customers	785,118	534,121
Dividends paid on redeemable preference shares	6,442	14,250
Loans sold to Cagamas	28,990	27,194
	<u>980,870</u>	<u>750,635</u>



**23. Other operating income**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Fee income :-		
Commission	109,264	152,744
Service charges and fees	27,770	30,765
Guarantee fees	12,475	10,127
	<u>149,509</u>	<u>193,636</u>
Gains from sale of securities and other financial instruments		
- Securities held-for-trading and other financial instruments	28,149	55,070
- Securities available-for-sale	32,268	7,988
Unrealised gains on revaluation of securities held-for-trading and other financial instruments	26,929	4,380
Gross dividends from unquoted investments	713	713
	<u>88,059</u>	<u>68,151</u>
Other income :-		
Foreign exchange currency gains		
- Gain from dealing in foreign currency	113,932	88,192
- Unrealised gain from foreign exchange translation	40,998	29,560
Rental income	808	886
Gain on disposal of property, plant and equipment	81	259
	<u>155,819</u>	<u>118,897</u>
Total other operating income	<u><u>393,387</u></u>	<u><u>380,684</u></u>

**24. Other operating expenses**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Personnel costs</b>		
- Salaries, bonus, wages and allowances	186,544	153,461
- Pension fund contributions	21,196	18,075
- Other staff related cost	22,230	25,710
	<u>229,970</u>	<u>197,246</u>
<b>Establishment costs</b>		
- Depreciation	18,491	30,372
- Rental	21,322	21,137
- Information technology expenses	64,764	70,110
- Project related expenses	10,049	11,209
- Others	32,488	31,483
	<u>147,114</u>	<u>164,311</u>
<b>Marketing expenses</b>		
- Advertisement and publicity	14,214	23,771
- Others	17,183	10,440
	<u>31,397</u>	<u>34,211</u>
<b>Administration and general expenses</b>		
- Communication expenses	14,338	13,960
- Group administration fees	38,894	36,500
- Outsourcing expenses	26,441	31,296
- Others	63,396	35,085
	<u>143,069</u>	<u>116,841</u>
<b>Total other operating expenses</b>	<u>551,550</u>	<u>512,609</u>

The above expenditure includes the following statutory disclosures :-

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Directors' remuneration, excluding benefits-in-kind (Note 25)	4,454	3,647
Defined benefit obligations cost	2,673	2,258
Contributions to defined benefit contribution plan (included in personnel cost)	18,523	15,817
Hire of equipment	1,947	1,900
Auditor's remuneration :-		
- Statutory audit	350	330
- Other services	23	23
Property, plant and equipment :-		
- Depreciation	18,491	30,372

## 25. Directors' remuneration

Aggregate remuneration of all directors during the year are as follows:-

	<b>Group and Bank</b>	
	<b>2006</b> <b>RM'000</b>	<b>2005</b> <b>RM'000</b>
Executive director and Chief Executive Officer:-		
Salary and other remuneration, including meeting allowance	2,535	1,819
Fees	-	81
Bonuses	1,408	1,388
Benefits-in-kind	295	285
	<u>4,238</u>	<u>3,573</u>
Non-executive directors :-		
Fees	446	320
Other Allowances	65	39
Total	<u>511</u>	<u>359</u>

Number of directors of the Bank whose remuneration for the financial year fall in the following bands are as follows :-

	<b>Group and Bank</b>	
	<b>2006</b> <b>RM'000</b>	<b>2005</b> <b>RM'000</b>
Executive director and Chief Executive Officer:-		
RM 2,500,001 to RM 2,550,000	1*	-
RM 1,800,001 to RM 1,850,000	-	1
Non-executive directors :-		
RM 100,001 to RM 150,000	1	1
RM 50,001 to RM 100,000	4	2
Not exceeding RM 50,000	-	2

\* The Executive director and Chief Executive Officer was redesignated as Non-Independent and Non-Executive Director with effect from 13 November 2006.

**26. Allowance for bad and doubtful debts and financing**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Allowance for bad and doubtful debts on loans, advances and financing :-		
Specific allowance (net)	68,667	28,828
- made in the financial year	175,497	94,591
- discounting of collateral	76,744	73,256
- written back	(183,574)	(139,019)
General allowance		
- made in the financial year	3,400	41,300
Bad and doubtful debts on loans and financing :-		
Written off	79,129	55,762
Recovered	(42,162)	(29,522)
	<u>109,034</u>	<u>96,368</u>

**27. Significant related party transactions and balances**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Transactions with related companies:-</b>		
Income		
Interest on intercompany placements	16,011	25,182
Interest on current accounts	3,883	2,261
	<u>19,894</u>	<u>27,443</u>
Expenses		
Interest on intercompany borrowings	108,409	110,494
Interest on current accounts	1,198	1,325
Other operating expenses	108,912	98,555
Dividend paid on preference shares	6,442	14,250
	<u>224,961</u>	<u>224,624</u>
<b>Balances with related companies:-</b>		
Amount due from related companies		
Inter-company loans	148,788	564,050
Current accounts	126,564	151,063
Derivatives	77,616	113,217
Other balances	7,025	2,902
Amount due to related companies		
Inter-company loans	(1,650,097)	(3,192,276)
Current accounts	(9,287)	(20,261)
Derivatives	(107,249)	(147,042)
Amount due in respect of support charges	(149,121)	(119,980)
Other balances	(46,252)	(45,826)
Net amount due to related companies:-	<u>(1,602,013)</u>	<u>(2,694,153)</u>

**28. Tax expense**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Income tax expense :		
- Current year	196,259	180,836
- Withholding tax on foreign income	8	-
	<u>196,267</u>	<u>180,836</u>
Deferred tax expense:		
- Origination / reversal of temporary differences	(15,220)	(12,527)
- Under provision in prior years	27	1,322
	<u>(15,193)</u>	<u>(11,205)</u>
	<u>181,074</u>	<u>169,631</u>
Reconciliation of effective tax expense :		
Profit before taxation	<u>629,526</u>	<u>561,759</u>
Income tax using Malaysian tax rates @ 28%	176,267	157,292
Non-deductible expenses	4,780	11,047
Non-taxable income	-	(30)
	<u>181,047</u>	<u>168,309</u>
Under provision in prior years		
- Deferred tax	27	1,322
	<u>181,074</u>	<u>169,631</u>

**29. Deferred tax**

The recognised deferred tax assets / (liabilities) (before offsetting) are as follows:

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Property, plant and equipment	(1,665)	(2,128)
General allowance for bad and doubtful debts and financing	83,555	82,602
Other temporary differences	16,902	3,125
Reserve		
- Available-for-sale	(3,543)	726
- Cash flow hedge	(8,644)	422
	<u>86,605</u>	<u>84,747</u>

29. Deferred tax (continued)

Movement in temporary differences during the year are as follows :-

	At 1 January 2005 RM'000	Recognised in income statement RM'000	Recognised in equity RM'000	At 31 December 2005 RM'000	Recognised in income statement RM'000	Recognised in equity RM'000	At 31 December 2006 RM'000
<b>Group and Bank</b>							
Property, plant and equipment	(1,672)	(456)	-	(2,128)	463	-	(1,665)
General allowance for bad and doubtful debts and financing	71,039	11,563	-	82,602	953	-	83,555
Other temporary differences	3,027	98	-	3,125	13,777	-	16,902
Reserve							
- Available-for-sale	(5,218)	-	5,944	726	-	(4,269)	(3,543)
- Cash flow hedge	-	-	422	422	-	(9,066)	(8,644)
	67,176	11,205	6,366	84,747	15,193	(13,335)	86,605
		Note 28			Note 28		

**30. Staff retirement and service benefits**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Present value of defined benefit obligations		
-funded	2,508	2,734
-unfunded	4,536	2,391
Fair value of plan assets	<u>(1,542)</u>	<u>(1,883)</u>
Recognised liability for defined benefit obligation	<u><u>5,502</u></u>	<u><u>3,242</u></u>

**Funded scheme**

The Bank makes contributions to the SCB Retirement Benefit Scheme, a defined benefit scheme that provides pension benefits for certain employees upon retirement. Under the scheme, eligible employees are entitled to retirement benefits of one month of the average basic salary for each completed year of service upon the retirement age of 55. Average basic salary refers to the average monthly basic salary earned in the twelve months' service immediately prior to leaving the service.

As at 31 December 2006, the total plan assets include investments in Malaysian Government Securities and other current assets of the Bank with a fair value of RM 734,000 and RM808,000 (2005: RM 772,000 and RM 1,112,000) respectively.

**Unfunded scheme**

The Bank makes additional contributions directly to the Employees Provident Fund ("EPF") for certain eligible employees. These contributions are provided for in the Bank's financial statements and remitted over to the EPF after the employee has been in employment with the Bank for a period of 3 years.

***Movements in the net liability for defined benefit obligations recognised in the balance sheet***

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Net liability at 1 January	3,242	1,499
Contributions	(413)	(515)
Expense recognised in the income statement under personnel cost	<u>2,673</u>	<u>2,258</u>
Net liability at 31 December	<u><u>5,502</u></u>	<u><u>3,242</u></u>

**30. Staff retirement and service benefits (continued)**

*Expense recognised in the income statement*

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Current service cost	2,345	2,027
Interest on obligation	385	325
Expected return on plan assets	<u>(57)</u>	<u>(94)</u>
Amount included under "personnel cost"	<u><u>2,673</u></u>	<u><u>2,258</u></u>
Expected return on plan assets	57	94
Actuarial loss	<u>-</u>	<u>-</u>
Actual return on plan assets	<u><u>57</u></u>	<u><u>94</u></u>

The principal actuarial assumptions used are:-

	<b>2006</b>	<b>2005</b>
	<b>Rate per</b>	<b>Rate per</b>
	<b>annum</b>	<b>annum</b>
	<b>(%)</b>	<b>(%)</b>
Discount rate	7%	7%
Expected rate of return on plan assets	3%	3%
Expected rate of future salary increases	5%	5%
EPF dividend rate	4%	4%



### 31. Equity Compensation Benefits

The Bank participated in the following share compensation plans for the acquisition of shares in the ultimate holding company, Standard Chartered Plc. The market value of shares are denominated in pounds sterling at the time of grant.

#### i) International Sharesave Scheme

The International Sharesave Scheme was launched in 1996 and made available to all employees of the Bank. Employees have the choice of opening a three-year or a five-year savings contract. Within a period of six months after the third or fifth anniversary, employees may purchase ordinary shares of Standard Chartered Plc. Employees may make monthly contributions up to £250 over the period of the contract prior to exercise of the options; alternatively, the employee may elect to have the savings, plus interest, repaid in cash. The price at which they may purchase shares is at discount of up to 20 percent on the share price at the date of the invitation. There are no performance conditions attached to options granted.

The options typically vest at 33% each year for the three-year savings contract, and 20% each year for the five-year savings contract.

The option granted do not confer any right to participate in any share issue of any other company.

Options are valued using a Binomial option-pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:-

	<b>2006</b>	<b>2005</b>
	12 September	20 September
Grant date		
Share price at grant date	£13.17	£11.89
Exercise price	£10.64	£9.87
Shares granted ('000)	96	60
Vesting period (years)	3/5	3/5
Expected volatility (%)	20/39	21/31
Expected option life (years)	3.33/5.33	3.33/5.33
Risk free rate (%)	4.9/4.8	4.2
Expected dividends (yield) (%)	3/3.5	3.5/3.7
Fair value (%)	26/31	24/33

### 31. Equity Compensation Benefits (continued)

#### i) International Sharesave Scheme (continued)

The expected volatility is based on historical volatility over the last three to five years or three to five years prior to the grant date.

The risk free rate is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

The expected dividend yield is based on historical dividend yield over the last three years or three years prior to grant date.

Movements in the number of share options held by the Bank's employees are as follows:-

	<b>2006</b> Number ('000)	Weighted average exercise price	<b>2005</b> Number ('000)	Weighted average exercise price
At 1 January	160	£7.79	183	£6.26
Granted during the year	96	£10.64	60	£9.87
Exercised during the year	(33)	£5.99	(68)	£5.78
Lapsed during the year	(8)	£9.11	(15)	£6.40
At 31 December	<u>215</u>	<u>£9.28</u>	<u>160</u>	<u>£7.79</u>

Range of exercise price	2006				2005			
	Weighted average exercise price	No. of shares	Expected years	Contractual years	Weighted average exercise price	No. of shares	Expected years	Contractual years
£5.595/£10.64	£9.28	215	3.33/5.33	3.6	-	-	-	-
£5.595/£9.87	-	-	-	-	£7.79	160	3.33/5.33	3.6

### 31. Equity Compensation Benefits (continued)

#### ii) Restricted Share Scheme

The Restricted Share Scheme is a discretionary share incentive scheme for high performing and high potential staff at any level of the organisation whom the Group wishes to motivate and retain. Except upon appointment when an executive director may be granted an award of restricted shares, the Restricted Share Scheme is not applicable to executive directors, as it has no performance conditions attached to it. Fifty per cent of the award vests two years after the date of the grant and the remainder after three years. The awards granted under this scheme are nil cost options. The options granted do not confer any right to participate in any share issue of any other company.

For awards, the fair value is based on the market value less an adjustment to take into account the expected dividends over the vesting period.

	← 2006 →		← 2005 →		
	12 September	14 March	20 September	14 Jun	9 March
Grant date					
Share price at grant date	£13.17	£14.35	£11.89	£10.40	£9.71
Shares granted ('000)	3	24	14	0	55
Vesting period (years)	2/3	2/3	2/3	2/3	2/3
Expected option life (years)	7	7	7	7	7
Expected dividends (yield) (%)	3.2	3	3.5	3.5	3.5
Fair value (%)	91	91	90	90/92	90/92

The expected dividend yield is based on historical dividend yield over the last three years or three years prior to grant date.

### 31. Equity Compensation Benefits (continued)

#### ii) Restricted Share Scheme (continued)

Movements in the number of share options held by the Bank's employees are as follows:-

	<b>2006</b>	Weighted average exercise price	<b>2005</b>	Weighted average exercise price
	<u>Number ('000)</u>		<u>Number ('000)</u>	
At 1 January	132	-	151	-
Granted during the year	27	-	69	-
Exercised during the year	(27)	-	(58)	-
Lapsed during the year	(5)	-	(30)	-
At 31 December	<u>127</u>	-	<u>132</u>	-

	<b>2006</b>				<b>2005</b>			
	Weighted average remaining				Weighted average remaining			
Range of exercise price	Weighted average exercise price	No. of shares	Expected years	Contractual years	Weighted average exercise price	No. of shares	Expected years	Contractual years
N/A	-	127	-	4.6	-	132	-	4.9

### 31. Equity Compensation Benefits (continued)

#### iii) Executive Share Option Scheme (closed)

The Executive Share Option Scheme is an intrinsic part of the Group's executive directors' and senior managers' total remuneration. An EPS performance criterion needs to be met before the options can be exercised. Executive share options to purchase ordinary shares in Standard Chartered Plc are exercisable after the third, but before the tenth anniversary of the date of grant. The exercise price per share is the share price at the date of grant and options can normally only be exercised if a performance condition is satisfied.

The option granted do not confer any right to participate in any share issue of any other company.

Movements in the number of share options held by the Bank's employees are as follows:-

	<b>2006</b>	Weighted average exercise price	<b>2005</b>	Weighted average exercise price
	<u>Number ('000)</u>		<u>Number ('000)</u>	
At 1 January	327	£8.08	461	£8.03
Granted during the year	-	-	-	-
Exercised during the year	(95)	£7.02	(88)	£7.91
Lapsed during the year	-	-	(46)	£7.90
At 31 December	<u>232</u>	£8.46	<u>327</u>	£8.08

	<b>2006</b>				<b>2005</b>			
	Weighted average remaining				Weighted average remaining			
Range of exercise price	Weighted average exercise price	No. of shares	Expected years	Contractual years	Weighted average exercise price	No. of shares	Expected years	Contractual years
£6.905/£9.36	£8.46	232	5	4.9	£8.08	327	5	6

### 31. Equity Compensation Benefits (continued)

#### iv) Performance Share Plan

The Performance Share Plan is designed as an intrinsic part of total remuneration for the Group's executive directors and for a small number of the Group's most senior executives. The awards granted under this scheme are nil cost options. Certain performance criteria need to be met before the options can be exercised.

For awards, the fair value is based on the market value less an adjustment to take into account the expected dividends over the vesting period.

The option granted do not confer any right to participate in any share issue of any other company.

	<b>2006</b>	<b>2005</b>
Grant date	14 March	9 March
Share price at grant date	£14.35	£9.71
Shares granted ('000)	26	30
Vesting period (years)	3	3
Expected option life (years)	10	10
Expected dividends (yield) (%)	3	3.5/3.7
Fair value (EPS) (%)	91	90
Fair value (TSR) (%)	39.6	39

The risk free rate is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

### 31. Equity Compensation Benefits (continued)

#### iv) Performance Share Plan (continued)

Movements in the number of share options held by the Bank's employees are as follows:-

	<b>2006</b> Number ('000)	Weighted average exercise price	<b>2005</b> Number ('000)	Weighted average exercise price
At 1 January	32	-	22	-
Granted during the year	26	-	30	-
Exercised during the year	-	-	(7)	-
Lapsed during the year	-	-	(13)	-
At 31 December	<u>58</u>	-	<u>32</u>	-

<b>2006</b>					<b>2005</b>			
Weighted average remaining					Weighted average remaining			
Range of exercise price	Weighted average exercise price	No. of shares	Expected years	Contractual years	Weighted average exercise price	No. of shares	Expected years	Contractual years
N/A	-	58	-	7.6	-	32	-	8.9

### 32. Basic earnings per share

The calculation of basic earnings per share is based on the net profit attributable to ordinary shareholders of RM 448,452,000 (2005 - RM 392,128,000) and the number of ordinary shares outstanding during the year of 125,000,000 (2005 - 125,000,000).

### 33. Commitments and contingencies

In the normal course of business, the Group and 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.

The commitments and contingencies are as follows :-

	As at 31 December 2006			As at 31 December 2005		
	Principal amount RM'000	Credit equivalent amount * RM'000	Risk weighted amount * RM'000	Principal amount RM'000	Credit Equivalent amount * RM'000	Risk weighted amount * RM'000
<b>Group and Bank</b>						
Direct credit substitutes	1,333,778	1,333,778	1,075,448	741,390	741,390	566,030
Transaction-related contingent items	1,674,155	837,078	670,839	1,669,968	834,984	692,287
Short-term self liquidating trade-related contingencies	487,134	97,427	92,562	369,109	73,822	69,417
Irrevocable commitments to extend credit :-						
- maturity not exceeding one year	8,024,398	-	-	8,518,494	-	-
- maturity exceeding one year	744,364	372,182	189,486	1,292,385	646,193	323,096
Foreign exchange related contracts :-						
- less than one year	23,165,140	715,025	236,336	23,534,976	387,284	127,154
- one year to less than five years	2,079,367	197,147	41,353	1,603,413	145,620	41,214
- five years and above	1,144,716	128,074	48,854	1,132,674	150,313	49,571
Interest rate related contracts						
- less than one year	21,870,214	53,864	11,279	5,243,229	14,075	3,564
- one year to less than five years	34,676,433	1,099,043	253,010	21,158,814	647,695	171,873
- five years and above	2,647,677	237,446	58,863	8,042,263	527,411	167,971
Miscellaneous commitments and contingencies	882,576	-	-	961,108	-	-
	<u>98,729,952</u>	<u>5,071,064</u>	<u>2,678,030</u>	<u>74,267,823</u>	<u>4,168,787</u>	<u>2,212,177</u>

\* The credit equivalent amount and the risk weighted amount are arrived at using the credit conversion factor and risk weights respectively, as per Bank Negara Malaysia guidelines.

Foreign exchange and interest rate related contracts are subject to market risk and credit risk.



### 33. Commitments and contingencies (continued)

#### 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 was RM 126 million (2005 - RM 44 million).

#### Credit Risk

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the Bank has a gain position. As at end of 31 December 2006, the amounts of credit risk, measured in terms of the cost to replace the profitable contracts, was RM 690 million (2005 - RM 285 million). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

Details of the Group and Bank's foreign exchange related contracts and interest rate related contracts as at 31 December are as follows:-

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Foreign exchange contracts		
- forward and futures contracts	17,679,530	21,372,976
- cross-currency interest rate swaps	7,829,296	2,578,895
- options purchases	457,139	1,155,178
- options written	423,258	1,164,014
Interest rate contracts		
- forward and future contracts	2,466,865	2,155,331
- swaps	51,603,080	26,789,657
- options purchase	2,575,244	2,784,939
- option written	2,549,135	2,714,379

### 34. Risk management policies

The guidelines and policies adopted by the Group and the Bank to manage the risks that arise in the conduct of the business activities are as follows:-

(a) **Operational Risk**

Operational risk is the risk of a direct or indirect loss being incurred due to an event or action arising from the failure of technology, processes, infrastructure, personnel and other risks having operational risk impact.

The Country Operational Risk Group ("CORG") has been established to ensure that an appropriate risk management framework is in place and to monitor and manage operational, social, ethical and environmental risk. The CORG is chaired by the Country Chief Executive Officer.

Business units within the Bank monitor their operational risks using set standards and indicators. Significant issues and exceptions are reported to the CORG. Disaster recovery procedures, business contingency planning, self-compliance audits and internal audits also form an integral part of the operational risk management process.

(b) **Credit risk**

Credit risk is the risk that a counter party will not settle its obligations in accordance with agreed terms. Credit exposures may arise from lending, trade finance, securities and derivative exposures.

Policies for managing credit risk are determined by the Group Risk Committee which also delegates credit authorities to independent Risk Officers. Specific procedures for managing credit risk are determined at the business levels with specific policies and procedures being adapted to different risk environment and business goals. Credit analysis includes review of facility details, credit grade determination and financial spreading/ratio analysis. Origination and approval roles are clearly segregated. Significant exposures and specific local credit underwriting standards are reviewed and approved through the Malaysia Credit Risk and Policy Committee.

(c) **Market risk**

The Bank recognises market risk as the exposures created by potential changes in market prices and rates. Market risk exposures arise primarily from interest rate and foreign exchange related contracts. The Bank has no significant exposure to equity and commodity price risk.

Market risk is managed through the Group Risk Committee, which agrees policies and procedures and levels of risk appetite in terms of Value at Risk ("VaR"). Limits are then proposed by the business within the terms of agreed policy. These are agreed and monitored by Group Risk and an independent risk management function within the business. Policies cover both the trading and non-trading books.

In addition to market risk policies, VaR and limits, independent stress testing of portfolios, factor sensitivity measures and derivatives are also employed as additional risk management tools to manage and hedge market risk exposures. Risk models are periodically back tested against actual results to ensure pre-determined levels of accuracy are maintained.

### 34. Risk management policies (continued)

(d) **Liquidity risk**

The Bank defines liquidity risk as the risk that the Bank either does not have sufficient financial resources available to meet all its obligations and commitments as and when they fall due, or can access them only at excessive cost.

Liquidity risk is managed through the Asset and Liability Committee ("ALCO"). This committee, chaired by the Country Chief Executive Officer, is responsible for both statutory and prudential liquidity.

Liquidity risk is monitored through the Bank Negara Malaysia New Liquidity Framework and the internal liquidity risk management policy. A range of tools are used for the management of liquidity. These comprise commitment and wholesale borrowing guidelines, key balance sheet ratios, medium term funding requirements and day to day monitoring of future cash flows.

In addition, liquidity contingency funding plans are reviewed periodically to ensure that alternative funding strategies are in place and can be implemented on a timely basis to minimise the liquidity risk that may arise due to unforeseen adverse changes in the market place.

(e) **Business risk**

Business risk is the risk of failing to achieve business targets due to inappropriate strategies, inadequate resources and changes in the economic environment and is managed through the Bank's management processes. Regular reviews of the business performance are made with senior management. The reviews include financial performance measures, capital usage, resource utilisation and risk statistics to provide a broad understanding of the current business position.

(f) **Compliance risk**

Compliance risk includes the risk of non compliance with Standard Chartered Group policies, local policies and regulatory requirements in the country the Bank operates. The Compliance function is responsible for establishing and maintaining an appropriate framework for compliance policies and procedures. Compliance with such policies is the responsibility of all managers.

(g) **Legal Risk**

Legal risk is the risk of unexpected losses, including reputational loss, arising from defective transactions or contracts, claims being made or some other event resulting in a liability or other loss for the Bank, failure to protect the title to and the ability to control the rights to assets of the Bank, (including intellectual property rights), changes in the law or jurisdictional risk. The Legal function manages legal risk in the Bank through legal risk policies and procedures and effective use of its external lawyers.

### 35. 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 on classes of financial assets and financial liabilities, and the periods of repricing or maturity, whichever is earlier.

The effective interest rate of the financial instruments of the Bank is not disclosed as the financial position of the Bank is not materially different from the Group.

## 35. Interest rate risk (continued)

GROUP As at 31 December 2006	Non Trading books					Non interest sensitive RM'000	Trading books 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				
<b>Assets</b>									
Cash and short term funds	5,039,053	-	-	-	-	181,230	-	5,220,283	3.47
Deposits and placements with banks and other financial institutions	-	7,189,100	-	-	-	-	-	7,189,100	3.67
Securities purchased under resale agreement	60,927	-	-	-	-	-	-	60,927	3.40
Securities held for trading	-	-	-	-	-	-	1,658,788	1,658,788	4.80
Securities available-for-sale	1,305,030	974,934	465,335	836,419	-	32,433	-	3,614,151	3.68
Loans, advances and financing									
- Performing	15,213,708	1,371,104	1,519,982	600,043	286,585	-	-	18,991,422	7.16
- Non performing	-	-	-	-	-	469,634	-	469,634	
Other non-interest sensitive balances	-	-	-	-	-	1,923,925	-	1,923,925	
<b>Total assets</b>	<b>21,618,718</b>	<b>9,535,138</b>	<b>1,985,317</b>	<b>1,436,462</b>	<b>286,585</b>	<b>2,607,222</b>	<b>1,658,788</b>	<b>39,128,230</b>	
<b>Liabilities and shareholder's equity</b>									
Deposits from customers	12,227,770	3,519,749	5,507,451	1,384,623	288,962	4,807,494	-	27,736,049	2.48
Deposits and placements of banks and other financial institutions	3,261,166	794,796	111,181	1,522	-	-	-	4,168,665	4.50
Obligations on securities sold under repurchase agreements	1,504,471	137,855	-	-	-	-	-	1,642,326	3.03
Bills and acceptances payable	687,094	-	-	-	-	-	-	687,094	3.77
Recourse obligations on loans sold to Cagamas	3,711	42,249	213,630	296,199	-	-	-	555,789	4.10
Subordinated debt	-	-	-	-	380,000	-	-	380,000	7.00
Other non-interest sensitive balances	-	-	-	-	-	1,984,233	-	1,984,233	
<b>Total liabilities</b>	<b>17,684,212</b>	<b>4,494,649</b>	<b>5,832,262</b>	<b>1,682,344</b>	<b>668,962</b>	<b>6,791,727</b>	<b>-</b>	<b>37,154,156</b>	
<b>Shareholder's equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,974,074</b>	<b>-</b>	<b>1,974,074</b>	
<b>Total liabilities and shareholder's equity</b>	<b>17,684,212</b>	<b>4,494,649</b>	<b>5,832,262</b>	<b>1,682,344</b>	<b>668,962</b>	<b>8,765,801</b>	<b>-</b>	<b>39,128,230</b>	
On-balance sheet interest sensitivity gap	3,934,506	5,040,489	(3,846,945)	(245,882)	(382,377)	(6,158,579)	1,658,788		
Off-balance sheet interest sensitivity gap	(2,106,914)	845,022	(361,617)	2,152,005	(528,497)	-	-		
<b>Total interest sensitivity gap</b>	<b>1,827,592</b>	<b>5,885,511</b>	<b>(4,208,562)</b>	<b>1,906,123</b>	<b>(910,874)</b>	<b>(6,158,579)</b>	<b>1,658,788</b>		

## 35. Interest rate risk (continued)

GROUP As at 31 December 2005	Non trading books						Trading books 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	Non interest sensitive RM'000			
<b>Assets</b>									
Cash and short term funds	5,660,135	-	-	-	-	272,054	-	5,932,189	2.89
Deposits and placements with banks and other financial institutions	-	2,161,700	-	-	-	-	-	2,161,700	3.09
Securities purchased under resale agreement	67,129	7,322	-	-	-	-	-	74,451	2.93
Securities held for trading	-	-	-	-	-	-	624,745	624,745	4.55
Securities available-for-sale	697,937	2,614,087	1,052,896	660,698	-	29,399	-	5,055,017	3.26
Loans, advances and financing									
- Performing	16,171,341	1,364,284	1,550,475	92,895	124,840	-	-	19,303,835	6.86
- Non performing	-	-	-	-	-	406,391	-	406,391	
Other non-interest sensitive balances	-	-	-	-	-	1,350,118	-	1,350,118	
<b>Total assets</b>	<b>22,596,542</b>	<b>6,147,393</b>	<b>2,603,371</b>	<b>753,593</b>	<b>124,840</b>	<b>2,057,962</b>	<b>624,745</b>	<b>34,908,446</b>	
<b>Liabilities and shareholder's equity</b>									
Deposits from customers	10,339,181	2,653,269	4,523,624	917,247	32,109	3,904,302	-	22,369,732	2.34
Deposits and placements of banks and other financial institutions	3,763,467	158,536	723,933	120,000	-	-	-	4,765,936	3.49
Obligations on securities sold under repurchase agreements	2,803,395	16,773	-	-	-	-	-	2,820,168	2.65
Bills and acceptances payable	550,229	-	-	-	-	-	-	550,229	3.09
Recourse obligations on loans sold to Cagamas	7,107	14,282	289,010	434,653	-	-	-	745,052	3.84
Subordinated debt	-	-	-	-	380,000	-	-	380,000	7.00
Redeemable preference shares	-	-	-	-	190,000	-	-	190,000	10.43
Other non-interest sensitive balances	-	-	-	-	-	1,438,498	-	1,438,498	
<b>Total liabilities</b>	<b>17,463,379</b>	<b>2,842,860</b>	<b>5,536,567</b>	<b>1,471,900</b>	<b>602,109</b>	<b>5,342,800</b>	<b>-</b>	<b>33,259,615</b>	
<b>Shareholder's equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,648,831</b>	<b>-</b>	<b>1,648,831</b>	
<b>Total liabilities and shareholder's equity</b>	<b>17,463,379</b>	<b>2,842,860</b>	<b>5,536,567</b>	<b>1,471,900</b>	<b>602,109</b>	<b>6,991,631</b>	<b>-</b>	<b>34,908,446</b>	
On-balance sheet interest sensitivity gap	5,133,163	3,304,533	(2,933,196)	(718,307)	(477,269)	(4,933,669)	624,745		
Off-balance sheet interest sensitivity gap	(2,010,773)	859,460	1,001,942	(376,887)	526,258	-	-		
<b>Total interest sensitivity gap</b>	<b>3,122,390</b>	<b>4,163,993</b>	<b>(1,931,254)</b>	<b>(1,095,194)</b>	<b>48,989</b>	<b>(4,933,669)</b>	<b>624,745</b>		

**36. Fair values of financial assets and liabilities**

The following are the estimated fair values of the financial assets and liabilities followed by a general description of the methods and assumptions used in the estimation:-

<b>Group</b>	<b>Group Carrying value</b>		<b>Group Fair value</b>	
	<b>2006 RM'000</b>	<b>2005 RM'000</b>	<b>2006 RM'000</b>	<b>2005 RM'000</b>
<b>Financial assets</b>				
Cash and short term funds	5,220,283	5,932,189	5,220,283	5,932,189
Deposits and placements with banks and other financial institutions	7,189,100	2,161,700	7,189,100	2,161,700
Securities purchased under resale agreement	60,927	74,451	60,927	74,451
Securities held-for-trading	1,658,788	624,745	1,658,788	624,745
Securities available-for-sale	3,614,151	5,055,017	3,614,151	5,055,017
Loans, advances and financing*	19,759,466	20,005,236	19,446,900	19,710,992
<b>Financial liabilities</b>				
Deposits from customers	27,736,049	22,369,732	27,749,686	22,368,121
Deposits and placements of banks and other financial institutions	4,168,665	4,765,936	4,168,412	4,764,116
Obligations on securities sold under repurchase agreements	1,642,326	2,820,168	1,642,326	2,820,168
Bills and acceptances payable	687,094	550,229	687,094	550,229
Recourse obligations on loans sold to Cagamas	555,789	745,052	556,974	744,888
Subordinated Debt	380,000	380,000	370,508	374,616
Redeemable preference shares	-	190,000	-	190,000

**Note:**

Other receivables, other payables and tax payable are considered short term in nature. The fair values are estimated to be approximately their carrying values.

The fair values of the financial assets and financial liabilities of the Bank is not disclosed as the financial position of the Bank is not materially different from the Group.

\* The general allowance of the Group and the Bank of RM 298,410,000 (2005: RM 295,010,000) is not included in the carrying amount.

## 36. Fair values of financial assets and liabilities (continued)

### Methods and Assumptions

#### Financial Assets

- i) Cash and short term funds, deposits and placements with banks and other financial institutions

The fair values of cash and short term funds, deposits and placements with banks and other financial institutions are equivalent to placement value as these are regarded as short term financial instruments, defined as those with remaining maturities of less than one year and the carrying values are considered to be a reasonable estimate of their fair values. For deposits and placements with a remaining maturity greater than one year, the fair values are arrived at by discounting contractual future cash flows at the prevailing interbank rates for the remaining maturities as at balance sheet date.

- ii) Securities held-for-trading and available-for-sale

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

- iii) Loans, advances and financing

The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate and Islamic loans with maturities of more than one year, the fair values are estimated based on expected future cash flows of contractual instalment payments and discounted at prevailing rates at balance sheet date offered for similar loans to new borrowers with similar credit profiles, where applicable. In respect of non-performing loans, the fair values are deemed to approximate the carrying values, net of interest-in-suspense/profit-in-suspense and specific allowance for bad and doubtful debts and financing.

- iv) Securities purchased under resale agreement

The carrying amounts are a reasonable estimate of their fair value because of their short term nature.

### 36. Fair values of financial assets and liabilities (continued)

#### Methods and Assumptions (continued)

##### Financial Liabilities

- i) Deposits and placements from customers, banks and other financial institutions

The fair values for deposit liabilities payable on demand (demand and savings deposits) and fixed deposit with remaining maturities of less than one year, are estimated to approximate their carrying values at balance sheet date. The fair values of fixed deposits with remaining maturities of more than one year are estimated based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. The fair values of Islamic deposits are deemed to approximate their carrying values as at balance sheet date as the profit rates are determined at the end of their holding periods based on the profit generated from the assets invested. For negotiable instrument of deposits, the estimated fair values are based on quoted or observable market prices at the balance sheet date. Where such quoted or observable market prices are not available, the fair values of negotiable instrument of deposits are estimated using discounted cash flow techniques.

- ii) Obligations on securities sold under repurchase agreement and bills and acceptances payable

The carrying amounts are a reasonable estimate of their fair values because of their short term nature.

- iii) Recourse obligations on loans sold to Cagamas

The fair value of recourse obligations on loans sold to Cagamas is determined based on discounted cash flows of future instalments payments at prevailing Cagamas rates as at balance sheet date.

- iv) Subordinated debt

The fair value of subordinated debt are estimated based on discounted cash flows using rates currently offered for debt instruments of similar remaining maturities and credit grading.



**36. Fair values of financial assets and liabilities (continued)****Derivative financial instruments****Group and Bank****(i) Derivatives held-for-trading**

	31 December 2006			31 December 2005		
	Notional principal amounts RM'000	Positive fair value RM'000	Negative fair value RM'000	Notional principal amounts RM'000	Positive fair value RM'000	Negative fair value RM'000
<b>Group and Bank</b>						
Foreign exchange derivative contracts:-						
- Forward foreign exchange contracts	17,679,530	202,924	196,896	21,372,976	130,537	101,873
- Currency swaps and options	8,709,693	187,560	151,254	4,898,087	80,780	70,430
Interest rate derivative contracts:-						
- Swaps	47,261,484	266,245	267,522	25,507,281	144,087	143,946
- Forward rate agreements and options	5,260,322	43,740	36,139	5,499,318	39,956	38,454
- Exchange traded futures	2,330,922	-	-	2,155,331	-	-
Commodity derivative contracts:-						
- Forward rate agreements	48,419	1,484	1,484	-	-	-
<b>Total derivatives held-for-trading</b>	<b>81,290,370</b>	<b>701,953</b>	<b>653,295</b>	<b>59,432,993</b>	<b>395,360</b>	<b>354,703</b>

**(ii) Derivatives held-for-hedging**

	31 December 2006			31 December 2005		
	Notional principal amounts RM'000	Positive fair value RM'000	Negative fair value RM'000	Notional principal amounts RM'000	Positive fair value RM'000	Negative fair value RM'000
Derivatives designated as fair value hedges:-						
- Swaps	1,211,596	32,332	1,136	752,376	9,531	931
Derivatives designated as cash flow hedges:-						
- Swaps	3,130,000	33,125	257	530,000	134	920
<b>Total derivatives held-for-hedging</b>	<b>4,341,596</b>	<b>65,457</b>	<b>1,393</b>	<b>1,282,376</b>	<b>9,665</b>	<b>1,851</b>
	<b>85,631,966</b>	<b>767,410</b>	<b>654,688</b>	<b>60,715,369</b>	<b>405,025</b>	<b>356,554</b>
		Note 9	Note 15		Note 9	Note 15

### 36. Fair values of financial assets and liabilities (continued)

#### Derivative financial instruments (continued)

##### Methods and assumptions

Fair values of derivative instruments are normally zero or negligible at inception and the subsequent change in value is favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The fair values of the Group's and the Bank's derivative instruments are estimated by reference to quoted market prices. Internal models are used where no market price is available.

### 37. Lease commitments

The Group and the Bank have lease commitments in respect of rented premises, all of which are classified as operating leases.

Total future minimum lease payments under non-cancellable long term commitments, net of sub-leases is as follows:-

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Less than one year	19,415	19,223
Between one and five years	45,206	40,781
More than five years	41,669	1,283
	<u>106,290</u>	<u>61,287</u>

The leases typically run for an initial period of 1 month to 12 years, with an option to renew the leases. None of the leases include contingent rent.

Certain leased properties have been sub-leased by the Group and the Bank. The subleases expire between 2007 to 2008. Sublease payments of RM 843,900 (2005: RM1,615,000) are expected to be received over the sublease tenure.

### 38. Capital commitments

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Capital expenditure:-		
-authorised and contracted for	5,817	4,590
-authorised but not contracted for	5,101	1,361
	<u>10,918</u>	<u>5,951</u>

### 39. Capital adequacy

The capital adequacy ratios of the Group and Bank are analysed as follows :

	Group and Bank	
	2006 RM'000	2005 RM'000
<b>Tier 1 Capital</b>		
Paid-up ordinary share capital	125,000	125,000
Share premium	375,000	375,000
Other reserves	1,442,737	1,151,785
Less: Deferred tax assets	(113,388)	(98,193)
Total Tier 1 Capital	<u>1,829,349</u>	<u>1,553,592</u>
<b>Tier 2 Capital</b>		
Redeemable Preference Shares	-	190,000
Approved capital instruments	380,000	380,000
General allowance for bad and doubtful debts and financing	298,410	295,010
Total Tier 2 Capital	<u>678,410</u>	<u>865,010</u>
Total capital	2,507,759	2,418,602
Less : Investment in subsidiary companies	(22)	(22)
Total Capital Base	<u><u>2,507,737</u></u>	<u><u>2,418,580</u></u>

Breakdown of risk-weighted assets in the various categories of risk-weights are as follows:

	2006		2005	
	Principal amount RM'000	Risk weight amount RM'000	Principal amount RM'000	Risk weight amount RM'000
0%	14,203,266	-	9,486,134	-
10%	50,996	5,100	669,958	66,996
20%	5,562,503	1,112,501	6,302,818	1,260,564
50%	11,158,654	5,579,327	11,354,594	5,677,297
100%	10,884,711	10,884,711	10,538,512	10,538,512
	<u>41,860,130</u>	<u>17,581,639</u>	<u>38,352,016</u>	<u>17,543,369</u>
			<b>2006 RM'000</b>	<b>2005 RM'000</b>
Total risk-weighted assets			17,581,639	17,543,369
- credit risk (as above)			1,482,799	994,237
- market risk			<u>19,064,438</u>	<u>18,537,606</u>
<b>Capital Ratios</b>				
<u>Before proposed final dividend:</u>				
Core capital ratio			9.60%	8.38%
Risk-weighted capital ratio			13.15%	13.05%
<u>After proposed final dividend:</u>				
Core capital ratio			8.50%	8.38%
Risk-weighted capital ratio			12.06%	13.05%

#### 40. Repurchase and reverse repurchase agreements and collateral

The Group and the Bank entered into collateralised repurchase and reverse repurchase agreements and securities borrowings and lending transactions. It also receives securities as collateral for commercial lending.

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Balance Sheet Liabilities</b>		
Recourse obligations on loan sold to Cagamas	555,789	745,052
Collateral on loans sold	644,877	671,453
Repurchases Agreement	1,642,326	2,820,168
Collateral on securities lent	1,642,326	2,820,168

Under reverse repurchase arrangements, the Group and the Bank obtains securities on terms which permit it to re-pledge or re-sell the securities to others. Amounts on such terms are:

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Securities and collateral which can be re-pledged or sold/ (at fair value)	60,927	74,451

The major terms and condition for loans sold to Cagamas are that the loans must:

- be for financing or refinancing the purchase, construction or renovation of residential properties
- be fully disbursed
- not be more than 3 months in arrears at the time of the sale
- have a remaining life which expires on or after the review date

## 41. The operations of Islamic Banking

**Standard Chartered Bank Malaysia Berhad**  
**Islamic Banking Operations**

(Incorporated in Malaysia)

**Balance Sheets at 31 December 2006**

	Note	Group and Bank	
		2006 RM'000	2005 RM'000
<b>Assets</b>			
Cash and short term funds	(a)	380,119	422,992
Deposits and placements with banks and other financial institutions	(b)	150,000	40,000
Securities purchased under resale agreements		-	65,606
Securities available-for-sale	(c)	843,739	286,366
Financing, advances and other loans	(d)	634,863	185,187
Other receivables	(f)	16,971	3,693
Statutory deposits with Bank Negara Malaysia	10	18,441	-
Deferred tax asset	(k)	2,660	442
<b>Total assets</b>		<b>2,046,793</b>	<b>1,004,286</b>
<b>Liabilities</b>			
Deposits from customers	(g)	1,180,706	381,928
Deposits and placements of banks and other financials institutions	(h)	228,663	162,657
Other payables	(i)	32,220	15,303
Subordinated debt	(j)	380,000	380,000
Tax payable		7,676	1,911
<b>Total liabilities</b>		<b>1,829,265</b>	<b>941,799</b>
<b>Islamic Banking capital funds</b>			
Islamic Banking funds		183,000	43,000
Reserves		34,528	19,487
<b>Total Islamic Banking capital funds</b>		<b>217,528</b>	<b>62,487</b>
<b>Total liabilities and Islamic Banking capital funds</b>		<b>2,046,793</b>	<b>1,004,286</b>
<b>Commitments and contingencies</b>	(t)	<b>591,416</b>	<b>180,716</b>

The notes set out on pages 81 to 96 form an integral part of, and should be read in conjunction with, these financial statements.

**41. The operations of Islamic Banking (continued)****Standard Chartered Bank Malaysia Berhad  
Islamic Banking Operations**

(Incorporated in Malaysia)

**Income Statement for the financial year ended  
31 December 2006**

	Note	Group and Bank	
		2006 RM'000	2005 RM'000
Income derived from investment of depositors' funds and others	(m)	69,008	30,521
Transfer to profit equalisation reserves		(8,293)	(727)
Total distributable income		<u>60,715</u>	<u>29,794</u>
Income attributable to depositors	(n)	(26,886)	(8,521)
Income attributable to the Bank		<u>33,829</u>	<u>21,273</u>
Income derived from investment of Islamic banking capital funds	(o)	25,328	15,081
Less: Income attributable to investors of subordinated debt		<u>(26,600)</u>	<u>(26,600)</u>
Total net income		<u>32,557</u>	<u>9,754</u>
Other operating expenses	(p)	<u>(9,966)</u>	<u>(2,720)</u>
		<u>22,591</u>	<u>7,034</u>
Allowance for bad and doubtful debts and financing	(q)	<u>(10,329)</u>	<u>(2,843)</u>
Profit before taxation		<u>12,262</u>	<u>4,191</u>
Tax expense	(r)	<u>(3,152)</u>	<u>(1,173)</u>
Profit for the year		<u><u>9,110</u></u>	<u><u>3,018</u></u>

The notes set out on pages 81 to 96 form an integral part of, and should be read in conjunction with, these financial statements.

## 41. The operations of Islamic Banking (continued)

**Standard Chartered Bank Malaysia Berhad**  
**Islamic Banking Operations**

(Incorporated in Malaysia)

**Statement of changes in equity for the year ended**  
**31 December 2006**

Group and Bank	<i>Non-distributable Reserves</i>		<i>Distributable Reserves</i>	Total RM'000
	Funds allocated from Head Office RM'000	Available-for- sale reserves RM'000	Retained profits RM'000	
<b>At 1 January 2005</b>	43,000	6,178	15,709	64,887
Unrealised net gain on revaluation of securities available-for-sale	-	1,370	-	1,370
Realised gains from the disposal of securities available-for-sale transferred to income statement	-	(6,788)	-	(6,788)
Net loss recognised directly in equity	-	(5,418)	-	(5,418)
Profit for the year	-	-	3,018	3,018
Total recognised income and expense for the year	-	(5,418)	3,018	(2,400)
<b>At 31 December 2005 / At 1 January 2006</b>	43,000	760	18,727	62,487
Unrealised net gain on revaluation of securities available-for-sale	-	6,803	-	6,803
Realised gains from the disposal of securities available-for-sale transferred to income statement	-	(872)	-	(872)
Net gain recognised directly in equity	-	5,931	-	5,931
Profit for the year	-	-	9,110	9,110
Total recognised income and expense for the year	-	5,931	9,110	15,041
Allocated during the year	140,000	-	-	140,000
<b>At 31 December 2006</b>	183,000	6,691	27,837	217,528

The notes set out on pages 81 to 96 form an integral part of, and should be read in conjunction with, these financial statements.

## 41. The operations of Islamic Banking (continued)

**Standard Chartered Bank Malaysia Berhad**  
**Islamic Banking Operations**

(Incorporated in Malaysia)

**Cash flow statement for the year ended**  
**31 December 2006**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Cash flows from operating activities</b>		
Profit before taxation	12,262	4,191
Adjustment for :-		
Amortisation of Premium less accretion of discount	5,624	3,968
Gain on disposal of securities available-for-sale	(1,211)	(9,428)
Profit Equalisation Reserve	8,293	727
Operating profit/(loss) before working capital changes	<u>24,968</u>	<u>(542)</u>
Changes in working capital		
Financing, advances and other loans	(449,676)	(173,707)
Deposits and placements with banks and other financial institutions	(110,000)	(40,000)
Other receivables	(13,278)	4,627
Statutory deposits with Bank Negara Malaysia	(18,441)	-
Deposits from customers	798,778	134,364
Securities purchased under resale agreement	65,606	102,705
Deposits and placements of banks and other financial institutions	66,006	(217,343)
Other payables	8,624	3,153
Cash generated from/(used in) operating activities	<u>372,587</u>	<u>(186,743)</u>
Income taxes paid	(1,911)	(2,171)
<b>Net cash generated from/(used in) operating activities</b>	<u>370,676</u>	<u>(188,914)</u>
<b>Cash flows from investing activities</b>		
Purchase of securities available-for-sale	(990,557)	(217,006)
Proceeds from disposal of securities available-for-sale	437,008	789,954
<b>Net cash (used in)/generated from investing activities</b>	<u>(553,549)</u>	<u>572,948</u>
<b>Cash flows from financing activities</b>		
Proceeds from capital funds	140,000	-
<b>Net cash generated from financing activities</b>	<u>140,000</u>	<u>-</u>
<b>Net (decrease)/ increase in cash and cash equivalents</b>	(42,873)	384,034
<b>Cash and cash equivalents at beginning of the year</b>	<u>422,992</u>	<u>38,958</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>380,119</u>	<u>422,992</u>
<b>Cash and cash equivalents comprise</b>		
Cash and short term funds (Note 41 (a))	<u>380,119</u>	<u>422,992</u>

The notes set out on pages 81 to 96 form an integral part of, and should be read in conjunction with, these financial statements.



**41. Operations of Islamic Banking (continued)****(a) Cash and short term funds**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM '000</b>	<b>RM '000</b>
Cash and balances with banks and other financial institutions	12,785	22,992
Money at call and deposits and placements maturing within one month	367,334	400,000
	<u>380,119</u>	<u>422,992</u>

**(b) Deposits and placements with banks and other financial institutions**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM '000</b>	<b>RM '000</b>
Licensed banks	50,000	-
Bank Negara Malaysia	100,000	40,000
	<u>150,000</u>	<u>40,000</u>

**(c) Securities available-for-sale**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM '000</b>	<b>RM '000</b>
<u>At fair value</u>		
Khazanah Islamic bonds	-	4,969
Government Islamic bonds	325,656	-
Islamic negotiable instrument of deposits	49,992	124,978
Islamic private debt securities	468,091	156,419
	<u>843,739</u>	<u>286,366</u>

**(d) Financing, advances and other loans****(i) By type**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Term loans/financing		
- House financing	98,759	44,870
- Lease receivables	26,995	-
- Syndicated financing	-	15,000
- Other term loans/financing	463,582	176,783
Revolving credit	258,654	19,730
Unearned income	<u>(201,905)</u>	<u>(67,167)</u>
	646,085	189,216
Allowances for bad and doubtful financing :		
- General	(9,674)	(2,817)
- Specific	<u>(1,548)</u>	<u>(1,212)</u>
Total net financing, advances and other loans	<u>634,863</u>	<u>185,187</u>

## 41. Operations of Islamic Banking (continued)

## (d) Financing, advances and other loans (continued)

## (ii) By contract

	Group and Bank	
	2006	2005
	RM'000	RM'000
Bai'Bithaman Ajil ( <i>deferred payment sale</i> )	89,754	22,149
Ijarah Muntahia Bittamlik ( <i>finance lease</i> )	24,401	30,000
Bai'Al Inah ( <i>personal loans</i> )	531,930	137,067
	<u>646,085</u>	<u>189,216</u>

## (iii) By type of customer

	Group and Bank	
	2006	2005
	RM'000	RM'000
Domestic non-bank financial institutions	90,492	-
Domestic business enterprise	248,963	93,411
Individuals	306,134	95,805
Foreign entities	496	-
	<u>646,085</u>	<u>189,216</u>

## (iv) By profit rate sensitivity

	Group and Bank	
	2006	2005
	RM'000	RM'000
Fixed rate		
- House financing	8,039	8,902
- Revolving credit	79,817	5,778
- Other financing	244,213	132,660
Variable rate		
- House financing	81,715	13,247
- Revolving credit	232,301	15,043
- Other financing	-	13,586
	<u>646,085</u>	<u>189,216</u>

## (v) By sector

	Group and Bank	
	2006	2005
	RM'000	RM'000
Agriculture	298	-
Manufacturing	18,385	15,043
Real estate	80,239	-
Constructions	336	-
Purchase of landed property	74,530	22,149
- Residential	44,203	16,925
- Non-residential	30,327	5,224
Wholesale and retail trade and restaurants and hotels	29,816	-
Transport, storage and communication	71,462	35,778
Finance, insurance and business services	93,349	13,586
Consumption credit	244,213	75,326
Others	33,457	27,334
	<u>646,085</u>	<u>189,216</u>

## 41. Operations of Islamic Banking (continued)

## (e) Non-performing loans/financing (NPL/NPF)

## (i) Movements in the non-performing financing, advances and other loans

	Group and Bank	
	2006	2005
	RM'000	RM'000
At 1 January	1,766	1,758
Classified as non-performing during the year	7,036	113
Amount recovered during the year	(10)	(35)
Amount written off	(3,240)	-
Others	-	(70)
At 31 December	<u>5,552</u>	<u>1,766</u>
Specific allowance	<u>(1,548)</u>	<u>(1,212)</u>
Net non-performing financing, advances and other loans	<u>4,004</u>	<u>554</u>
Ratio of net non-performing financing, advances and other loans to net financing, advances and other loans (net of general allowance)	<u>0.6%</u>	<u>0.3%</u>

## (ii) Movements in allowance for bad and doubtful debts

	Group and Bank	
	2006	2005
	RM'000	RM'000
<b>General Allowance</b>		
At 1 January	2,817	183
Allowance made during the year	<u>6,857</u>	<u>2,634</u>
At 31 December	<u>9,674</u>	<u>2,817</u>
As a percentage of total financing less specific allowance	<u>1.5%</u>	<u>1.5%</u>

	Group and Bank	
	2006	2005
	RM'000	RM'000
<b>Specific Allowance</b>		
At 1 January	1,212	1,003
Allowance made during the year	3,562	312
Allowance written back in respect of recoveries	(90)	(103)
Amount written off	<u>(3,136)</u>	<u>-</u>
At 31 December	<u>1,548</u>	<u>1,212</u>

## (iii) NPL/NPF by sector

	Group and Bank	
	2006	2005
	RM'000	RM'000
Purchase of landed property	3,044	1,766
- Residential	<u>3,043</u>	<u>1,766</u>
- Non-residential	<u>1</u>	<u>-</u>
Consumption credit	<u>2,508</u>	<u>-</u>
	<u>5,552</u>	<u>1,766</u>

**41. Operations of Islamic Banking (continued)****(f) Other receivables**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Derivatives	2,867	-
Other receivables, deposits and prepayments	14,104	3,693
	<u>16,971</u>	<u>3,693</u>

**(g) Deposits from customers****(i) By type of deposit**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Non-Mudharabah fund</b>		
Demand deposits	63,805	26,019
Savings deposits	21,776	23,013
Negotiable instruments of deposits	223,962	-
<b>Mudharabah fund</b>		
General investment deposits	871,163	332,896
	<u>1,180,706</u>	<u>381,928</u>

**(ii) By type of customer**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Business enterprises	1,006,687	180,968
Individuals	118,987	194,599
Others	55,032	6,361
	<u>1,180,706</u>	<u>381,928</u>

**(h) Deposits and placements of banks and other financial institutions**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Non-Mudharabah fund</b>		
Licensed banks	226,329	162,657
Bank Negara Malaysia	2,334	-
	<u>228,663</u>	<u>162,657</u>

**(i) Other payables**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Income/dividend payable	4,669	1,552
Accruals	1,187	3,171
Profit equalisation reserve (note (l))	9,119	826
Other payables	17,245	9,754
	<u>32,220</u>	<u>15,303</u>

**41. Operations of Islamic Banking (continued)**

**(j) Subordinated debt**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Subordinated debt (Note 16)	<u>380,000</u>	<u>380,000</u>

**(k) Deferred tax asset**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
General allowance for bad and doubtful debts and financing	2,709	738
Provision for profit equalisation reserve	2,553	-
Available-for-sale reserves	<u>(2,602)</u>	<u>(296)</u>
	<u>2,660</u>	<u>442</u>

41. Operations of Islamic Banking (continued)

(k) Deferred tax asset (continued)

Movement in temporary differences during the year are as follows :-

	At 1 January 2005 RM'000	Recognised in income statement RM'000	Recognised in equity RM'000	At 31 December 2005 RM'000	Recognised in income statement RM'000	Recognised in equity RM'000	At 31 December 2006 RM'000
<b>Group and Bank</b>							
General allowance for bad and doubtful debts and financing	-	738	-	738	1,971	-	2,709
Provision for profit equalisation reserve	-	-	-	-	2,553	-	2,553
Available-for-sale reserves	(2,402)	-	2,106	(296)	-	(2,306)	(2,602)
	(2,402)	738	2,106	442	4,524	(2,306)	2,660
		Note 41 (r)			Note 41 (r)		

**41. Operations of Islamic Banking (continued)****(l) Profit equalisation reserves**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
At 1 January	826	99
Amount provided during the year	8,293	890
Amount written back during the year	-	(163)
At 31 December	<u>9,119</u>	<u>826</u>

**(m) Income derived from investment of depositor's funds and others**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Income derived from investment of:-		
(i) General investment deposits	51,066	26,554
(ii) Other deposits	<u>17,942</u>	<u>3,967</u>
	<u>69,008</u>	<u>30,521</u>

**(i) Income derived from investment of general investment deposits**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Finance income and hibah</b>		
Financing, advances and other loans	32,101	2,869
Securities available-for-sale	4,331	5,578
Money at call and deposits with financial institutions	11,943	11,284
Others	-	27
	48,375	19,758
Amortisation of premium less accretion of discount	<u>(5,502)</u>	<u>(3,452)</u>
Total financing, income and hibah	42,873	16,306
<b>Other operating income</b>		
Fees and commission	4,721	2,016
Gain from sale of securities and other financial instruments		
- Islamic financial instruments	464	-
- Securities available-for-sale	896	8,232
Unrealised gain on revaluation of Islamic financial instruments	<u>2,112</u>	<u>-</u>
	<u>51,066</u>	<u>26,554</u>

**41. Operations of Islamic Banking (continued)****(m) Income derived from investment of depositor's funds and others (continued)****(ii) Income derived from investment of other deposits**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Finance income and hibah</b>		
Financing, advances and other loans	11,278	429
Securities available-for-sale	1,522	834
Money at call and deposits with financial institutions	4,196	1,686
Others	-	3
	16,996	2,952
Amortisation of premium less accretion of discount	<u>(1,933)</u>	<u>(516)</u>
Total financing, income and hibah	15,063	2,436
<b>Other operating income</b>		
Fees and commission	1,659	301
Gain from sale of securities and other financial instruments		
- Islamic financial instruments	163	-
- Securities available-for-sale	315	1,230
Unrealised gain on revaluation of Islamic financial instruments	742	-
	<u>17,942</u>	<u>3,967</u>

**(n) Income attributable to depositors**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Deposits from customers		
- Non-Mudharabah Fund	1,864	1,188
- Mudharabah Fund	22,248	6,851
Deposits and placements of banks and other financial institutions		
- Non-Mudharabah Fund	3,343	367
Others	<u>(569)</u>	<u>115</u>
	<u>26,886</u>	<u>8,521</u>

**(o) Income derived from investment of Islamic banking capital funds**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Finance income and hibah</b>		
Securities available-for-sale	<u>25,328</u>	<u>15,081</u>



## 41. Operations of Islamic Banking (continued)

## (p) Other operating expenses

	Group and Bank	
	2006 RM'000	2005 RM'000
<b>Personal costs</b>		
- Salaries, bonus, wages and allowances	1,321	707
- Pension fund contributions	110	71
- Training cost	29	179
- Other staff related cost	77	65
	<u>1,537</u>	<u>1,022</u>
<b>Establishment costs</b>		
- Furniture, Fittings and Office equipments	161	28
- Rental	363	47
- Project related expenses	340	31
- Other	9	1
	<u>873</u>	<u>107</u>
<b>Marketing expenses</b>		
- Advertisement and publicity	484	485
- Market Research	-	246
- Conference and workshops	-	305
- Others	28	41
	<u>512</u>	<u>1,077</u>
<b>Administration and general expenses</b>		
- Communication expenses	96	13
- Outsourcing expenses	48	406
- Others	6,900	95
	<u>7,044</u>	<u>514</u>
	<u>9,966</u>	<u>2,720</u>

## (q) Allowance for bad and doubtful debts and financing

	Group and Bank	
	2006 RM'000	2005 RM'000
Allowance for bad and doubtful debts and financing:-		
Specific allowance	3,472	209
- Made during the financial year	3,562	312
- Written back	(90)	(103)
General Allowance		
- Made in the financial year	6,857	2,634
	<u>10,329</u>	<u>2,843</u>

**41. Operations of Islamic Banking (continued)****(r) Tax expenses**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Tax expenses		
- Current year	7,676	1,911
Deferred tax expense		
- Current year	(4,242)	(738)
- Underprovision in prior years	(282)	-
	<u>(4,524)</u>	<u>(738)</u>
	<u>3,152</u>	<u>1,173</u>
Reconciliation of effective tax expense:-		
Profit before taxation	<u>12,262</u>	<u>4,191</u>
Income tax using Malaysian tax rates @ 28%	3,434	1,173
Under provision in prior years		
- Deferred tax	(282)	-
	<u>3,152</u>	<u>1,173</u>

**(s) Shariah Committee's remuneration**

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Shariah Committee	<u>50</u>	<u>37</u>

**41. Operations of Islamic Banking (continued)****(t) 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.

The commitments and contingencies are as follows:-

	31 December 2006			31 December 2005		
	Principal Amount RM'000	Credit Equivalent Amount * RM'000	Risk Weighted Amount * RM'000	Principal Amount RM'000	Credit Equivalent Amount * RM'000	Risk Weighted Amount * RM'000
Irrevocable commitments to extend credit						
- maturity not exceeding one year	121,085	-	-	100	-	-
- maturity exceeding one year	66,118	33,059	29,434	21,016	10,508	6,114
Foreign exchange related contracts :-						
- one year to less than 5 years	35,271	2,469	494	-	-	-
Profit rate related contracts :-						
- less than one year	44,160	232	46	-	-	-
- one year to less than 5 years	191,783	5,933	1,187	-	-	-
Miscellaneous commitments and contingencies						
- Promissory Notes	132,999	-	-	159,600	-	-
	<u>591,416</u>	<u>41,693</u>	<u>31,161</u>	<u>180,716</u>	<u>10,508</u>	<u>6,114</u>

\* The credit equivalent amount and the risk weighted amount are arrived at using the credit conversion factor and risk weights respectively, as per Bank Negara Malaysia guidelines.

**41. Operations of Islamic Banking (continued)****(u) Capital adequacy**

The capital adequacy ratio of the Islamic Banking Operations is analysed as follows :

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>Tier 1 Capital</b>		
Islamic Banking Fund	183,000	43,000
Retained profit	27,837	18,727
Less: Deferred tax assets	(5,262)	(738)
Total Tier 1 Capital	<u>205,575</u>	<u>60,989</u>
<b>Tier 2 Capital</b>		
Approved capital instruments	195,901	58,172
General allowance for bad and doubtful debts and financing	9,674	2,817
Total Tier 2 Capital	<u>205,575</u>	<u>60,989</u>
Total Capital base	<u>411,150</u>	<u>121,978</u>
Capital ratio		
Core capital ratio	17.69%	15.46%
Risk-weighted capital ratio	35.37%	30.92%

Breakdown of risk-weighted assets in the various categories of risk-weights are as follows :

	<b>Group and Bank</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Principal amount</b>	<b>Risk weighted amount</b>	<b>Principal amount</b>	<b>Risk weighted amount</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
0%	804,209	-	433,567	-
10%	-	-	-	-
20%	129,141	25,828	225,757	45,151
50%	50,431	25,216	24,189	12,095
100%	1,111,239	1,111,239	337,232	337,232
	<u>2,095,020</u>	<u>1,162,283</u>	<u>1,020,745</u>	<u>394,478</u>

## 41. Operations of Islamic Banking (continued)

## (v) Profit rate risk on Islamic Banking portfolio

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

2006

## Group and Bank

	Up to 1 month	> 1 - 3 months	Non Trading books			Over 5 years	Non profit sensitive	Total	Effective Profit Rate
			> 3 - 12 months	1 - 5 years	Over 5 years				
<b>Assets</b>									
Cash and short term funds	367,328	-	-	-	-	-	12,791	380,119	3.47
Deposits and placements with banks and other financial institutions	-	150,000	-	-	-	-	-	150,000	3.67
Securities available-for-sale	20,000	50,064	160,834	612,841	-	-	-	843,739	3.97
Financing, advances and other loans									
-Performing	112,126	118,147	25,767	298,578	76,241	-	-	630,859	9.40
-Non performing	-	-	-	-	-	-	4,004	4,004	
Other non-profit sensitive balances	-	-	-	-	-	-	38,072	38,072	
<b>Total assets</b>	<b>499,454</b>	<b>318,211</b>	<b>186,601</b>	<b>911,419</b>	<b>76,241</b>	<b>54,867</b>	<b>2,046,793</b>		
<b>Liabilities</b>									
Deposits from customers	419,342	350,382	386,098	24,884	-	-	-	1,180,706	2.44
Deposits and placements of banks and other financial institutions	227,141	-	-	1,522	-	-	-	228,663	2.33
Subordinated debt	-	-	-	-	380,000	-	-	380,000	7.00
Other non-profit sensitive balances	-	-	-	-	-	-	39,896	39,896	
<b>Total liabilities</b>	<b>646,483</b>	<b>350,382</b>	<b>386,098</b>	<b>26,406</b>	<b>380,000</b>	<b>39,896</b>	<b>1,829,265</b>		
<b>Islamic Banking capital funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>217,528</b>	<b>217,528</b>		
<b>Total liabilities and Islamic Banking capital funds</b>	<b>646,483</b>	<b>350,382</b>	<b>386,098</b>	<b>26,406</b>	<b>380,000</b>	<b>257,424</b>	<b>2,046,793</b>		
On-balance sheet profit sensitivity gap	(147,029)	(32,171)	(199,497)	885,013	(303,759)	(202,557)			
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-			
<b>Total profit sensitivity gap</b>	<b>(147,029)</b>	<b>(32,171)</b>	<b>(199,497)</b>	<b>885,013</b>	<b>(303,759)</b>	<b>(202,557)</b>			

## 41. Operations of Islamic Banking (continued)

## (v) Profit rate risk on Islamic Banking portfolio (continued)

2005

Group and Bank

	Up to 1 month	> 1 - 3 months	Non Trading books		Over 5 years	Non profit sensitive	Total	Effective Profit Rate
			> 3 - 12 months	1 - 5 years				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	(%)
<b>Assets</b>								
Cash and short term funds	422,992	-	-	-	-	-	422,992	2.97
Deposits and placements with banks and other financial institutions	-	40,000	-	-	-	-	40,000	3.00
Securities purchased under resale agreement	65,606	-	-	-	-	-	65,606	5.69
Securities available-for-sale	99,990	50,034	-	136,342	-	-	286,366	3.56
Financing, advances and other loans								
-Performing	54	4,995	30,424	131,836	17,324	-	184,633	9.83
-Non performing	-	-	-	-	-	554	554	
Other non-profit sensitive balances	-	-	-	-	-	4,135	4,135	
<b>Total assets</b>	<b>588,642</b>	<b>95,029</b>	<b>30,424</b>	<b>268,178</b>	<b>17,324</b>	<b>4,689</b>	<b>1,004,286</b>	
<b>Liabilities</b>								
Deposits from customers	317,695	25,225	38,968	40	-	-	381,928	2.70
Deposits and placements of banks and other financial institutions	162,657	-	-	-	-	-	162,657	3.00
Subordinated debt	-	-	-	-	380,000	-	380,000	7.00
Other non-profit sensitive balances	-	-	-	-	-	17,214	17,214	
<b>Total liabilities</b>	<b>480,352</b>	<b>25,225</b>	<b>38,968</b>	<b>40</b>	<b>380,000</b>	<b>17,214</b>	<b>941,799</b>	
<b>Islamic Banking capital funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>62,487</b>	<b>62,487</b>	
<b>Total liabilities and Islamic Banking capital funds</b>	<b>480,352</b>	<b>25,225</b>	<b>38,968</b>	<b>40</b>	<b>380,000</b>	<b>79,701</b>	<b>1,004,286</b>	
On-balance sheet profit sensitivity gap	108,290	69,804	(8,544)	268,138	(362,676)	(75,012)		
Off-balance sheet profit sensitivity gap	-	-	-	-	-	-		
<b>Total profit sensitivity gap</b>	<b>108,290</b>	<b>69,804</b>	<b>(8,544)</b>	<b>268,138</b>	<b>(362,676)</b>	<b>(75,012)</b>		

**41. Operations of Islamic Banking (continued)****(w) Fair values of financial assets and liabilities**

The following are the estimated fair values of the financial assets and financial liabilities followed by a general description of the methods and assumptions used in the estimation:-

Group	Carrying Value		Fair Value	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<b>Financial assets</b>				
Cash and short term funds	380,119	422,992	380,119	422,992
Deposits and placements with banks and other financial institutions	150,000	40,000	150,000	40,000
Securities purchased under resale agreements	-	65,606	-	65,606
Securities available-for-sale	843,739	286,366	843,739	286,366
Financing, advances and other loans*	644,537	188,004	635,958	191,213
<b>Financial liabilities</b>				
Deposits from customers	1,180,706	381,928	1,180,913	381,928
Deposits and placements of banks and other financial institutions	228,663	162,657	228,683	162,657
Subordinated debt	380,000	380,000	370,508	374,616

Note:-

Other receivables, tax payable and other payables are considered short term in nature.

The fair values are estimated to approximate their carrying values.

The fair values of the financial assets and financial liabilities of the Bank are not disclosed as the financial position of the Bank is not materially different from the Group.

\* The general allowance of the Islamic Banking operations of RM 9,674,000 (2005: RM 2,817,000) is not included in the carrying amount.

**Methods and assumptions**

The methods and assumptions in deriving the fair value of the financial assets and financial liabilities of the Islamic Banking operations are similar to the methods and assumptions adopted in deriving the fair value of the financial assets and financial liabilities of the Bank as disclosed in Note 36.

**41. Operations of Islamic Banking (continued)****(x) Repurchase and reverse repurchase agreements and collateral**

The Group and the bank enter into collateralised reverse repurchase and repurchases agreement.

	<b>Group and Bank</b>	
	<b>2006</b>	<b>2005</b>
	<b>RM'000</b>	<b>RM'000</b>
Securities and collateral which can be re-pledged or sold (at fair value)	-	66,142

**(y) Shariah Consultative Committee**

The Shariah Consultative Committee was formed in October 2000. The Committee was given the mandate by the Board of Directors of the Bank to oversee the Bank's Islamic Banking business and ensure that the Group and the Bank complies with the strict requirements of Shariah Law. The Committee is made up of officers from the Islamic Banking division and independent consultants who are experts in Shariah. The Committee meets regularly to discuss amongst others the development of new Islamic Banking products and to review the various procedures and practices related to the Islamic Banking business.

**(z) Zakat Obligations**

The Bank does not pay zakat on behalf of the shareholders or depositors.