

BANK SIMPANAN NASIONAL
(Incorporated under the Bank Simpanan Nasional Act, 1974)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

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BANK SIMPANAN NASIONAL
(Incorporated under the Bank Simpanan Nasional Act, 1974)

BALANCE SHEETS AS AT 31 DECEMBER 2006

	Note	Group		Bank	
		2006 RM'000	2005 RM'000 Restated	2006 RM'000	2005 RM'000 Restated
ASSETS					
Cash and short-term funds	4	1,670,407	1,241,914	1,657,741	1,241,438
Deposits and placements with banks and other financial institutions	5	577,649	338,250	568,424	328,053
Securities held-for-trading	6	3,283	-	3,283	-
Securities available-for-sale	7	1,149,189	1,434,919	1,148,948	1,434,025
Securities held-to-maturity	8	6,071,703	6,057,255	5,981,547	6,057,255
Loans, advances and financing	9	5,052,071	3,641,995	5,052,071	3,641,995
Other assets	11	117,752	233,292	97,977	233,938
Tax recoverable		14,056	9,543	14,171	9,310
Investment in subsidiary companies	12	-	-	466,123	436,388
Investment in associated companies	13	10,695	97,141	609	609
Other investments		-	1,036	-	-
Property, plant and equipment	14	273,736	325,249	268,918	325,008
Prepaid lease payment	15	58,558	56,452	58,558	56,452
Investment properties	16	25,335	-	25,335	-
Goodwill	17	-	236	-	-
Total Assets		15,024,434	13,437,282	15,343,705	13,764,471
LIABILITIES AND RESERVES					
Deposits from customers	18	13,438,655	12,745,317	13,438,655	12,745,317
Deposits and placements of banks and other financial institutions	19	379,207	339,870	379,207	339,870
Borrowing from institution	20	300,000	300,000	300,000	300,000
Other liabilities	21	387,763	266,343	807,877	266,050
Provision for zakat	22	856	260	856	260
Deferred tax assets and liabilities	23	39	-	-	-
Total Liabilities		14,506,520	13,651,790	14,926,595	13,651,497
Reserves		445,546	(214,508)	417,110	112,974
Minority interest		72,368	-	-	-
Total Liabilities and Reserves		15,024,434	13,437,282	15,343,705	13,764,471
COMMITMENTS AND CONTINGENCIES	38	622,262	538,789	622,262	538,789

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

BANK SIMPANAN NASIONAL
(Incorporated under the Bank Simpanan Nasional Act, 1974)

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Group		Bank	
		2006 RM'000	2005 RM'000 Restated	2006 RM'000	2005 RM'000 Restated
Revenue	25	756,633	599,176	752,591	596,028
Interest income	26	445,078	420,579	444,155	420,554
Less: Interest expense	27	(249,995)	(213,883)	(249,995)	(213,883)
Net interest income		195,083	206,696	194,160	206,671
Fees and commission income	28	75,072	73,477	73,314	73,477
Net income from Islamic banking operations	45	114,354	27,805	114,354	27,805
Other operating income	29	118,333	(231,417)	116,972	(234,540)
Total net income		502,842	76,561	498,800	73,413
Personnel expenses	30	(179,635)	(163,055)	(167,031)	(161,791)
Other overheads	31	(72,797)	(78,623)	(67,999)	(75,975)
Operating profit/(loss) before allowance/impairment loss		250,410	(165,117)	263,770	(164,353)
Allowance for losses on loans and financing	33	(78,200)	(222,190)	(78,200)	(222,190)
Impairment (loss) / written back	34	(14,119)	-	(14,384)	351,591
Operating profit/(loss) after allowance/impairment loss		158,091	(387,307)	171,186	(34,952)
Funds received from government	35		390,000	-	390,000
Share of profit/(loss) after tax and minority interest of equity accounted associates		10,811	(1,646)	-	-
Gain on disposal of associate company		344,813	-	-	-
Profit before tax		513,715	1,047	171,186	355,048
Zakat	22	(596)	-	(596)	-
Tax expense	36	(2,204)	(157)	-	-
Net profit for the year		510,915	890	170,590	355,048
Retained in the Bank		517,435	890	170,590	355,048
Loss attributable to Minority Interest		(6,520)	-	-	-
Net profit for the year		510,915	890	170,590	355,048

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

BANK SIMPANAN NASIONAL
(Incorporated under the Bank Simpanan Nasional Act, 1974)

**CONSOLIDATED STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 31 DECEMBER 2006**

Group	Note	<i>Non-distributable</i>				<i>Distributable</i>		Total RM'000	Minority interest RM'000	Total equity RM'000
		Government Fund RM'000	Capital Reserve RM'000	Fair value Reserve RM'000	Revaluation Reserve RM'000	Takaful Funds RM'000	Retained Earnings RM'000			
At 1 January 2005										
- As previously reported		100,000	177	-	-	-	(321,278)	(221,101)	-	(221,101)
- <i>Effect of adopting GP8</i>	44			5,703				5,703	-	5,703
At 1 January 2005, restated		100,000	177	5,703	-	-	(321,278)	(215,398)	-	(215,398)
Profit for the year		-	-	-	-	-	890	890	-	890
Total recognised income and expenses for the year		-	-	-	-	-	890	890	-	890
At 31 December 2005, restated		100,000	177	5,703	-	-	(320,388)	(214,508)	-	(214,508)
<i>Revaluation of property, plant and equipment, net of tax</i>		-	-	-	1,771	-	-	1,771	-	1,771
Net gains recognised directly in equity		-	(177)	131,775	-	9,250	-	140,848	72,368	213,216
Profit for the year		-	-	-	-	-	517,435	517,435	-	517,435
Total recognised income and expenses for the year		-	(177)	131,775	1,771	9,250	517,435	660,054	72,368	732,422
At 31 December 2006		100,000	-	137,478	1,771	9,250	197,047	445,546	72,368	517,914

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BANK SIMPANAN NASIONAL
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STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

Bank	Note	-----Non-distributable-----				Distributable		Total RM '000
		Government Fund RM '000	Capital Reserve RM '000	Fair value Reserve RM '000	Revaluation Reserve RM '000	Takaful Funds RM '000	Retained Earnings RM '000	
At 1 January 2005								
- As previously reported		100,000	-	-	-	-	(347,777)	(247,777)
- Effect of adopting GP8	44			5,703				5,703
At 1 January 2005, restated		100,000	-	5,703	-	-	(347,777)	(242,074)
Profit for the year		-	-	-	-	-	355,048	355,048
Total recognised income and expenses for the year		-	-	-	-	-	355,048	355,048
At 31 December 2005, restated		100,000	-	5,703	-	-	7,271	112,974
<i>Revaluation of property, plant and equipment, net of tax</i>		-	-	-	1,771	-	-	1,771
Net gains recognised directly in equity		-	-	131,775		-	-	131,775
Profit for the year		-	-	-	-	-	170,590	170,590
Total recognised income and expenses for the year		-	-	131,775	1,771	-	170,590	304,136
At 31 December 2006		100,000	-	137,478	1,771	-	177,861	417,110

BANK SIMPANAN NASIONAL
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CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

	Group		Bank	
	2006 RM'000	2005 RM'000 Restated	2006 RM'000	2005 RM'000 Restated
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax & zakat & minority interest	513,715	1,047	171,186	355,048
Adjustments for:				
Net amortisation of premiums	20,111	14,408	20,111	14,408
Depreciation	31,360	30,188	30,418	30,061
Impairment losses of Property, plant and equipment	14,119	-	14,119	-
Property, plant and equipment written off	16	2,487	16	2,487
Gain on disposal of property, plant and equipment	(358)	(918)	(358)	(918)
Net interest suspended	26,456	25,660	26,456	25,660
Allowance for bad and doubtful debts	128,277	260,412	128,277	260,412
Written back allowance for bad and doubtful debts	(58,075)	(37,884)	(58,075)	(37,884)
Allowance for doubtful debts of receivables included in other assets written back	(359)	-	(359)	-
Bad debts (recovered)/ written off	10,098	(338)	10,098	(338)
Provision for diminution in value of investment in quoted shares	-	201,975	-	201,975
Share of (profit) / loss retained in associated companies	(10,811)	1,646	-	-
Unrealised gain on revaluation of securities held-for-trading	(140)	-	(140)	-
Unrealised gain on revaluation of securities available-for-sale	131,775	-	131,775	-
Net gain from disposal of investment securities	(80,868)	(22,116)	(80,868)	(22,116)
Net loss from disposal of investment securities	4,442	106,757	4,442	106,757
Gain from disposal of associate company	(344,813)	-	-	-
Dividend income	(18,820)	(25,738)	(18,820)	(25,738)
Funds received from government	-	(390,000)	-	(390,000)
Amortisation of goodwill	-	11	-	-
Goodwill written off	236	-	-	-
Balance carried forward	366,361	167,597	378,278	519,814

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

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
		Restated		Restated
CASH FLOWS FROM OPERATING ACTIVITIES (CONTD.)				
Balance carried forward	366,361	167,597	378,278	519,814
Impairment losses on investment in a subsidiary written back	-	-	265	(351,591)
Profit Equalisation Reserve	12,650	(3,053)	12,650	(3,053)
Operating profit before working capital changes	379,011	164,544	391,193	165,170
Increase/(decrease) in deposits and placements with financial institutions	(239,399)	392,084	(240,371)	392,084
Increase in loans and advances	(1,514,732)	(986,669)	(1,514,732)	(986,669)
Decrease/(increase) in other assets	114,835	(5,379)	134,220	(1,807)
Increase in deposits from customers	501,474	2,033,579	501,474	2,033,579
Increase in deposits and placements of financial institutions	231,201	64,836	231,201	64,836
Increase/(decrease) in other liabilities	121,649	(1,810)	524,691	(1,593)
Cash generated from operations	(405,961)	1,661,185	27,676	1,665,600
Taxes paid	(16)	(87)	-	-
Net cash (used in) / generated from operating activities	(405,977)	1,661,098	27,676	1,665,600
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	397	1,941	397	1,941
Proceeds from disposal of associate company	440,000	-	-	-
Purchases of property, plant and equipment	(19,201)	(16,532)	(14,547)	(16,430)
Purchase of shares by minority interest	70,000	-	-	-
Purchase of subsidiary	-	-	(30,000)	-
Net purchases of investment securities	(2,198,230)	(2,471,082)	(2,109,110)	(2,471,082)
Dividends received	16,437	22,780	16,437	22,780
Proceeds from disposal of other investment	2,525,067	-	2,525,450	-
Net cash generated from / (used in) from investing activities	834,470	(2,462,893)	388,627	(2,462,791)

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

	Group		Bank	
	2006 RM'000	2005 RM'000 Restated	2006 RM'000	2005 RM'000 Restated
CASH FLOWS FROM FINANCING ACTIVITIES				
Funds received from Government	-	250,000	-	250,000
Net cash received from financing activities	-	250,000	-	250,000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
CASH AND CASH EQUIVALENTS AT 1 JANUARY	428,493	(551,795)	416,303	(547,191)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	1,241,914	1,793,709	1,241,438	1,788,629
CASH AND CASH EQUIVALENTS REPRESENT:				
Cash and short-term funds (Note 4)	1,670,407	1,241,914	1,657,741	1,241,438

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

BANK SIMPANAN NASIONAL
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006

1. GENERAL INFORMATION

Bank Simpanan Nasional is incorporated under the Bank Simpanan Nasional Act 1974 and domiciled in Malaysia. The addresses of its registered office and principal place of operations are as follows:

Registered office / Principal place of operations:

Wisma BSN,
117, Jalan Ampang,
50450 Kuala Lumpur.

The consolidated financial statements as at and for the year ending 31 December 2006 comprise the Bank and its subsidiaries (together referred to as the Group) and the Group's interest in associate companies.

The principal activity of the Bank is to carry out the functions of a savings bank, that is to accept funds and to provide loans to customers which includes Islamic Banking.

There were no significant changes in the activities of the Group during the financial year other than the commencement of operations by Prudential BSN Takaful Berhad.

The financial statements were authorised for issue by the Board of Directors on 13th March 2007.

1. FINANCIAL RISK MANAGEMENT

The Group's primary risk management policy seeks to protect the capital and enhance overall profitability against any adverse effect in the event of unavoidable loss from any component of the Group's business through effective management of the Group's risks. During the year, the Bank's risk management oversight structure was enhanced whereby the Board Risk Management Committee was established and to which the Bank's Risk Management Department reports directly to the Committee. The Members of the Committee comprise of independent and non-executive directors.

(a) Interest rate risk

Interest rate risk refers to volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. Interest rate risk is managed through interest rate sensitivity gap analysis. The objective of interest rate risk management is to ensure the Group maximises returns through strategic decisions made with acceptable interest rate risk exposure.

1. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk

Credit risk is the potential loss of revenue and principal losses in the form of specific allowances as a result of partial or total default of a loan by the borrower. The Group manages its credit risk through proper credit evaluation, collateral and repayment analysis and segregation of approving authority. The objective of credit risk management is to ensure that credit activities are conducted in a proper manner so as to minimise the risk exposure.

(c) Liquidity risk

Liquidity risk relates to the activity of maintaining sufficient liquid assets to meet its financial commitments and obligations when they fall due in a cost effective manner.

It is the Group's policy to maintain sufficient liquidity to fund daily operations and to meet its obligations to depositors and borrowers. Liquidity risk is controlled through the liquidity gap analysis.

(d) Operational risk

Operational risk is the risk of direct and indirect loss resulting from inadequate or failed internal processes, people and systems.

The Group has established appropriate policies and procedures with the objective to minimise losses arising from operational risk.

(e) Market risk

Market risk is the risk related to the fluctuation in the value of fixed income and equity investment as a result of changes in the market prices. In the case of fixed income investment, such changes are due to a change in interest rates or rating. As for equity investment such changes are caused by factors specific to the individual company or factors affecting the shares traded in the market.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(a) Statement of compliance

The financial statements of the Group and of the Bank have been prepared in accordance with the applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board (MASB) as modified by Bank Negara Malaysia, accounting principles generally accepted in Malaysia, Bank Simpanan Nasional Act 1974, Development Financial Institutions Act 2002, Takaful Act 1984 and Syariah requirements where applicable.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

(a) Statement of compliance (continued)

The MASB has issued a number of new and revised Financial Reporting Standards (FRSs) that are effective for accounting periods beginning after 1 January 2006 or available for immediate adoption. In this set of financial statements, the Group has chosen to early adopt FRS 117 on Leases and FRS 124 on Related Party Disclosures which are effective for annual periods beginning on or after 1 October 2006 as well as the Amendment to FRS 119₂₀₀₄ on Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures which is effective for annual periods beginning on or after 1 January 2007. The MASB has also issued FRS 139 on Financial Instruments: Recognition and Measurement but has yet to announce the effective date of this standard. The Group has not adopted FRS 139 and by virtue of the exemption in paragraph 103AB of FRS 139, the impact of applying FRS 139 on its financial statements upon first adoption of this standard as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed.

The effects of adopting the new / revised FRSs in 2006 are set out under Note 43.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following assets and liabilities as explained in their respective accounting policy notes:

- Securities held-for-trading
- Securities available-for-sale

(c) 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.

(d) Use of estimates and judgements

The preparation of financial statements requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 17 measurement of impairment of goodwill
- Note 23 recognition of unutilised tax losses and capital allowances
- Note 33 allowance for losses on loans and financing
- Note 38 provisions and contingencies

3. 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 consolidation

(i) *Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity 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 commences until the date that control ceases.

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

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Bank, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Bank. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Bank.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

(ii) *Associates*

Associates are entities, including unincorporated entities, in which the Group has significant influence, but not control, over the financial and operating policies.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

(ii) Associates (continued)

Associates are accounted for in the consolidated financial statements using the equity method unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated financial statements include the Group's share of the income and expenses of the equity accounted associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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

(iii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

(c) Cash and cash equivalents

Cash and cash equivalents include cash and bank balances at banks and other financial institutions and short term placements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Securities

Investments in securities of the Group and the Bank are classified according to the following categories depending on the purpose for which the securities were acquired.

(i) *Securities held-for-trading*

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

(ii) *Securities held-to-maturity*

Securities held-to-maturity are financial assets with fixed or determinable payments and fixed maturity that the Group and the Bank have the positive intent and ability to hold to maturity. Unquoted shares in organisations set up for socio-economic purposes and equity instruments received as a result of loan restructuring or loan conversion which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are also classified as securities held-to-maturity.

The securities held-to-maturity are measured at accreted/amortised cost based on the effective yield method. Amortisation of premium, accretion of discount and impairment as well as gain or loss arising from derecognition of securities held-to-maturity are recognised in the income statement.

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 the similar class of securities as securities held-to-maturity for the current and following two financial years.

(iii) *Securities available-for-sale*

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Loans, advances and financing

Loans, advances and financing are stated at cost less any allowance for bad and doubtful debts and financing.

(f) Allowance for bad and doubtful debts

Specific allowances are made for non-performing loans and financing which have been individually reviewed and specifically identified as substandard, doubtful or bad.

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

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

(g) Other assets

Receivables are initially recognised at their cost when the contractual right to receive cash or another financial asset from another entity is established.

Subsequent to initial recognition, receivables are stated at cost less allowance for doubtful debts.

Receivables are not held for the purpose of trading.

Known bad debts for Takaful business are written off and specific allowances are made for any outstanding premiums or reinsurance balances, which remain outstanding for more than 6 months from the date on which they become receivable, and for all debts which are considered doubtful.

(h) Property, plant and equipment and depreciation

(i) *Recognition and measurement*

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Revalued property, plant and equipment where no revaluation policy is adopted

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) *Recognition and measurement (continued)*

Revalued property, plant and equipment where no revaluation policy is adopted (continued)

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) *Reclassification to investment property*

When the use of a property changes from owner-occupied to investment property, the property is measured at cost and reclassified as investment property.

(iii) *Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iv) *Depreciation*

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

The estimated useful lives for the current and comparative periods are as follows:

• buildings	50 years
• plant and equipment	5 - 7 years
• fixtures and fittings	5 - 7 years
• major components	25 - 30 years
• renovations	7 years

The depreciable amount is determined after deducting the residual value.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets

The carrying amount of the Group's assets except for deferred tax assets, financial assets (other than securities held-to-maturity and available-for-sale) and investment properties are reviewed at each balance sheet date to determine whether there are any indications of impairment. If any such indications exist, the asset's recoverable amount is estimated and an impairment loss is recognised in the income statement. The policies on impairment of assets are summarised as follows:

(i) Securities held-to-maturity

For securities carried at amortised cost in which there are objective evidence of impairment, impairment loss is measured as the difference between the securities' carrying amount and the present value of the estimated future cash flows discounted at the securities' original effective interest rate. The amount of the impairment loss is recognised in the income statement.

Subsequent reversals in the impairment loss is recognised when the decrease can be objectively related to an event occurring after the impairment was recognised, to the extent that the securities' carrying amount does not exceed its amortised cost if no impairment had been recognised. The reversal is recognised in the income statement.

For securities carried at cost, impairment loss is measured as the difference between the securities' carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. The amount of impairment loss is recognised in the income statement and such impairment losses are not reversed subsequent to its recognition.

(ii) Securities available-for-sale

For securities available-for-sale in which there are objective evidence of impairment, the cumulative impairment loss that had been recognised directly in equity shall be transferred from equity to the income statement, even though the securities have not been derecognised. The cumulative impairment loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in the income statement.

Impairment losses on investments in equity instruments classified as available-for-sale are not reversed subsequent to its recognition. Reversals of impairment losses on debt instruments classified as available-for-sale are recognised in the income statement if the increase in the fair value can be objectively related to an event occurring after the recognition of the impairment loss in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of assets (continued)

(iii) Goodwill

Goodwill that has an indefinite useful life is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. For impairment testing, goodwill from business combinations is allocated to cash-generating units ("CGU") which are expected to benefit from the synergies of the business combination.

The recoverable amount is determined for each CGU based on its value in use. In assessing value in use, the estimated future cash flows 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. An impairment loss is recognised in the income statement when the carrying amount of the CGU, including the goodwill, exceeds the recoverable amount of the CGU. The total impairment loss is allocated, first, to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU on a pro-rata basis.

(iv) Other assets

Other assets such as property and equipment, investments in subsidiary companies and associated companies are reviewed for objective indications of impairment at each balance sheet date or whenever there is any indication that these assets may be impaired. Where such indications exist, impairment loss is determined as the excess of the asset's carrying value over its recoverable amount (greater of value in use or fair value less costs to sell) and is recognised in the income statement. Any reversal of an impairment loss for these assets is recognised in the income statement. The carrying amount is increased to its revised recoverable amount, provided that the amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

(j) Investment property

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both. These include land held for a currently undetermined future use. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties.

The adoption of FRS 140 on Investment Property, resulted in a change in accounting policy for investment properties. Until 31 December 2005, the Group recognised investment properties using cost method. In accordance with FRS 140 on investment properties can be valued either using cost or fair value method. The Group has adopted the cost method in measuring investment properties with effect from 1 January 2006.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Investment property (continued)

Investment properties are stated at cost less accumulated depreciation and impairment losses, consistent with the accounting policy for property, plant and equipment as stated in the accounting policy notes.

In the previous years, all investment properties were included in property, plant and equipment. Following the adoption of FRS 140 on Investment Property, these investment properties are now classified separately.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of 25 to 50 years.

(k) Leasehold land / prepaid lease payments

Leasehold land that normally has an indefinite economic life and title and is not expected to pass to the lessee by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted for as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided except for leasehold land classified as investment property.

The Group had previously classified a lease of land as a financial lease and had recognised the amount of prepaid lease payments as property within its property, plant and equipment. With the early adoption of FRS 117 on Leases, the Group treats such a lease as an operating lease, with the unamortised carrying amount classified as prepaid lease payments in accordance with the transitional provisions in FRS 117.67A.

(l) Goodwill

Goodwill / (negative goodwill) arises on the acquisition of subsidiaries, associates and joint ventures.

Goodwill is measured at cost and is no longer amortised but tested for impairment at least annually or more frequently when there is objective evidence of impairment. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

Goodwill is allocated to cash-generating units and is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment. The entire carrying amount of the investment is tested for impairment when there is objective evidence of impairment.

(m) Deposits from customers

Deposits from customers are stated at placement values and adjusted for accrued interest.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Borrowing from Institution

Borrowings from institutions are stated at cost.

(o) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability.

Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where the Bank enters into financial guarantee contracts to guarantee the indebtedness of others within its group, the Bank considers these to be insurance arrangements, and accounts for them as such. In this respect, the Bank treats the guarantee contract as a contingent liability until such time as it becomes probable that the Bank will be required to make a payment under the guarantee.

(p) Payables

Payables are measured initially and subsequently at cost. Payables are recognised when there is a contractual obligation to deliver cash or another financial asset to another entity.

(q) Financial instruments

Financial instruments that are recognised in the balance sheet include cash and bank balances, securities, sundry receivables, loans and advances, sundry payables and deposits from customers. The accounting policies on recognition and measurement of these items are disclosed in their respective accounting policies.

Financial instruments are offset when the Bank has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income recognition

Interest income is recognised on an accrual basis.

Where an account is classified as non-performing, interest is suspended and clawed back to day one until it is realised on a cash basis. Customers' accounts are classified as non-performing where repayments are in arrears for six months or more from the first day of default for loan and advances, except for credit card accounts, which are classified as non-performing where payments are in arrears for more than three months.

The policy on suspension of interest is in accordance with the directives issued by Bank Negara Malaysia on "Guidelines on the Suspension of Interest on Non-Performing Loans and Provision for Bad and Doubtful Debts, BNM/GP3".

Income from the various activities of the Group and of the Bank is accrued using the following bases:

- (i) Interest income
 - (a) Interest income on hire purchase is recognised on the "sum-of-digits" method.
 - (b) Interest income on housing and term loans are recognised by reference to rest periods which are either monthly, quarterly or yearly.
 - (c) Interest income from private debt securities are recognised on an accrual basis.
- (ii) Investment income
 - (a) Accretion of discounts and amortisation of premiums on investment securities are recognised on time proportion basis to maturity dates that takes into account the effective yield on investment securities.
- (iii) Dividend income
 - (a) Dividend income from investment in subsidiaries, associated companies and other investments are recognised when the shareholders' right to receive payment is established.
- (iv) Fee income
 - (a) Fees on a variety of services and facilities extended to customers are recognised on inception of such transactions.
- (v) Islamic placement and financing income
 - (a) Income derived from Bai-Bithamil Ajil financing is recognised on an accrual basis.
 - (b) Income from placements with financial institutions under the Syariah principles is recognised on an accrual basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Income recognition (continued)

(vi) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

(vii) Other revenue recognition

Other interest for Takaful business is recognised on the time proportion basis that takes into account the effective yield of the asset.

(s) Profit equalisation reserve (“PER”) for the Islamic Banking Scheme

Profit equalisation reserve is the amount provided in order to maintain a certain level of return for depositors in conformity with Bank Negara Malaysia’s Guidelines - “The Framework of the Rate of Return”. The PER is deducted at a maximum amount of 15% of the total gross income and is maintained to the maximum of 30% of total Islamic banking capital funds.

(t) Interest, financing and related expense recognition

Interest expense and attributable profit (on activities relating to SPI business) on deposits and borrowings of the Group and Bank are expensed as incurred and is recognised on an accrual basis.

(u) Employee benefits

(i) Short term 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 Group’s contribution to the Employee’s Provident Fund are charged to the income statements in the year to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) 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 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 balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (tax loss). 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 to the extent that it is probable that future taxable profits will be available against which temporary difference 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.

(w) General insurance underwriting results

The general takaful underwriting results are determined for each class of business after taking into account retakaful, commissions, unearned contributions and claims incurred.

(i) Unearned contributions reserves

The unearned contribution reserves ("UCR") represent the portion of the net contributions of takaful policies written that relate to the unexpired periods of the certificates at the end of the financial period.

The 1/365 method is used for all general takaful business of the Company.

(ii) Provision for claims

A liability for outstanding claims is recognised in respect of direct insurance. The amount of outstanding claims is the best estimate of the expenditure required together with related expenses less recoveries to settle the present obligation at the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) General insurance underwriting results (continued)

(ii) Provision for claims (continued)

Provision is also made for the cost of claims, together with related expenses incurred but not reported at balance sheet date, using a mathematical method of estimation.

(iii) Acquisition costs

The cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premiums is recognised as incurred and properly allocated to the periods in which it is probable they give rise to income.

(x) Family takaful underwriting results

The surplus transferable from the Life fund to the income statement is based on the surplus determined by an annual actuarial valuation of the long term liabilities to policy holders.

(i) Contribution income

Contribution is recognised as soon as the amount of the contribution can be reliably measured.

Unit-linked business

First contribution income is recognised on the assumption of risk and subsequent contributions are recognised on a cash basis. Subsequent risk is assumed based on sufficiency of units of the certificate holder.

(ii) Commission and agency expenses

Commission and agency expenses, which are costs directly incurred in securing contribution on takaful certificates, net of income derived from retakaful in the course of ceding of contribution to retakaful, are charged to the revenue account in the period in which they are incurred.

(iii) Provision for claims

Claims and settlement costs that are incurred during the financial period are recognised when a claimable event occurs and/or the insurer is notified.

Claims and provisions for claims arising on family takaful certificates, including settlement costs, are accounted for using the case basis method and for this purpose, the benefits payable under a family takaful certificates are recognised as follows:

- (a)** maturity or other takaful benefit payments due on specified dates are treated as claims payable on the due dates.
- (b)** death, surrender and other benefits without due dates are treated as claims payable on the date of receipt of termination of death of the assured or occurrence of contingency covered.

4. CASH AND SHORT TERM FUNDS

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	386,199	281,590	373,533	281,115
Money at call and deposit placements maturing within one month	1,284,208	960,324	1,284,208	960,323
	<u>1,670,407</u>	<u>1,241,914</u>	<u>1,657,741</u>	<u>1,241,438</u>

5. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Licensed banks	388,424	93,993	388,424	85,800
Licensed finance companies	180,000	-	180,000	-
Development financial institutions	-	234,257	-	232,253
Other financial institutions	9,225	10,000	-	10,000
	<u>577,649</u>	<u>338,250</u>	<u>568,424</u>	<u>328,053</u>

The maturity structure of deposits and placements with financial institutions are as follows :

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Maturity within one year	577,649	338,250	568,424	328,053
	<u>577,649</u>	<u>338,250</u>	<u>568,424</u>	<u>328,053</u>

6. SECURITIES HELD-FOR-TRADING

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
At fair value				
<u>Quoted securities in Malaysia :</u>				
Shares	3,283	-	3,283	-
Total securities held-for-trading	<u>3,283</u>	<u>-</u>	<u>3,283</u>	<u>-</u>

6. SECURITIES HELD-FOR-TRADING (continued)

The maturity structure of securities held-for-trading are as follows :

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
More than one year	3,283	-	3,283	-
	<u>3,283</u>	<u>-</u>	<u>3,283</u>	<u>-</u>

7. SECURITIES AVAILABLE-FOR-SALE

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
		Restated		Restated
At fair value				
<u>Money Market Instruments :</u>				
Malaysian government securities	375,730	446,442	375,730	446,442
Khazanah bonds	75,348	71,006	75,348	71,006
	<u>451,078</u>	<u>517,448</u>	<u>451,078</u>	<u>517,448</u>
Less : Net amortisation of premiums less accretion of discounts	(16,685)	(7,690)	(16,685)	(7,690)
Unrealised gain on revaluation	2,541	5,703	2,541	5,703
	<u>436,934</u>	<u>515,461</u>	<u>436,934</u>	<u>515,461</u>
<u>Quoted securities in Malaysia :</u>				
Shares	775,400	1,147,736	775,400	1,147,736
Unit trust investment	121,548	122,442	121,548	121,548
	<u>896,948</u>	<u>1,270,178</u>	<u>896,948</u>	<u>1,269,284</u>
<u>Unquoted securities :</u>				
Shares	241	-	-	-
	<u>241</u>	<u>-</u>	<u>-</u>	<u>-</u>
Less : Accumulated impairment losses				
- Quoted shares and unit trust in Malaysia	(319,870)	(350,720)	(319,870)	(350,720)
Unrealised gain on revaluation	134,936	-	134,936	-
	<u>712,255</u>	<u>919,458</u>	<u>712,014</u>	<u>918,564</u>
Total securities available-for-sale	<u>1,149,189</u>	<u>1,434,919</u>	<u>1,148,948</u>	<u>1,434,025</u>

7. SECURITIES AVAILABLE-FOR-SALE (continued)

The maturity structure of securities available-for-sale are as follows :

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Maturity within one year	167,197	-	70,233	-
More than one year	981,992	1,434,919	1,078,715	1,434,025
	<u>1,149,189</u>	<u>1,434,919</u>	<u>1,148,948</u>	<u>1,434,025</u>

8. SECURITIES HELD-TO-MATURITY

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
At amortised cost				
<u>Money Market Instruments (Long Term):</u>				
Malaysian government securities	3,147,256	3,180,145	3,147,256	3,180,145
Cagamas bonds	458,500	675,346	458,500	675,346
Cagamas shanadat	151,067	-	151,067	-
Malaysian government Investment issues	269,666	233,882	269,665	233,882
State government guaranteed bonds	-	23,519	-	23,519
Government guaranteed private debt securities	-	205,092	-	205,092
Khazanah bonds	406,076	413,045	406,076	413,045
KLIA bonds	-	5,912	-	5,912
	<u>4,432,565</u>	<u>4,736,941</u>	<u>4,432,564</u>	<u>4,736,941</u>
<u>Money Market Instruments (Short Term):</u>				
NCD	240,500	329,000	240,500	329,000
Cagamas note	34,345	-	34,345	-
NIDC	138,152	-	138,152	-
Commercial paper (CP)	289,697	256,319	289,697	256,319
Bankers acceptance (BA)	9,209	-	9,209	-
BNM bill	27,735	55,874	27,736	55,874
	<u>739,638</u>	<u>641,193</u>	<u>739,639</u>	<u>641,193</u>
<u>Unquoted securities :</u>				
Shares	2,400	-	-	-
Private debt securities	493,446	253,461	420,326	253,461
Islamic debt securities	444,033	444,163	428,033	444,163
	<u>939,879</u>	<u>697,624</u>	<u>848,359</u>	<u>697,624</u>
Less : Net amortisation of premiums less accretion of discounts	(39,015)	(18,503)	(39,015)	(18,503)
Less : Accumulated impairment losses				
- Unquoted shares in Malaysia	(1,364)	-	-	-
Total investment securities	<u>6,071,703</u>	<u>6,057,255</u>	<u>5,981,547</u>	<u>6,057,255</u>

8. SECURITIES HELD-TO-MATURITY (continued)

The maturity structure of securities held-to-maturity are as follows :

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Maturity within one year	1,416,510	641,193	1,416,510	641,193
More than one year	4,655,193	5,416,062	4,565,037	5,416,062
	<u>6,071,703</u>	<u>6,057,255</u>	<u>5,981,547</u>	<u>6,057,255</u>

9. LOANS, ADVANCES AND FINANCING

	Group/Bank	
	2006 RM'000	2005 RM'000
(i) By loans type		
Term loans/financing		
Housing loans/financing	2,849,426	1,663,726
Personal loans	3,283,899	2,262,905
Hire purchase receivables	115,223	162,456
Other term loans/financing *	137,502	128,064
Micro credit	429,825	517,129
Staff loans/financing	159,644	120,860
Credit/charge cards	50,405	32,593
Revolving credit	263,128	264,483
Less: Unearned interest/income	(1,634,994)	(990,612)
Gross loans, advances and financing	<u>5,654,058</u>	<u>4,161,604</u>
Less: Allowance for bad and doubtful debts and financing:		
- General	(116,289)	(132,185)
- Specific	(405,835)	(321,333)
Interest/income-in-suspense	(79,863)	(66,091)
Total net loans, advances and financing	<u>5,052,071</u>	<u>3,641,995</u>

* Included in the Bank's term loans is a subordinated term loan given to BSNC Corporation (M) Berhad, an associate company amounting to RM150 million whereby settlement had been made for RM90 million through a transfer of 45 million units of Affin Holdings Berhad shares at RM2 per unit in year 2005. The repayment of the balance amounting to RM60 million has been restructured with payments due on a quarterly basis at the yearly rest of 2.00%. The last payment is due in December 2010.

(ii) By type of customer

	Group/Bank	
	2006 RM'000	2005 RM'000
Domestic non-bank financial institutions		
- Co-operative	33,303	33,926
Domestic business enterprises		
- Subordinate	59,051	65,956
Individuals	5,561,704	4,061,722
	<u>5,654,058</u>	<u>4,161,604</u>

9. LOANS, ADVANCES AND FINANCING (continued)

(iii) By interest/profit rate sensitivity

	Group/Bank	
	2006	2005
	RM'000	RM'000
Fixed rate		
Housing loans/financing	593,474	287,041
Hire purchase receivables	114,630	158,141
Other fixed rate loan/financing	2,649,050	1,599,025
Micro credit	429,824	517,129
Variable rate		
BLR plus	1,613,747	828,058
Cost-plus	253,333	772,210
	5,654,058	4,161,604

(iv) By sector

Manufacturing	10,000	10,000
Purchase of landed property:		
- Residential	2,322,274	1,490,689
Wholesale & retail trade and restaurant & hotels	4,963	4,189
Finance, insurance and business services	49,051	55,956
Purchase of securities	8,858	11,015
Purchase of transport vehicles	340,553	384,784
Consumption credit	2,488,535	1,687,842
Micro credit	429,824	517,129
	5,654,058	4,161,604

10. NON-PERFORMING LOANS/FINANCING

	Group/Bank	
	2006	2005
	RM'000	RM'000
(i) Movements in non-performing loans/financing ("NPLs")		
At beginning of year	681,964	599,895
Classified as non-performing during the year	242,780	233,918
Reclassified as performing during the year	(258,341)	(149,059)
Amount written off	(2,986)	(2,790)
At end of year	663,417	681,964
Specific allowance ("SA")	(405,835)	(321,333)
Interest/income-in-suspense ("IIS")	(79,863)	(66,091)
Net non-performing loans/financing	177,719	294,540
Ratio of net non-performing loans/financing to net loans and financing	3.44%	7.80%

10. NON-PERFORMING LOANS/FINANCING (continued)

- (ii) Movements in allowance for bad and doubtful debts and interest/income-in-suspense

	Group/Bank	
	2006 RM'000	2005 RM'000
General allowance		
At beginning of year	132,185	66,917
Allowance (written back)/made during the year (Note 33)	(15,896)	65,268
At end of year	116,289	132,185
As % of gross loans, advance and financing less specific allowance	2.25%	3.50%
Specific allowance		
At beginning of year	321,333	166,711
Allowance made during the year (Note 33)	144,173	195,144
Amount recovered (Note 33)	(57,053)	(37,884)
Amount written off	(2,618)	(2,638)
At end of year	405,835	321,333

	Group/Bank	
	2006 RM'000	2005 RM'000
Interest/income-in-suspense		
At beginning of year	66,091	53,415
Allowance made during the year	37,269	33,313
Amount recovered	(23,081)	(20,469)
Amount written-off	(416)	(168)
At end of year	79,863	66,091

- (iii) Non Performing Loan/Financing by sector

Manufacturing	10,000	10,000
Real estate	-	55,956
Purchase of residential landed property:		
- Residential	225,033	223,343
- Non-residential	3,529	3,174
Purchase of securities	8,287	9,883
Purchase of transport vehicles	98,214	106,842
Consumption credit	49,395	23,816
Purchase of consumer durables	2,217	3,198
Micro credit	262,158	243,503
Credit card	4,584	2,249
	663,417	681,964

11. OTHER ASSETS

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Interest/income receivables	86,263	75,288	68,068	75,224
Deposits and prepayments	5,281	5,861	4,878	5,861
Sundry receivables	31,667	154,863	30,094	154,479
Dividend receivables	-	3,103	-	3,103
Due from subsidiaries	5	-	401	1,094
	<u>123,216</u>	<u>239,115</u>	<u>103,441</u>	<u>239,761</u>
Less :				
Allowance for doubtful debts	(5,464)	(5,823)	(5,464)	(5,823)
	<u>117,752</u>	<u>233,292</u>	<u>97,977</u>	<u>233,938</u>

12. INVESTMENT IN SUBSIDIARY COMPANIES

	Bank	
	2006 RM'000	2005 RM'000
Unquoted shares, at cost	467,834	437,834
Less: Accumulated impairment losses	(1,711)	(1,446)
	<u>466,123</u>	<u>436,388</u>

Details of the subsidiary companies are as follows:

Name	Principal activities	Country of incorporation	Percentage of equity held directly		Paid up capital RM'000
			2006 %	2005 %	
Permodalan BSN Berhad *	Management of Unit Trust Fund	Malaysia	100	100	2,000
Seleksi Arif Sdn. Bhd.*	Investment holding	Malaysia	100	100	50
Permodalan BSN Venture Sendirian Berhad *	Venture capital	Malaysia	100	100	2,500
Prudential BSN Takaful Berhad* (Note a)	Management of Takaful Funds	Malaysia	51	-	58,824

* Not audited by Auditor General of Malaysia

Note:

(a) On 29 June 2006, a Shareholder Agreement was signed between Bank Simpanan Nasional and Prudential Corporation Holdings Limited (PCHL). Under the agreement, BSN shall be required to pay to PCHL the sum of RM21 million by end of the first ten financial years being reimbursement of part of premium paid by PCHL.

13. INVESTMENT IN ASSOCIATED COMPANIES

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Unquoted shares, at cost	231,809	662,809	231,809	231,809
Add: Group's share of post-acquisition results	(173,114)	(244,558)	-	-
Add: Group's share of post-acquisition reserves	-	177	-	-
Less: Amortisation of goodwill	-	(40,430)	-	-
Less: Accumulated impairment losses	(48,000)	(280,857)	(231,200)	(231,200)
	<u>10,695</u>	<u>97,141</u>	<u>609</u>	<u>609</u>

On 2nd October 2006, the Ministry of Finance via Piramid Pertama Sdn. Bhd. communicated to BSN that the payment made to BSN on 27th January 2006 amounting to RM440 million is for the acquisition of Aroma Teraju Sdn. Bhd. shares held by Seleksi Arif Sdn. Bhd.

	Group	
	2006 RM'000	2005 RM'000
Represented by:		
Share of net tangible assets	<u>10,695</u>	<u>97,141</u>

Details of the associated companies are as follows:

Name	Principal activities	Country of incorporation	Effective equity interest		Financial year end
			2006 %	2005 %	
(i) BSNC Corporation (M) Berhad	Investment holding	Malaysia	41.34	41.34	31st December
(ii) Aroma Teraju Sdn Bhd	Investment holding	Malaysia	-	45.00	30th June

14. PROPERTY, PLANT AND EQUIPMENT

Group	Note	Buildings	Major components lift	Major components aircond	Plant and equipment	Fixtures and Fittings	Motor vehicles	Work in Progress	Renovations	Total
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2005		279,510	-	-	276,455	72,527	19,364	30,615	66,454	744,925
Additions		-	-	-	3,738	1,296	4,205	2,738	3,083	15,060
Disposals		(599)	-	-	(4,514)	(62)	(1,823)	-	-	(6,998)
Write-off		-	-	-	(48,949)	(6)	-	(2,487)	-	(51,442)
Transfer		-	-	-	22,039	1,945	-	(26,442)	2,458	-
At 31 December 2005 / 1 January 2006		278,911	-	-	248,769	75,700	21,746	4,424	71,995	701,545
Other additions		-	-	-	7,831	2,105	405	266	1,736	12,343
Offset of accumulated depreciation on property transferred to investment property		-	-	-	-	-	-	-	228	228
Transfer to prepaid lease payment		(562)	-	-	-	-	-	-	-	(562)
Reclassification		(7,530)	3,297	4,233	3,660	(10,169)	-	(3,629)	10,138	-
Transfer to investment property	16	(30,045)	-	-	-	-	-	-	-	(30,045)
Write-off		-	-	-	(13)	-	(11)	-	-	(24)
Transfer		-	-	-	5,067	152	-	-	-	5,219
Adjustments		-	-	-	(146)	(94)	-	146	(254)	(348)
Disposals		-	-	-	-	-	(2,128)	-	-	(2,128)
Reserve		-	-	-	-	-	1,771	-	-	1,771
At 31 December 2006		240,774	3,297	4,233	265,168	67,694	21,783	1,207	83,843	687,999

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Note	Buildings RM'000	Major components lift RM'000	Major components aircond RM'000	Plant and equipment RM'000	Fixtures and Fittings RM'000	Motor vehicles RM'000	Work in Progress RM'000	Renovations RM'000	Total RM'000
Group										
Depreciation and impairment loss										
At 1 January 2005 :										
Accumulated depreciation		49,096	-	-	226,811	64,059	11,035	-	50,656	401,657
Accumulated impairment loss		-	-	-	-	-	-	-	-	-
Depreciation for the year	31	5,578	-	-	14,258	2,208	2,640	15	4,870	29,569
Disposals		(122)	-	-	(4,492)	(60)	(1,823)	-	-	(6,497)
Write-off		-	-	-	(48,428)	(6)	-	-	-	(48,434)
Adjustments		-	-	-	1	-	-	-	-	1
At 31 December 2005 / 1 January 2006 :										
Accumulated depreciation		54,552	-	-	188,150	66,201	11,852	15	55,526	376,296
Accumulated impairment loss		-	-	-	-	-	-	-	-	-
Depreciation for the year	31	4,815	110	169	16,850	2,743	953	-	4,394	30,034
Impairment loss	34	14,119	-	-	-	-	-	-	-	14,119
Offset of accumulated depreciation on property										
transferred to investment property		(4,026)	-	-	-	-	-	-	-	(4,026)
Transfer to prepaid lease payment		(108)	-	-	-	-	-	-	-	(108)
Reclassification		(1,644)	720	924	39	(10,089)	-	-	10,050	-
Disposals		-	-	-	-	-	(2,040)	-	-	(2,040)
Write-off		-	-	-	(5)	-	(3)	-	-	(8)
Adjustments		1	-	-	-	(2)	1	(15)	11	(4)
At 31 December 2006 :										
Accumulated depreciation		53,590	830	1,093	205,034	58,853	10,763	-	69,981	400,144
Accumulated impairment loss		14,119	-	-	-	-	-	-	-	14,119
		67,709	830	1,093	205,034	58,853	10,763	-	69,981	414,263

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RM'000	Major components lift RM'000	Major components aircond RM'000	Plant and equipment RM'000	Fixtures and Fittings RM'000	Motor vehicles RM'000	Work in Progress RM'000	Renovations RM'000	Total RM'000
Group									
Carrying amounts									
At 1 January 2005	230,414	-	-	49,644	8,468	8,329	30,615	15,798	343,268
At 31 December 2005 / 1 January 2006	224,359	-	-	60,619	9,499	9,894	4,409	16,469	325,249
At 31 December 2006	173,065	2,467	3,140	60,134	8,841	11,020	1,207	13,862	273,736

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Bank	Buildings RM'000	Major components lift RM'000	Major components aircond RM'000	Plant and equipment RM'000	Fixtures and Fittings RM'000	Motor vehicles RM'000	Work in Progress RM'000	Renovations RM'000	Total RM'000
At 1 January 2005	279,510	-	-	274,617	72,218	18,785	30,615	66,390	742,135
Additions	-	-	-	3,650	1,296	4,205	-	3,083	12,234
Disposals	(599)	-	-	(4,514)	(62)	(1,823)	2,730	-	(4,268)
Write-off	-	-	-	(48,949)	(6)	-	(2,487)	-	(51,442)
Transfer	-	-	-	22,039	1,945	-	(26,442)	2,458	-
At 31 December 2005 / 1 January 2006	278,911	-	-	246,843	75,391	21,167	4,416	71,931	698,659
Other additions	-	-	-	7,778	2,079	405	266	1,726	12,254
Transfer to prepaid lease payment	(562)	-	-	-	-	-	-	-	(562)
Reclassification	(7,530)	3,297	4,233	3,660	(10,169)	-	(3,629)	10,138	-
Transfer to investment property	(30,045)	-	-	-	-	-	-	-	(30,045)
Write-off	-	-	-	(4)	-	(11)	-	-	(15)
Adjustments	-	-	-	(150)	(29)	-	154	(323)	(348)
Disposals	-	-	-	-	-	(2,054)	-	-	(2,054)
Reserve	-	-	-	-	-	1,771	-	-	1,771
At 31 December 2006	240,774	3,297	4,233	258,127	67,272	21,278	1,207	83,472	679,660

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Note	Buildings RM'000	Major components lift RM'000	Major components aircond RM'000	Plant and equipment RM'000	Fixtures and Fittings RM'000	Motor vehicles RM'000	Work in Progress RM'000	Renovations RM'000	Total RM'000
Bank										
Depreciation and impairment loss										
At 1 January 2005 :										
Accumulated depreciation		49,096	-	-	225,086	63,831	10,549	-	50,577	399,139
Accumulated impairment loss		-	-	-	-	-	-	-	-	-
Depreciation for the year	31	5,578	-	-	14,177	2,208	2,609	-	4,870	29,442
Disposals		(122)	-	-	(4,492)	(60)	(1,823)	-	-	(6,497)
Write-off		-	-	-	(48,428)	(6)	-	-	-	(48,434)
Adjustments		-	-	-	-	-	-	-	1	1
At 31 December 2005 / 1 January 2006 :										
Accumulated depreciation		54,552	-	-	186,343	65,973	11,335	-	55,448	373,651
Accumulated impairment loss		-	-	-	-	-	-	-	-	-
Depreciation for the year	31	4,815	110	169	15,971	2,729	927	-	4,371	29,092
Impairment loss	34	14,119	-	-	-	-	-	-	-	14,119
Offset of accumulated depreciation on property transferred to investment property		(4,026)	-	-	-	-	-	-	-	(4,026)
Transfer to prepaid lease payment		(108)	-	-	-	-	-	-	-	(108)
Reclassification		(1,644)	720	924	39	(10,089)	-	-	10,050	-
Disposals		-	-	-	-	-	(1,978)	-	-	(1,978)
Write-off		-	-	-	(4)	-	(3)	-	-	(7)
Adjustments		-	-	-	-	-	(1)	-	-	(1)
At 31 December 2006 :										
Accumulated depreciation		53,589	830	1,093	202,349	58,613	10,280	-	69,869	396,623
Accumulated impairment loss		14,119	-	-	-	-	-	-	-	14,119
		67,708	830	1,093	202,349	58,613	10,280	-	69,869	410,742

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RM'000	Major components lift RM'000	Major components aircond RM'000	Plant and equipment RM'000	Fixtures and Fittings RM'000	Motor vehicles RM'000	Work in Progress RM'000	Renovations RM'000	Total RM'000
Bank									
Carrying amounts									
At 1 January 2005	230,414	-	-	49,531	8,387	8,236	30,615	15,813	342,996
At 31 December 2005 / 1 January 2006	224,359	-	-	60,500	9,418	9,832	4,416	16,483	325,008
At 31 December 2006	173,066	2,467	3,140	55,778	8,659	10,998	1,207	13,603	268,918

15. PREPAID LEASE PAYMENTS

	Group/Bank	
	Leasehold	
	Land	Total
	RM'000	RM'000
Cost		
At 1 January 2006	62,469	62,469
Acquisition	2,293	2,293
Reclassification	563	563
At 31 December 2006	<u>65,325</u>	<u>65,325</u>
Accumulated Depreciation		
At 1 January 2006	<u>6,018</u>	<u>6,018</u>
Depreciation charge for the year (Note 31)	641	641
Reclassification	108	108
At 31 December 2006	<u>6,767</u>	<u>6,767</u>
Net Book Value		
At 31 December 2006	<u>58,558</u>	<u>58,558</u>
Depreciation charge for 2006	<u>641</u>	<u>641</u>
Net Book Value		
At 31 December 2005	<u>56,452</u>	<u>56,452</u>
Depreciation charge for 2005	<u>619</u>	<u>619</u>

16. INVESTMENT PROPERTIES

	Group/Bank	
	2006 RM '000	2005 RM '000
Transfer from property, plant and equipment	25,335	-
At 31 December	25,335	-

Group/Bank	Buildings RM '000	Major Component Lift RM '000	Major Component Aircond RM '000	Total RM '000
Cost				
Transfer from property, plant and equipment (Note 14)	30,045	-	-	30,045
Reclassification	(4,459)	820	3,639	-
At 31 December 2006	25,586	820	3,639	30,045
Accumulated Depreciation				
At 1 January 2006	-	-	-	-
Depreciation charge for the year (Note 31)	512	27	146	685
Transfer from property, plant and equipment	4,025	-	-	4,025
Reclassification	(602)	111	491	-
At 31 December 2006	3,935	138	637	4,710
Net Book Value				
At 31 December 2006	21,651	682	3,002	25,335
Depreciation charge for 2006	512	27	146	685

17. GOODWILL

	Group	
	2006 RM '000	2005 RM '000
At beginning of year	236	247
Amortisation during the year - subsidiary (Note 31)	-	(11)
Written off during the year - subsidiary (Note 31)	(236)	-
At end of year	-	236

18. DEPOSITS FROM CUSTOMERS

(i) By type of deposit	Group/Bank	
	2006 RM '000	2005 RM '000
Savings deposits	5,301,986	5,249,338
Fixed deposits	7,297,047	6,644,636
Others	839,622	851,343
	13,438,655	12,745,317

18. DEPOSITS FROM CUSTOMERS (continued)

(ii) By type of customer	Group/Bank	
	2006 RM'000	2005 RM'000
Government and statutory bodies	2,824,340	2,225,877
Business enterprises	2,492,725	2,539,145
Individual investment deposits	8,003,959	7,957,830
Others	117,631	22,465
	<u>13,438,655</u>	<u>12,745,317</u>

19. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group/Bank	
	2006 RM'000	2005 RM'000
Other financial institutions	379,207	339,870
	<u>379,207</u>	<u>339,870</u>

20. BORROWING FROM INSTITUTION

	Group/Bank	
	2006 RM'000	2005 RM'000
Borrowing from Employees Provident Fund	300,000	300,000
	<u>300,000</u>	<u>300,000</u>

The borrowing bears a fixed interest rate of 5.08% per annum payable semi-annually in February and August each year and is due by bullet repayment in February 2009.

21. OTHER LIABILITIES

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Interest payable	108,736	105,672	107,823	105,672
Sundry payables	185,567	107,020	166,500	106,966
Accruals	8,788	14,641	8,858	14,402
Advanced loan repayment	57,506	24,494	57,506	24,494
Profit equalisation reserve (Note 45(h))	15,985	3,335	15,985	3,335
Dividend on premium savings certificates payable	11,181	11,181	11,181	11,181
Amount due to subsidiaries	-	-	440,024	-
	<u>387,763</u>	<u>266,343</u>	<u>807,877</u>	<u>266,050</u>

22. PROVISION FOR ZAKAT

	Group/Bank	
	2006 RM'000	2005 RM'000
As at beginning of year	260	260
Provision for the year	596	-
As at end of the year	<u>856</u>	<u>260</u>

23. DEFERRED TAX ASSETS AND LIABILITIES

The recognised deferred liabilities are as follows:

	Group	
	2006 RM'000	2005 RM'000
Property, plant and equipment - capital allowances	<u>39</u>	<u>-</u>

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

	Group		Bank	
	2006 RM'000	2005 (Restated) RM'000	2006 RM'000	2005 (Restated) RM'000
Deductible temporary differences	124,861	350,719	124,861	350,719
Unabsorbed capital allowances	-	141,883	-	141,882
Unutilised tax losses	224,042	259,593	224,042	259,593
	<u>348,903</u>	<u>752,195</u>	<u>348,903</u>	<u>752,194</u>

Unrecognised deferred tax assets

The deductible temporary differences do not expire under the current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from. Unutilised tax loss carry-forwards and unutilised capital allowance carry-forwards amounting to **RM224.04mil.** and **RM nil** respectively will not be available to the Group if there is substantial change in shareholders (more than 50%).

24. TAKAFUL FUNDS

	Group	
	2006 RM'000	2005 RM'000
Family takaful fund	418	-
General takaful fund	(61)	-
Unearned contribution reserve	182	-
Investment-linked funds	8,711	-
Total takaful funds	<u>9,250</u>	<u>-</u>

25. REVENUE

Revenue comprises all types of revenue derived from lending, treasury investment and other banking activities undertaken by the Bank.

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Interest income (Note 26)	445,078	420,579	444,155	420,554
Fee and commission income (Note 28)	75,072	73,477	73,314	73,477
Income from Islamic Banking				
Operation (Note 45)	114,354	27,805	114,354	27,805
Other operating income *	122,129	77,315	120,768	74,192
	<u>756,633</u>	<u>599,176</u>	<u>752,591</u>	<u>596,028</u>

* Other operating income excludes provision for diminution in value of investment in quoted shares and loss on disposal of securities amounting to RM nil (2005: RM201,975,000) and RM3,796,000 (2005: RM106,757,000) respectively.

26. INTEREST INCOME

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Loans and advances				
- Interest income other than recoveries from NPLs	223,172	230,872	223,172	230,871
- Recoveries from NPLs	17,368	19,096	17,368	19,096
Money at call and deposits with bank and other financial institutions	46,496	44,432	46,496	44,408
Investment securities :				
Held-to-maturity	182,669	150,067	181,746	150,067
Available-for-sale	21,940	24,953	21,940	24,953
	<u>491,645</u>	<u>469,420</u>	<u>490,722</u>	<u>469,395</u>
Net amortisation of premiums less accretion of discounts	(20,111)	(26,378)	(20,111)	(26,378)
Net interest suspended	(26,456)	(22,463)	(26,456)	(22,463)
Total interest income	<u>445,078</u>	<u>420,579</u>	<u>444,155</u>	<u>420,554</u>

27. INTEREST EXPENSE

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Deposits from customers	92,821	91,877	92,821	91,877
Deposits and placements of bank and other financial institutions	132,336	98,202	132,336	98,202
Others	24,838	23,804	24,838	23,804
	<u>249,995</u>	<u>213,883</u>	<u>249,995</u>	<u>213,883</u>

28. FEES AND COMMISSION INCOME

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Service charges and fees	53,555	38,588	53,555	38,588
Other fee income	21,517	34,889	19,759	34,889
	<u>75,072</u>	<u>73,477</u>	<u>73,314</u>	<u>73,477</u>

29. OTHER OPERATING INCOME

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<i>Gain on disposal of investment securities</i>				
Securities available-for-sale	80,332	22,116	80,332	22,116
Securities held-for-trading	536	-	536	-
Loss on disposal of investment securities	(3,796)	(106,757)	(3,796)	(106,757)
<i>Other investment income</i>				
Securities held-to-maturity	14,623	20,117	14,623	20,117
Securities held-for-trading	140	-	140	-
<i>Gross dividend income</i>				
<i>Quoted in Malaysia</i>				
Securities available-for-sale	16,339	25,738	16,339	25,738
Securities held-for-trading	16	-	16	-
<i>Unquoted in Malaysia</i>				
Securities held-to-maturity	2,465	-	2,465	-
Provision for diminution in value of investment in quoted shares	-	(201,975)	-	(201,975)
<i>Other income</i>				
- Net gain on foreign exchange currency	55	87	55	87
- Net gain on disposal of property, plant and equipment	358	918	358	918
- Rental income	3,634	2,801	3,759	2,801
- Others	3,631	5,538	2,145	2,415
	<u>118,333</u>	<u>(231,417)</u>	<u>116,972</u>	<u>(234,540)</u>

30. PERSONNEL EXPENSES

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Salaries and wages	118,488	109,383	105,884	108,222
Allowances and bonuses	12,588	10,683	12,588	10,683
Social security costs	1,809	1,842	1,809	1,739
Short term accumulated compensated absences	286	631	286	631
Pension costs - defined contribution plan	20,258	18,388	20,258	18,388
Other staff related expenses	26,206	22,128	26,206	22,128
Total	<u>179,635</u>	<u>163,055</u>	<u>167,031</u>	<u>161,791</u>

30. PERSONNEL EXPENSES (continued)

Included in personnel expenses of the Group and of the Bank is directors' remuneration amounting to RM833,000 (2005: RM391,000) and RM371,000 (2005: RM391,000) respectively as further disclosed in Note 32.

31. OTHER OVERHEADS

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Promotion and marketing:				
- Advertisement and publicity	2,913	2,317	2,898	2,317
Establishment:				
- Rental of premises	12,976	13,091	13,101	13,091
- Depreciation (Note 14,15 & 16)	31,360	30,188	30,418	30,061
- Electronic data processing expenses	12,328	10,081	12,327	10,081
- Hire of equipment	15,244	11,749	15,244	11,749
General expenses				
- Auditors' fee	167	175	163	153
- Directors' remuneration (Note 32)	251	132	168	132
- Amortisation of goodwill				
- subsidiary (Note 17)	-	11	-	-
- Goodwill written-off	236	-	-	-
- subsidiary (Note 17)				
- Subsidised interest on staff loans*	1,944	434	1,944	434
- Reimbursement on micro credit financing**	(65,171)	(36,462)	(65,171)	(36,462)
- Allowance for doubtful debts of receivable included in other assets	-	148	-	148
- Property, plant and equipment written off	8	2,487	8	2,487
- Loss on disposal of asset	-	16	-	16
- Others	60,541	44,256	56,899	41,768
	<u>72,797</u>	<u>78,623</u>	<u>67,999</u>	<u>75,975</u>

* This relates to interest subsidised by the Bank for loans granted by the Government to the Bank's employees.

** This is related to expenses incurred for micro credit financing. This item is reimbursed by the Government at a rate of 8.45% per annum.

32. KEY MANAGEMENT PERSONNEL COMPENSATION

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Directors				
- Salaries and other emoluments (Note 30)	833	391	371	391
- Fees (Note 31)	251	132	168	132
	<u>1,084</u>	<u>523</u>	<u>539</u>	<u>523</u>
Other short term employee benefits (including estimated monetary value of benefits-in-kind)	22	22	-	-
	<u>1,106</u>	<u>545</u>	<u>539</u>	<u>523</u>
Other key management personnel:				
- Short-term employee benefits	3,416	2,196	1,497	1,750
	<u>3,416</u>	<u>2,196</u>	<u>1,497</u>	<u>1,750</u>
	<u>4,522</u>	<u>2,741</u>	<u>2,036</u>	<u>2,273</u>

33. ALLOWANCE FOR LOSSES ON LOANS AND FINANCING

	Group/Bank	
	2006 RM'000	2005 RM'000
Allowance for bad and doubtful debts on loan and financing		
(a) General allowance		
- Provided during the year (Note 10)	(15,896)	65,268
(b) Specific allowance		
- Provided during the year (Note 10)	144,173	195,144
- Written back (Note 10)	(57,053)	(37,884)
Bad debts (recovered)/written off		
- Recovered	(1,022)	(338)
- Written off	7,998	-
	<u>78,200</u>	<u>222,190</u>

34. IMPAIRMENT (LOSS)/WRITE BACK

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Impairment (loss)/write back on investment in a subsidiary	-	-	(265)	351,591
Impairment (loss) on property, plant and equipment (Note 14)	(14,119)	-	(14,119)	-
	<u>(14,119)</u>	<u>-</u>	<u>(14,384)</u>	<u>351,591</u>

35. FUNDS RECEIVED FROM GOVERNMENT

On 27th January 2006, Bank Simpanan Nasional (BSN) received a sum of RM580 million from Ministry of Finance, of which RM140 million was as additional capital injection and the balance of RM440 million was payment for the acquisition of the entire interest in Aroma Teraju Sdn Bhd.

The capital injection above mentioned amounting to **RM390 million** had been accounted in the income statement for the year 2005 in compliance with FRS 120 Accounting for Government Grant and Disclosure of Government Assistance.

36. TAX EXPENSE

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Current tax expense				
- current year	272	(217)	-	-
	<u>272</u>	<u>(217)</u>	<u>-</u>	<u>-</u>
Deferred tax expense				
Origination and reversal of temporary differences	39	-	-	-
	<u>311</u>	<u>(217)</u>	<u>-</u>	<u>-</u>
Share of taxation in associated companies	1,893	374	-	-
	<u>2,204</u>	<u>157</u>	<u>-</u>	<u>-</u>

	2006	2005
	RM'000	RM'000
Group		
Profit before tax	513,715	1,047
Taxation at Malaysian statutory tax rate of 28% (2005: 28%)	143,840	293
Effect of income not subject to tax	(96,548)	(110,353)
Effect of expenses not deductible for tax purposes	11,126	75,768
Deferred tax assets not recognised in respect of current year's tax losses and unabsorbed capital allowances	(62,732)	34,449
Other items	6,518	-
Tax expense for the year	<u>2,204</u>	<u>157</u>

Bank

Profit before tax	171,186	355,048
Taxation at Malaysian statutory tax rate of 28% (2005 : 28%)	47,932	99,413
Effect of income not subject to tax	(4,764)	(208,751)
Effect of expenses not deductible for tax purposes	13,046	75,819
Deferred tax assets not recognised in respect of current year's tax losses and unabsorbed capital allowances	(62,732)	33,519
Others items	6,518	-
Tax expense for the year	<u>-</u>	<u>-</u>

37. RELATED PARTY TRANSACTIONS

The aggregate value of transactions and outstanding balances relating to the key management personnel and entities over which they have control or significant influence were as follows:

Other related party transactions

Group	Transaction value		Balance & Interest	
	year ended		Outstanding	
	31 December		as at	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Income				
KOBANAS	(240)	(225)	4,963	4,188
Permodalan BSN Bhd	125	(134)	376	(37)
BSNC Corporation (M)				
Berhad	(1,090)	(3,600)	48,931	57,156
	<u>(1,205)</u>	<u>(3,959)</u>	<u>54,270</u>	<u>61,307</u>

	Transaction value	
	year ended	
	31 December	
	2006	2005
	RM'000	RM'000
Bank		
KOBANAS		
Interest income on loans and advances	(240)	(225)
Amount due from loans and advances	4,963	4,188
Interest receivable on loans and advances	120	-
Permodalan BSN Berhad		
Rental income	125	(134)
Amount due from expenses paid on behalf	279	-
Amount due to advances given	376	(37)
BSNC Corporation (M) Berhad		
Interest income on loans and advances	(1,090)	(3,600)
Amount due from loans and advances	48,931	55,956
Interest receivable on loans and advances	-	1,200
	<u>53,464</u>	<u>57,348</u>

During the year ended 31 December 2006 the Group repaid a loan and interest amount of RM8,349,484 received from its associates.

38. COMMITMENTS AND CONTINGENCIES

	2006			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
Group/Bank						
Irrevocable to commitments to extend credit :						
Maturity not exceeding one year	102,046	-	102,046	465,280	-	465,280
Maturity exceeding one year	519,164	259,582	519,164	59,496	29,748	59,496
	<u>621,210</u>	<u>259,582</u>	<u>621,210</u>	<u>524,776</u>	<u>29,748</u>	<u>524,776</u>
Capital commitments :						
Authorised and contracted for:						
Renovation works and supply of plant and equipment	571	-	571	13,532	-	13,532
	<u>571</u>	<u>-</u>	<u>571</u>	<u>13,532</u>	<u>-</u>	<u>13,532</u>
Contingent Liabilities :						
Amount guaranteed by Bank (Note 41)	481	-	481	481	-	481
Total	<u>622,262</u>	<u>259,582</u>	<u>622,262</u>	<u>538,789</u>	<u>29,748</u>	<u>538,789</u>

* The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia's Guidelines.

39. INTEREST/PROFIT RATE RISK

The Bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarises the Bank's exposure to interest rate risk. The assets and liabilities at carrying amount are categorised by the earlier contractual repricing or maturity dates.

Bank	Up to 1 month	> 1 month - 1 year	> 1 - 5 year	Over 5 years	Non-interest sensitive	Provision	Total	Average interest rate
At 31 December 2006	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	% p.a.
Assets								
Cash and short term funds	1,284,208	-	-	-	373,533	-	1,657,741	3.50
Deposits & placements with bank & other financial institutions	-	568,424	-	-	-	-	568,424	3.38
Securities held-for-trading	-	-	-	-	3,283	-	3,283	-
Securities available-for-sale	-	70,233	113,571	299,521	665,623	-	1,148,948	3.91
Securities held-to-maturity	539,618	876,892	3,467,310	1,097,727	-	-	5,981,547	2.26
Loan, advances & financing	-	231,841	1,244,457	4,177,760	-	(601,987)	5,052,071	7.28
Other assets	-	-	-	-	97,977	-	97,977	-
Tax recoverable	-	-	-	-	14,171	-	14,171	-
Investment in subsidiary companies	-	-	-	-	466,123	-	466,123	-
Investment in associated companies	-	-	-	-	609	-	609	-
Property, plant and equipment	-	-	-	-	268,918	-	268,918	-
Prepaid lease payment	-	-	-	-	58,558	-	58,558	-
Investment properties	-	-	-	-	25,335	-	25,335	-
Total assets	1,823,826	1,747,390	4,825,338	5,575,008	1,974,130	(601,987)	15,343,705	

39. INTEREST/PROFIT RATE RISK (continued)

Bank (continued)	Up to 1 month RM'000	> 1 month - 1 year RM'000	> 1 - 5 year RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Provision RM'000	Total RM'000	Average interest rate % p.a.
At 31 December 2006								
Liabilities								
Deposits from customers	9,314,669	3,985,022	138,964	-	-	-	13,438,655	2.16
Deposits and placements of bank & other financial institutions.	238,388	140,819	-	-	-	-	379,207	1.11
Borrowing from institutions	-	-	300,000	-	-	-	300,000	4.45
Other liabilities	-	-	-	-	807,877	-	807,877	-
Provision for zakat	-	-	-	-	856	-	856	-
Total liabilities	9,553,057	4,125,841	438,964	-	808,733	-	14,926,595	
Reserves	-	-	-	-	417,110	-	417,110	-
Total liabilities and reserves	9,553,057	4,125,841	438,964	-	1,225,842	-	15,343,705	
Total interest sensitivity gap	(7,729,231)	(2,378,451)	4,386,374	5,575,008	748,287	(601,987)	-	

39. INTEREST/PROFIT RATE RISK (continued)

Bank (continued) At 31 December 2005	Up to 1 month RM'000	> 1 month - 1 year RM'000	> 1 - 5 year RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Provision RM'000	Total RM'000	Average interest rate % p.a.
Assets								
Cash and short term funds	960,323	-	-	-	281,115	-	1,241,438	2.85
Deposits & placements with bank & other financial institutions	-	328,053	-	-	-	-	328,053	3.14
Securities available-for-sale	-	-	557,197	-	876,828	-	1,434,025	3.33
Securities held-to-maturity	579,425	250,197	2,257,769	2,049,464	920,400	-	6,057,255	3.33
Loan, advances & financing	565,986	92,633	1,258,377	2,244,608	-	(519,609)	3,641,995	7.59
Other assets	-	-	-	-	233,938	-	233,938	-
Tax recoverable	-	-	-	-	9,310	-	9,310	-
Investment in subsidiary companies	-	-	-	-	436,388	-	436,388	-
Investment in associated companies	-	-	-	-	609	-	609	-
Property, plant and equipment	-	-	-	-	325,008	-	325,008	-
Prepaid lease payments	-	-	-	-	56,452	-	56,452	-
Total assets	2,105,734	670,883	4,073,343	4,294,072	3,140,048	(519,609)	13,764,471	

39. INTEREST/PROFIT RATE RISK (continued)

BANK (CONTD.)	Up to 1 month RM'000	> 1 month - 1 year RM'000	> 1 - 5 year RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Provision RM'000	Total RM'000	Average interest rate % p.a.
At 31 December 2005								
Liabilities								
Deposits from customers	8,377,382	4,264,887	103,048	-	-	-	12,745,317	2.16
Deposits and placements of bank & other financial institutions	75,500	264,370	-	-	-	-	339,870	2.92
Borrowing from institution	-	-	300,000	-	-	-	300,000	4.45
Other liabilities	-	-	-	-	266,050	-	266,050	-
Provision for zakat	-	-	-	-	260	-	260	-
Total liabilities	8,452,882	4,529,257	403,048	-	266,310	-	13,651,497	
Reserves	-	-	-	-	112,974	-	112,974	-
Total liabilities and reserves	8,452,882	4,529,257	403,048	-	379,284	-	13,764,471	
Total interest sensitivity gap	(6,347,148)	(3,858,374)	3,670,295	4,294,072	2,760,764	(519,609)	-	

40. CAPITAL ADEQUACY

(i) The capital adequacy ratios of the reporting institution are as follows:

	2006	2005
	RM'000	RM'000
Tier I Capital		
Retained profit	177,861	7,271
Other reserves	100,000	100,000
Total Tier I capital	<u>277,861</u>	<u>107,271</u>
Tier II Capital		
Revaluation reserves	1,771	-
General allowance for bad and doubtful debts and financing	116,289	132,185
Total Tier II capital	<u>118,060</u>	<u>132,185</u>
Less: Investment in subsidiaries (Note 42)	<u>466,123</u>	<u>436,388</u>
Capital base	<u>(70,202)</u>	<u>(196,932)</u>
Core capital ratio	3.92%	1.70%
Risk-weighted capital ratio	-0.99%	-3.11%
Core capital ratio (net of proposed dividends)	3.92%	1.70%
Risk-weighted capital ratio (net of proposed dividends)	-0.99%	-3.11%

(ii) Breakdown of gross risk-weighted assets in the various categories of risk-weights:

	2006		2005	
	Principal	Risk	Principal	Risk
	RM'000	Weighted	RM'000	Weighted
		RM'000		RM'000
0%	4,597,112	-	4,923,090	-
10%	608,135	60,814	684,762	68,476
20%	2,566,055	513,211	1,544,695	308,939
50%	2,092,741	1,046,371	1,295,727	647,864
100%	5,463,270	5,463,270	5,301,183	5,301,183
	<u>15,327,313</u>	<u>7,083,666</u>	<u>13,749,457</u>	<u>6,326,462</u>

41. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURE

(a) Information about the extent and nature of the financial instruments, including significant terms and conditions and their exposure to interest rate risk is presented in their respective notes, where applicable.

(b) Fair value

The carrying amounts of financial assets and liabilities of the Group and of the Bank on the balance sheet date approximated their fair value except for the following:

41. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURE (continued)

	Group		Bank	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial Assets				
At 31 December 2006				
Securities held-for-trading (Note 6)	3,283	3,283	3,283	3,283
Securities available-for-sale (Note 7)	1,149,189	1,149,189	1,148,948	1,148,948
Securities held-to-maturity (Note 8)	6,071,703	6,071,703	5,981,547	5,981,547
	<u>7,224,175</u>	<u>7,224,175</u>	<u>7,133,778</u>	<u>7,133,778</u>

At 31 December 2005

Securities held-for-trading (Note 6)	-	-	-	-
Securities available-for-sale (Note 7)	1,434,919	1,434,919	1,434,025	1,434,025
Securities held-to-maturity (Note 8)	6,057,255	6,011,451	6,057,255	6,011,451
	<u>7,492,174</u>	<u>7,446,370</u>	<u>7,491,280</u>	<u>7,445,476</u>

	Group		Bank	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000

Financial Liabilities

At 31 December 2006

Borrowing from institution (Note 20)	<u>300,000</u>	<u>285,105</u>	<u>300,000</u>	<u>285,105</u>
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The nominal amount and net fair value of financial instruments not recognised in the balance sheets of the Group and of the Bank as at the end of the financial year is:

	Group/Bank	
	Nominal amount RM'000	Net fair value RM'000
At 31 December 2006		
Contingent liabilities (Note 38)	481	*
At 31 December 2005		
Contingent liabilities (Note 38)	481	*

* It is not practicable to reliably estimate the fair value of contingent liabilities due to the uncertainties of timing, costs and eventual outcome.

41. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURE (continued)

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(i) Cash and short term funds and placements with financial institutions

The carrying amount of cash and short term funds and placements with financial institutions approximates fair value due to the relatively short term maturity of these instruments.

(ii) Securities

The fair value of publicly traded investment securities are estimated based on quoted market prices at the balance sheet date. As there are no quoted market prices for investment securities, a reasonable estimate of fair value has been calculated based on the indicative rates obtained from third party.

(iii) Loans, advances and financing

The Group and the Bank consider the carrying amount of loans, advances and financing to customers as a reasonable approximation of its fair value.

(iv) Other receivables and payables

The carrying amounts of other receivables and payables are reasonable estimates of fair value due to their relatively short term maturity.

(v) Other investment

Fair value of other investment is based on the share of net tangible assets of the investee companies as at the balance sheet date.

(vi) Deposits from customers and from financial institutions

The Group and the Bank consider the carrying amounts of all its deposits, such as non-bank customers' deposits and deposits and balances of banks, agents and related companies, as reasonable approximation of their respective fair value given that these are mostly payable on demand and are short-term in nature.

(vii) Borrowing from institution

The fair value of borrowing from institution is estimated by discounting the expected future cash flows using the applicable prevailing interest rates for borrowing with similar risks profiles.

42. SUBSEQUENT EVENTS

The Board Of Directors of Seleksi Arif Sdn Bhd had approved the liquidation of Seleksi Arif Sdn Bhd. This is due to the decision of the Government to acquire 100% interest in Aroma Teraju Sdn Bhd via the Ministry of Finance.

The financial impact of the liquidation, assuming that no other major influencing events occur, are as follows:

	Before Liquidation RM'000	After Liquidation RM'000
Investment in subsidiary companies	466,123	32,789

43. CHANGES IN ACCOUNTING POLICY

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31 December 2006.

The changes in accounting policies arising from the adoption of Revised Guidelines on Financial Reporting for Licensed Institutions (BNM/GP8), FRS 116 and FRS 140 are summarised below:

(a) Securities

The holdings of the securities portfolio of the Group and the Bank are recognised based on the following categories and consequently their valuation methods :

(i) *Securities held-for-trading*

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

(ii) *Securities held-to-maturity*

Securities held-to-maturity are financial assets with fixed or determinable payments and fixed maturity that the Group and Bank have the positive intent and ability to hold to maturity. Unquoted shares in organisations set up for socio-economic purposes and equity instruments received as a result of loan restructuring or loan conversion which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are also classified as securities held-to-maturity.

The securities held-to-maturity are measured at accreted/amortised cost based on the effective yield method. Amortisation of premium, accretion of discount and impairment as well as gain or loss arising from derecognition of securities held-to-maturity are recognised in the income statement.

(iii) *Securities available-for-sale*

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

For Islamic banking operations, reporting institution should classify their securities portfolio as held-for-trading or held-to-maturity only. Available-for-sale category is only applicable for conventional banking operations.

43. CHANGES IN ACCOUNTING POLICY (continued)

(b) Property, plant and equipment and depreciation

(i) Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Revalued property, plant and equipment where no revaluation policy is adopted

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of property, plant and equipment recognised as a result of a business combination is based on fair value at acquisition date. The fair value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of other items of plant and equipment is based on the quoted market prices for similar items.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is measured at cost and reclassified as investment property.

(iii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iv) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Freehold land is not depreciated. Property, plant and equipment under construction are not depreciated until the assets are ready for their intended use.

43. CHANGES IN ACCOUNTING POLICY (continued)

(b) Property, plant and equipment and depreciation (continued)

(iv) Depreciation (continued)

The estimated useful lives for the current and comparative periods are as follows:

• buildings	50 years
• plant and equipment	5 - 7 years
• fixtures and fittings	5 - 7 years
• major components	25 - 30 years
• renovations	7 years

The depreciable amount is determined after deducting the residual value.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(c) Investments property

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both. These include land held for a currently undetermined future use. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties.

The adoption of FRS 140 on Investment Property, resulted in a change in accounting policy for investment properties. Until 31 December 2005, the Group recognised investment properties using cost method. In accordance with FRS 140 on investment properties can be valued either using cost or fair value method. The Group has adopted the cost method in measuring investment properties with effect from 1 January 2006.

Investment properties are stated at cost less accumulated depreciation and impairment losses, consistent with the accounting policy for property, plant and equipment as stated in the accounting policy notes.

In the previous years, all investment properties were included in property, plant and equipment. Following the adoption of FRS 140 on Investment Property, these investment properties are now separately classified.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of 25 to 50 years.

(d) Leasehold land / prepaid lease payments

Leasehold land that normally has an indefinite economic life and the title is not expected to pass to the lessee at the end of the lease term is treated as an operating lease. The payment made upon entering into or acquiring a leasehold land is accounted as prepaid lease payments that are amortised over the lease term in accordance with the pattern of benefits provided except for leasehold land classified as investment property.

43. CHANGES IN ACCOUNTING POLICY (continued)

(d) Leasehold land / prepaid lease payments (continued)

The Group had previously classified a lease of land as finance lease and had recognised the amount of prepaid lease payments as property within its property, plant and equipment. Upon the early adoption of FRS 117 on Leases, the Group treats such a lease as an operating lease, with the unamortised carrying amount classified as prepaid lease payments in accordance with the transitional provisions in FRS 117.67A.

44. COMPARATIVE FIGURES

Certain comparative figures have been reclassified as a result of changes in accounting policies as stated in Note 43 and to conform with the presentation requirements of FRS 101. In addition, the comparative income statement has been re-presented as if an operation discontinued during the current period had been discontinued from the start of the comparative period :

	Group		Bank	
	As restated RM'000	As Previously stated RM'000	As restated RM'000	As Previously stated RM'000
Balance sheet				
Investment securities	-	7,486,471	-	7,485,577
Securities available-for-sale	1,434,919	-	1,434,025	-
Securities held-to-maturity	6,057,255	-	6,057,255	-
	<u>7,492,174</u>	<u>7,486,471</u>	<u>7,491,280</u>	<u>7,485,577</u>
Income statement				
Interest income				
Investment securities	-	175,020	-	175,020
Securities available-for-sale	24,953	-	24,953	-
Securities held-to-maturity	150,067	-	150,067	-
	<u>175,020</u>	<u>175,020</u>	<u>175,020</u>	<u>175,020</u>
Other operating income				
Gain on disposal of investment securities	-	22,116	-	22,116
Securities available-for-sale	22,116	-	22,116	-
	<u>22,116</u>	<u>22,116</u>	<u>22,116</u>	<u>22,116</u>
Other investment income	-	20,117	-	20,117
Securities held-to-maturity	20,117	-	20,117	-
	<u>20,117</u>	<u>20,117</u>	<u>20,117</u>	<u>20,117</u>
Gross dividend income :				
Quoted in Malaysia	-	25,738	-	25,738
Securities available-for-sale	25,738	-	25,738	-
	<u>25,738</u>	<u>25,738</u>	<u>25,738</u>	<u>25,738</u>
Statements of changes in equity				
Retained earnings at 31 December 2005	<u>(320,388)</u>	<u>(320,388)</u>	<u>7,271</u>	<u>7,271</u>
Fair value reserve	<u>5,703</u>	<u>-</u>	<u>5,703</u>	<u>-</u>

45. THE OPERATIONS OF ISLAMIC BANKING

BALANCE SHEET AS AT 31 DECEMBER 2006

	NOTE	Group/Bank	
		2006 RM'000	2005 RM'000
ASSETS			
Cash and short-term funds	(a)	174,791	30,291
Deposits and placement with financial institutions	(b)	516,870	118,253
Securities held-to-maturity	(c)	330,222	1,085,117
Property, plant and equipment		144	56
Financing and advances	(d)	2,041,449	751,206
Other receivables	(f)	116	16,173
		<u>3,063,592</u>	<u>2,001,096</u>
LIABILITIES AND ISLAMIC BANKING CAPITAL FUNDS			
Deposits from customers	(g)	2,256,687	1,446,945
Sundry payables		655,167	477,715
Profit equalisation reserve	(h)	15,985	3,335
		<u>2,927,839</u>	<u>1,927,995</u>
ISLAMIC BANKING CAPITAL FUNDS			
Islamic banking funds		10,000	10,000
Reserves		125,753	63,101
Islamic banking capital funds		<u>135,753</u>	<u>73,101</u>
Liabilities and Islamic banking capital funds		<u>3,063,592</u>	<u>2,001,096</u>

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

45. THE OPERATIONS OF ISLAMIC BANKING (continued)

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTE	Group/Bank	
		2006 RM'000	2005 RM'000
Revenue	(i)	159,693	71,284
Income derived from investment of depositors' funds	(j)	162,564	64,951
Allowance for losses on financing	(k)	(38,191)	(15,775)
Transfer (to)/from profit equalisation reserve	(h)	(12,650)	3,053
Income attributable to the depositors	(l)	(45,339)	(43,479)
Income derived from investment of Islamic banking capital funds	(m)	9,779	3,280
Total net income		76,163	12,030
Other operating expenses	(n)	(12,915)	(7,057)
Profit before zakat and taxation		63,248	4,973
Zakat	(p)	(596)	-
Net profit for the year		62,652	4,973

Net income from Islamic banking operations as reported in the income statement of the Group and the Bank is derived as follows:-

	NOTE	Group/Bank	
		2006 RM'000	2005 RM'000
Income derived from Bai-Bithamil Ajil financing	(i)	125,541	18,096
Income derived from investment of depositors' funds	(i)	32,217	45,902
Other income	(i)	14,585	4,233
Income attributable to depositors	(l)	(45,339)	(43,479)
Transfer (to)/from profit equalisation reserves	(h)	(12,650)	3,053
Net income from Islamic banking operations as reported in the income statement of the Group and the Bank		114,354	27,805

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

45. THE OPERATIONS OF ISLAMIC BANKING (continued)

STATEMENT OF CHANGES IN RESERVES FOR THE YEAR ENDED 31 DECEMBER 2006

	Distributable		
	Islamic Banking Fund RM'000	Retained profits RM'000	Total RM'000
At 1 January 2005	10,000	58,128	68,128
Net profit for the year	-	4,973	4,973
At 31 December 2005	10,000	63,101	73,101
At 1 January 2006	10,000	63,101	73,101
Net profit for the year	-	62,652	62,652
At 31 December 2006	10,000	125,753	135,753

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

45. THE OPERATIONS OF ISLAMIC BANKING (continued)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Group/Bank	
	2006	2005
	RM'000	RM'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	62,652	4,973
Adjustments for:		
Net profit suspended	4,096	3,261
Allowance for losses on financing	38,191	15,775
Net gain from disposal of investment securities	646	(71)
Operating profit before working capital changes	<u>105,585</u>	<u>23,938</u>
Increase in deposits and placements with financial institutions	(398,617)	133,600
Increase in advances and financing	(1,332,531)	(628,225)
Increase in other assets	15,970	(8,715)
Increase in deposits from customers	809,743	564,500
Increase in other liabilities	177,452	452,855
Increase/(decrease) in profit equalisation reserve	12,649	(3,053)
Net cash (used in) / generated from operating activities	<u>(609,749)</u>	<u>534,900</u>
CASH FLOW FROM INVESTING ACTIVITY		
Net (purchases)/sales of investment securities representing net cash (used in)/ generated from investing activity	<u>754,249</u>	<u>(639,720)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	144,500	(104,820)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	30,291	135,111
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>174,791</u>	<u>30,291</u>
CASH AND CASH EQUIVALENTS REPRESENT:		
Cash and short term funds [Note 45(a)]	<u>174,791</u>	<u>30,291</u>

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

45. THE OPERATIONS OF ISLAMIC BANKING (continued)

	Group/Bank	
	2006	2005
	RM'000	RM'000
(a) Cash and short term funds		
Cash and balances with banks and other financial institutions	8,874	7,581
Money at call and deposit placements maturing within one month	165,917	22,710
	<u>174,791</u>	<u>30,291</u>
(b) Deposits and placements with financial institutions		
	Group/Bank	
	2006	2005
	RM'000	RM'000
Licensed banks	516,870	118,253
	<u>516,870</u>	<u>118,253</u>
(c) Securities held-to-maturity		
	Group/Bank	
	2006	2005
	RM'000	RM'000
At amortised cost		
<u>Money Market Instruments (Long Term):</u>		
Cagamas bonds	-	125,957
Malaysian government investment issues	31,038	215,716
Khazanah bonds	-	484,050
	<u>31,038</u>	<u>825,723</u>
<u>Money Market Instruments (Short Term):</u>		
NIDC	133,170	-
Commercial papers (CP)	83,853	24,671
Bankers acceptance (BA)	9,209	-
	<u>226,232</u>	<u>24,671</u>
<u>Unquoted securities :</u>		
Islamic debt securities	70,349	237,989
	<u>70,349</u>	<u>237,989</u>
Add/(Less) : Net amortisation of premiums less accretion of discounts	2,603	(3,266)
Total investment securities	<u>330,222</u>	<u>1,085,117</u>

45. THE OPERATIONS OF ISLAMIC BANKING (continued)

(c) Securities held-to-maturity (continued)

The maturity structure of securities held-to-maturity are as follows :

	Group/Bank	
	2006 RM'000	2005 RM'000
More than one year	330,222	1,085,117
	<u>330,222</u>	<u>1,085,117</u>

Indicative market value of money market instruments

Islamic debt securities

- Malaysian government investment issues	31,084	215,817
- Islamic cagamas bonds	204,878	125,563
- Khazanah	-	494,596
- Others	330,222	246,290
	<u>566,184</u>	<u>1,082,266</u>

(d) Financing and advances

(i) By type

	Group/Bank	
	2006 RM'000	2005 RM'000
Housing financing	1,235,675	578,455
Personal financing	2,113,486	681,990
Personnel financing	44,030	-
Other term financing	40,808	37,640
Less: Unearned income	(1,321,654)	(515,322)
	<u>2,112,345</u>	<u>782,763</u>
Less : Allowance for bad and doubtful debts and financing:		
- General	(46,991)	(17,291)
- Specific	(20,050)	(11,558)
Income-in-suspense	(3,855)	(2,708)
Total net financing and advances	<u>2,041,449</u>	<u>751,206</u>

45. THE OPERATIONS OF ISLAMIC BANKING (continued)

(d) Financing and advances (continued)

(ii) By type of customer

	Group/Bank	
	2006 RM'000	2005 RM'000
Individuals	2,102,345	772,763
Corporate	10,000	10,000
	<u>2,112,345</u>	<u>782,763</u>

(iii) By profit rate sensitivity

	Group/Bank	
	2006 RM'000	2005 RM'000
Fixed rate		
Housing financing	593,474	287,041
Personal financing	1,482,408	462,268
Other term financing	36,463	33,454
	<u>2,112,345</u>	<u>782,763</u>

(iv) By sector

	Group/Bank	
	2006 RM'000	2005 RM'000
Manufacturing	10,000	10,000
Consumer	1,508,871	485,722
Residential	593,474	287,041
	<u>2,112,345</u>	<u>782,763</u>

(e) Non-performing financing

(i) Movement in non-performing financing and advances

	Group/Bank	
	2006 RM'000	2005 RM'000
At beginning of year	48,834	36,623
Classified as non-performing during the year	16,258	25,845
Amount recovered	(8,369)	(13,634)
At end of year	<u>56,723</u>	<u>48,834</u>
Specific allowance (SA)	(20,050)	(11,558)
Income in suspense	(3,855)	(2,708)
Net non-performing financing and advances	<u>32,818</u>	<u>34,568</u>
Ratio of net non-performing financing to net financing	<u>1.57%</u>	<u>4.50%</u>

45. THE OPERATIONS OF ISLAMIC BANKING (continued)

(e) Non-performing Financing (continued)

(ii) Movement in allowance for bad and doubtful debts and income-in-suspense

	Group/Bank	
	2006	2005
	RM '000	RM '000
General allowance		
At beginning of year	17,291	2,245
Allowance made during the year (Note 45(k))	29,699	15,046
At end of year	<u>46,990</u>	<u>17,291</u>
As % of total financing less SA	<u>2.25%</u>	<u>2.25%</u>

	Group/Bank	
	2006	2005
	RM '000	RM '000
Specific allowance		
At beginning of year	11,558	10,829
Allowance made during the year (Note 45(k))	13,497	2,588
Amount recovered (Note 45(k))	(5,005)	(1,859)
At end of year	<u>20,050</u>	<u>11,558</u>

Income-in-suspense

At beginning of year	2,708	1,777
Allowance made during the year	4,096	3,261
Amount recovered	(2,969)	(2,330)
At end of year	<u>3,835</u>	<u>2,708</u>

	Group/Bank	
	2006	2005
	RM '000	RM '000
(iii) Non-performing financing by sector		
Purchase of landed residential property	32,860	35,628
Manufacturing	10,000	10,000
Others	13,863	3,206
	<u>56,723</u>	<u>48,834</u>

(f) Other receivables

	Group/Bank	
	2006	2005
	RM '000	RM '000
Income receivable	72	16,827
Sundry receivables	44	(654)
	<u>116</u>	<u>16,173</u>

45. THE OPERATIONS OF ISLAMIC BANKING (continued)

(g) Deposits from customers

(i) By type of deposits

	Group/Bank	
	2006	2005
	RM'000	RM'000
Non-mudharabah fund:		
Savings deposits	292,397	104,190
Mudharabah fund:		
Fixed deposits	1,964,290	1,342,755
	<u>2,256,687</u>	<u>1,446,945</u>

(ii) By type of customer

	Group/Bank	
	2006	2005
	RM'000	RM'000
Government and statutory bodies	180,195	454,513
Business enterprises	1,784,095	727,431
Individuals	292,397	265,001
	<u>2,256,687</u>	<u>1,446,945</u>

(h) Profit equalisation reserve ("PER")

	Group/Bank	
	2006	2005
	RM'000	RM'000
At beginning of year	3,335	6,388
Amount provided during the year	12,650	(3,053)
At end of year (Note 21)	<u>15,985</u>	<u>3,335</u>

(i) Revenue

Revenue comprises all types of revenue derived from financing, treasury, investment and other Islamic banking activities undertaken by the Bank.

Income from Islamic banking operations

	Group/Bank	
	2006	2005
	RM'000	RM'000
Income derived from Bai-Bithamil Ajil financing	125,541	18,096
Income derived from investment of depositors' funds		
- (Loss)/gain from disposal of investment securities	(646)	71
- Income from Islamic debt securities	5,864	19,463
- Income from placements with financial institutions	3,415	-
- Others	23,584	26,368
Other income	14,585	4,233
Transfer to profit equalisation reserves	(12,650)	3,053
	<u>159,693</u>	<u>71,284</u>

45. THE OPERATIONS OF ISLAMIC BANKING (continued)

(j) Income derived from investment of depositors' funds

	Note	Group/Bank	
		2006 RM'000	2005 RM'000
Income derived from investment of:			
- General investment deposits	(i)	141,501	60,274
- Other deposits	(ii)	21,063	4,677
		<u>162,564</u>	<u>64,951</u>
Transfer (to)/from profit equalisation reserves		(12,650)	3,053
		<u>149,914</u>	<u>68,004</u>

(i) Income derived from investment of general investment deposits

	Group/Bank	
	2006 RM'000	2005 RM'000
Finance income:		
Income derived from Bai-Bithamil Ajil financing	103,075	19,726
Income derived from investment of depositors' funds		
- (Loss)/gain on disposal of investment securities	(531)	63
- Income from Islamic debt securities	4,814	17,193
- Income from deposits and placements with financial institutions	2,804	-
- Others	19,364	19,552
Total income from investment and financing	<u>129,526</u>	<u>56,534</u>
Other income		
- Commissions	2,188	1,074
- Charges	9,787	2,666
Total Income	<u>141,501</u>	<u>60,274</u>

(ii) Income derived from investment of other deposits

	Group/Bank	
	2006 RM'000	2005 RM'000
Finance income:		
Income derived from Bai-Bithamil Ajil financing	15,343	1,531
Income derived from investment of depositors' funds		
- (Loss)/gain on disposal of investment securities	(79)	5
- Income from Islamic debt securities	717	1,334
- Income from deposits and placements with financial institutions	417	-
- Others	2,882	1,517
Total income from investment and financing	<u>19,280</u>	<u>4,387</u>
Other income		
- Commissions	326	83
- Charges	1,457	207
Total Income	<u>21,063</u>	<u>4,677</u>

45. THE OPERATIONS OF ISLAMIC BANKING (continued)

(k) Allowance for losses on financing and advances

	Group/Bank	
	2006	2005
	RM'000	RM'000
Allowance for bad and doubtful debts on financing:		
(a) Specific allowance		
- Made in the financial year (Note 45(e))	(13,497)	(2,588)
- Written back (Note 45(e))	5,005	1,859
(b) General allowance		
- Made in the financial year (Note 45(e))	(29,699)	(15,046)
	<u>(38,191)</u>	<u>(15,775)</u>

(l) Income attributable to depositors

	Group/Bank	
	2006	2005
	RM'000	RM'000
Deposits from customers		
- Mudharabah Fund	43,387	42,253
- Non-Mudharabah Fund	1,952	1,226
	<u>45,339</u>	<u>43,479</u>

(m) Income derived from investment of Islamic banking capital funds

	Group/Bank	
	2006	2005
	RM'000	RM'000
Finance income:		
Income derived from Bai-Bithamil Ajil financing	7,123	1,074
Income derived from investment of depositors' funds		
- (Loss)/gain on disposal of investment securities	(36)	3
- Income from Islamic debt securities	333	936
- Income from deposits and placements with financial institutions	194	-
- Others	1,338	1,064
Accretion of discounts less amortisation of premiums of Islami	-	-
Total income from investment and financing	<u>8,952</u>	<u>3,077</u>
Other income		
- Commissions	151	58
- Charges	676	145
Total Income	<u>9,779</u>	<u>3,280</u>

45. THE OPERATIONS OF ISLAMIC BANKING (continued)

(n) Other operating expenses

	Group/Bank	
	2006 RM'000	2005 RM'000
Personnel expenses		
Salaries and wages	252	575
Allowances and bonuses	26	17
Social security costs	50	7
Pension costs - defined contribution plans	-	96
Other staff related expenses	14	22
	<hr/>	<hr/>
	342	717
General administrative expenses*	8,477	6,340
Other cost	4,096	-
	<hr/>	<hr/>
	12,915	7,057

* Included in general administrative expenses is Syariah Committee's remuneration amounting to RM52,000 (2005: RM52,000) as further disclosed in Note 45(o)

(o) Syariah Committee's remuneration

	Group/Bank	
	2006 RM'000	2005 RM'000
Syariah Committee's allowance	<hr/>	<hr/>
	52	52

(p) Zakat

Contribution of business zakat are made according to Syariah principles and in accordance with MASB - Technical Release-i-1. Provision of zakat is made at the rate of 2.5% utilizing an adjusted growth model.

(q) Syariah Committee

The Syariah Committee was established under Bank Negara Malaysia's "Guidelines on the Governance of Syariah Committee for the Islamic Financial Institutions" (BNM/GPS1) to advise the Board of Directors on Syariah matters in its business operations and to provide technical assistance in ensuring the Islamic Banking products and services offered by the Group and the Bank are in compliance with Syariah principles.

45. THE OPERATIONS OF ISLAMIC BANKING (continued)

(r) Capital Adequacy

(i) The capital adequacy ratios of the reporting institution are as follows:

	Group/Banking	
	2006	2005
	RM'000	RM'000
Tier I Capital		
Retained profit/loss	125,753	63,101
Islamic banking funds	10,000	10,000
Total Tier I capital	135,753	73,101
Tier II Capital		
General allowance for bad and doubtful debts and financing	46,991	17,291
Total Tier II capital	46,991	17,291
Capital base	182,744	90,392
Core capital ratio	6.44%	8.81%
Risk-weighted capital ratio	8.67%	10.89%
Core capital ratio (net of proposed dividends)	6.44%	8.81%
Risk-weighted capital ratio (net of proposed dividends)	8.67%	10.89%

(ii) Breakdown of gross risk-weighted assets in the various categories of risk-weights:

	Group/Bank		Group/Bank	
	2006		2005	
	Principal	Risk	Principal	Risk
	RM'000	Weighted	RM'000	Weighted
		RM'000		RM'000
0%	39,892	-	707,126	-
10%	-	-	-	-
20%	778,521	155,704	400,578	80,116
50%	584,848	292,424	287,042	143,521
100%	1,660,330	1,660,330	606,350	606,350
	3,063,591	2,108,458	2,001,096	829,987