

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

BALANCE SHEETS AS AT 31 DECEMBER 2007

	NOTE	GROUP		BANK	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
ASSET					
Cash and short-term funds	4	1,144,567	1,670,407	1,121,525	1,657,741
Deposits and placements with banks and other financial institutions	5	69,681	577,649	69,681	568,424
Securities held-for-trading	6	29,107	3,283	29,107	3,283
Securities available-for-sale	7	300,245	1,149,189	300,245	1,148,948
Securities held-to-maturity	8	6,132,474	6,071,703	6,065,036	5,981,547
Loans, advances and financing	9	6,691,942	5,052,071	6,691,942	5,052,071
Other assets	11	108,844	99,154	91,284	97,977
Tax recoverable		-	14,056	-	14,171
Investment in subsidiary companies	12	-	-	465,334	466,123
Investment in associated companies	13	9,288	10,695	609	609
Property, plant and equipment	14	236,852	273,736	232,366	268,918
Prepaid lease payment	15	86,614	58,558	86,614	58,558
Investment properties	16	25,280	25,335	25,280	25,335
Deferred tax assets	23	36,220	-	36,241	-
General takaful and family takaful fund assets	42	67,812	18,598	-	-
Total assets		14,938,926	15,024,434	15,215,264	15,343,705
LIABILITIES AND RESERVES					
Deposits from customers	18	12,948,525	13,438,655	12,948,525	13,438,655
Deposits and placements of banks and other financial institutions	19	462,665	379,207	476,465	379,207
Borrowing from institution	20	300,000	300,000	300,000	300,000
Other liabilities	21	535,823	387,303	935,723	807,877
Provision for tax and zakat	22	2,343	856	2,235	856
Deferred tax liabilities	23	-	39	-	-
General takaful and family takaful fund liabilities	42	24,032	460	-	-
General takaful and family takaful policy holders' funds	42	43,780	18,138	-	-
Total liabilities		14,317,168	14,524,658	14,662,948	14,926,595
Equities		564,636	436,296	552,316	417,110
Minority interest		57,122	63,480	-	-
Total liabilities and equities		14,938,926	15,024,434	15,215,264	15,343,705
COMMITMENTS AND CONTIGENCIES					
	36	383,357	622,262	383,357	622,262

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 2007

	NOTE	GROUP		BANK	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Revenue	24	997,005	756,633	939,444	752,591
Interest income	25	489,040	445,078	486,414	444,155
Less: Interest expense	26	(229,453)	(249,995)	(230,471)	(249,995)
Net interest income		259,587	195,083	255,943	194,160
Fees and commissions income	27	119,046	75,072	73,017	73,314
Net income from Islamic banking operations	41	136,847	114,354	136,847	114,354
Other operating income	28	252,072	118,333	243,166	116,972
Total net income		767,552	502,842	708,973	498,800
Personnel expenses	29	(217,925)	(179,635)	(211,473)	(167,031)
Other overheads	30	(154,198)	(72,797)	(89,425)	(67,999)
Operating profit before allowance/ impairment loss		395,429	250,410	408,075	263,770
Allowance for losses on loans, advance and financing	32	(123,798)	(78,200)	(123,798)	(78,200)
Impairment write back/(loss)	33	8,375	(14,119)	7,586	(14,384)
Operating profit after allowance/impairment loss		280,006	158,091	291,863	171,186
Share of (loss)/profit after tax and minority interest of equity accounted associates		(1,407)	8,918	-	-
Gain on disposal of associate company		-	344,813	-	-
Profit before tax and zakat		278,599	511,822	291,863	171,186
Zakat	22	(1,200)	(596)	(1,200)	(596)
Tax expense	34	(7,808)	(311)	(7,848)	-
Net profit for the year		269,591	510,915	282,815	170,590
Retained in the bank		275,949	517,435	282,815	170,590
Loss attributable to Minority Interest		(6,358)	(6,520)	-	-
Net profit for the year		269,591	510,915	282,815	170,590

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 EQUITIES
FOR THE YEAR ENDED 31 DECEMBER 2007

GROUP	NOTE	<i>Non-distributable</i>			<i>Distributable</i>			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	Retained Earnings RM'000	Reserve RM'000		
As at 1 January 2006		100,000	177	5,703	-	(320,388)	(214,508)	-	(214,508)
Profit for the year		-	-	-	-	517,435	517,435	63,480	580,915
Revaluation of property, plant and equipment, net of tax		-	-	-	1,771	-	1,771	-	1,771
Net gains recognised directly in equity		-	(177)	131,775	-	-	131,598	-	131,598
Total recognised income and expenses for the year		-	(177)	131,775	1,771	517,435	650,804	63,480	714,284
As at 31 December 2006		100,000	-	137,478	1,771	197,047	436,296	63,480	499,776
As at 1 January 2007		100,000	-	137,478	1,771	197,047	436,296	63,480	499,776
Profit for the year		-	-	-	-	275,949	275,949	(6,358)	269,591
Revaluation of property, plant and equipment, net of tax		-	-	-	(49)	-	(49)	-	(49)
Net loss recognised directly in equity		-	-	(147,560)	-	-	(147,560)	-	(147,560)
Total recognised income and expenses for the year		-	-	(147,560)	(49)	275,949	128,340	(6,358)	121,982
As at 31 December 2007		100,000	-	(10,082)	1,722	472,996	564,636	57,122	621,758

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

STATEMENT OF CHANGES IN EQUITIES
FOR THE YEAR ENDED 31 DECEMBER 2007

BANK	NOTE	Non-distributable			Distributable		Total Equity RM'000
		Government Fund RM'000	Capital Reserve RM'000	Fair Value Reserve RM'000	Revaluation Reserve RM'000	Retained Earnings RM'000	
As at 1 January 2006		100,000	-	5,703	-	7,271	112,974
Profit for the year		-	-	-	-	170,590	170,590
Revaluation of property, plant and equipment, net of tax		-	-	-	1,771	-	1,771
Net gains recognised directly in equity		-	-	131,775	-	-	131,775
Total recognised income and expenses for the year		-	-	131,775	1,771	170,590	304,136
As at 31 December 2006		100,000	-	137,478	1,771	177,861	417,110
As at 1 January 2007		100,000	-	137,478	1,771	177,861	417,110
Profit for the year		-	-	-	-	282,815	282,815
Revaluation of property, plant and equipment, net of tax		-	-	-	(49)	-	(49)
Net loss recognised directly in equity		-	-	(147,560)	-	-	(147,560)
Total recognised income and expenses for the year		-	-	(147,560)	(49)	282,815	135,206
As at 31 December 2007		100,000	-	(10,082)	1,722	460,676	552,316

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

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax and zakat and minority interest	278,599	511,822	291,863	171,186
Adjustment for:				
Net amortisation of premiums	(6,049)	20,111	(6,049)	20,111
Depreciation	32,500	31,360	30,584	30,418
Impairment (write back)/loss of property, plant and equipment	(8,375)	14,119	(8,375)	14,119
Property, plant and equipment written off	1,037	16	1,037	16
Gain on disposal of property, plant and equipment	(62)	(358)	(42)	(358)
Net interest suspended	17,361	26,456	17,361	26,456
Allowance for bad and doubtful debts	182,324	128,277	182,324	175,542
Written back allowance for bad and doubtful debts	(62,831)	(58,075)	(62,831)	(105,340)
Allowance for doubtful debts of receivables included in other assets written back	(4,191)	(359)	(4,191)	(359)
Bad debts written off	4,305	10,098	4,305	7,998
Share of loss/(profit) retained in associated companies	1,407	(8,918)	-	-
Unrealised gain on revaluation of securities held-for-trading	435	(140)	435	(140)
Net gain from disposal of investment securities	(213,599)	(80,868)	(213,599)	(80,868)
Net loss from disposal of investment securities	-	4,442	-	4,442
Gain from disposal of associate company	-	(344,813)	-	-
Dividend income	(5,466)	(18,820)	(5,466)	(18,820)
Goodwill written off	-	236	-	-
Balance carried forward	217,395	234,586	227,356	244,403

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

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

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (Continued)

	GROUP		BANK	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)				
Balance carried forward	217,395	234,586	227,356	244,403
Impairment losses on investment in a subsidiary written back	-	-	789	265
Profit Equalisation Reserve	39,760	12,650	39,760	12,650
Operating profit before working capital changes	257,155	247,236	267,905	257,318
Increase/(decrease) in deposits and placements with financial institutions	507,968	(239,399)	498,743	(240,371)
Increase in loans, advances and financing	(1,781,030)	(1,514,732)	(1,781,030)	(1,514,732)
(Increase)/Decrease in other assets	(4,717)	114,835	11,666	136,320
(Decrease)/Increase in deposits from customers	(490,130)	501,474	(490,130)	501,474
Increase in deposits and placements of financial institutions	83,458	231,201	97,258	231,201
Increase in other liabilities	109,306	121,649	88,086	524,691
Cash used in operations	(1,317,990)	(537,736)	(1,307,502)	(104,099)
Tax paid	(29,674)	(16)	(29,143)	-
Zakat paid	(596)	-	(596)	-
Net cash used in operating activities	(1,348,260)	(537,752)	(1,337,241)	(104,099)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	168	397	108	397
Proceeds from disposal of associate company	-	440,000	-	-
Purchases of property, plant and equipment	(16,434)	(19,201)	(14,810)	(14,547)
Purchase of shares by minority interest	-	70,000	-	-
Purchase of subsidiary	-	-	-	(30,000)
Net purchases of investment securities	(6,798,952)	(2,066,455)	(6,798,952)	(1,977,335)
Dividends received	4,684	16,437	4,684	16,437
Proceeds from disposal of investment	7,632,954	2,525,067	7,609,995	2,525,450
Net cash generated from investing activities	822,420	966,245	801,025	520,402

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BANK SIMPANAN NASIONAL
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CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (Continued)

	GROUP		BANK	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
NET (DECREASE)/INCREASE IN				
CASH AND CASH				
EQUIVALENTS	(525,840)	428,493	(536,216)	416,303
CASH AND CASH EQUIVALENTS				
AT 1 JANUARY	<u>1,670,407</u>	<u>1,241,914</u>	<u>1,657,741</u>	<u>1,241,438</u>
CASH AND CASH EQUIVALENTS				
AT 31 DECEMBER	<u><u>1,144,567</u></u>	<u><u>1,670,407</u></u>	<u><u>1,121,525</u></u>	<u><u>1,657,741</u></u>
CASH AND CASH EQUIVALENTS				
REPRESENT:				
Cash and short-term funds (Note 4)	<u><u>1,144,567</u></u>	<u><u>1,670,407</u></u>	<u><u>1,121,525</u></u>	<u><u>1,657,741</u></u>

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NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2007

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:

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

The consolidated financial statements as at and for the year ending 31 December 2007 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.

The financial statements were authorised for issue by the Board of Directors on 10th March 2008.

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.

(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.

1. FINANCIAL RISK MANAGEMENT (Continued)

(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.

At the date of authorisation of these financial statements, the following FRSs, amendments to FRSs and IC interpretations were issued but not yet effective and have not been applied by the Group and the Bank:

	Effective for financial periods beginnings on or after
FRSs, Amendments to FRSs and Interpretations	
FRS 107 Cash Flow Statements	1 July 2007
FRS 111 Construction Contracts	1 July 2007
FRS 112 Income Taxes	1 July 2007
FRS 118 Revenue	1 July 2007

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

(a) Statement of compliance (Continued)

FRS 120 Accounting for Government Grants and Disclosure of Government Assistance	1 July 2007
FRS 129 Financial Reporting in Hyperinflationary Economies	1 July 2007
FRS 134 Interim Financial Reporting	1 July 2007
FRS 137 Provisions, Contingent Liabilities and Contingent Assets	1 July 2007
FRS 139 Financial Instruments: Recognition and Measurement	Deferred
Amendment to FRS 121: The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operations	1 July 2007
IC Interpretation 1: Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 July 2007
IC Interpretation 2: Members' Shares in Co-operative Entities and Similar Instruments	1 July 2007
IC Interpretation 5: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 July 2007
IC Interpretation 6: Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 July 2007
IC Interpretation 8: Scope of FRS 2	1 July 2007

The above FRSs, amendments to FRSs and Interpretations are expected to have no significant impact on the financial statements of the Group and of the Bank upon their initial application other than FRS 139.

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.

(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.

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

(d) Use of estimates and judgements (Continued)

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 23-recognition of unutilised tax losses and capital allowances
- Note 32-allowance for losses on loans and financing
- Note 36-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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

(ii) *Associates*

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

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Allowance for bad and doubtful debts (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment and depreciation (Continued)

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(i) Securities held-to-maturity (Continued)

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(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.

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.

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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Deposits from customers

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

(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 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.
- (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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Income recognition (Continued)

(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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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

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5. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

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6. SECURITIES HELD-FOR-TRADING

	GROUP		BANK	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
At fair value				
<u>Quoted securities in Malaysia :</u>				
Shares	29,107	3,283	29,107	3,283
Total securities held-for-trading	<u>29,107</u>	<u>3,283</u>	<u>29,107</u>	<u>3,283</u>

7. SECURITIES AVAILABLE-FOR-SALE

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
At fair value				
<u>Money Market Instruments :</u>				
Malaysian Government Securities	105,911	375,730	105,911	375,730
Private Debt Securities	15,000	-	15,000	-
Khazanah Bonds	75,348	75,348	75,348	75,348
	<u>196,259</u>	<u>451,078</u>	<u>196,259</u>	<u>451,078</u>
Less : Net amortisation of premiums less accretion of discounts	3,614	(16,685)	3,614	(16,685)
Unrealised gain on revaluation	628	2,541	628	2,541
	<u>200,501</u>	<u>436,934</u>	<u>200,501</u>	<u>436,934</u>
<u>Quoted securities in Malaysia :</u>				
Shares	204,954	775,400	204,954	775,400
Unit Trust investment	121,548	121,548	121,548	121,548
	<u>326,502</u>	<u>896,948</u>	<u>326,502</u>	<u>896,948</u>
<u>Unquoted securities in Malaysia :</u>				
Shares	-	241	-	-
Less : Accumulated impairment losses - Quoted shares and Unit Trust investment in Malaysia	(216,048)	(319,870)	(216,048)	(319,870)
Unrealised gain on revaluation	(10,710)	134,936	(10,710)	134,936
	<u>99,744</u>	<u>712,255</u>	<u>99,744</u>	<u>712,014</u>
Securities available-for-sale	<u>300,245</u>	<u>1,149,189</u>	<u>300,245</u>	<u>1,148,948</u>

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

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Maturity within one year	9,638	167,197	9,638	70,233
More than one year	190,863	269,737	190,863	366,701
	<u>200,501</u>	<u>436,934</u>	<u>200,501</u>	<u>436,934</u>

8. SECURITIES HELD-TO-MATURITY

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
At amortised cost				
<u>Money Market Instruments (Long Term)</u>				
Malaysian Government Securities	3,240,955	3,147,256	3,240,955	3,147,256
Cagamas Bonds	193,279	458,500	193,279	458,500
Cagamas Shanadat	151,067	151,067	151,067	151,067
Malaysian Government Investment Issues	269,666	269,666	269,666	269,665
Government Guaranteed Bonds	187,333	193,895	187,333	193,895
Khazanah Bonds	443,916	406,076	443,916	406,076
	<u>4,486,216</u>	<u>4,626,460</u>	<u>4,486,216</u>	<u>4,626,459</u>
<u>Money Market Instruments (Short Term)</u>				
Negotiable Instrument Of Deposit	100,000	240,500	100,000	240,500
Cagamas Note	-	34,345	-	34,345
Negotiable Islamic Debt Certificate	277,040	138,152	277,040	138,152
Commercial Paper	525,289	289,697	525,289	289,697
Bankers Acceptance	123,897	9,209	123,897	9,209
Bank Negara Bill	-	27,735	-	27,736
	<u>1,026,226</u>	<u>739,638</u>	<u>1,026,226</u>	<u>739,639</u>
<u>Unquoted securities in Malaysia :</u>				
Shares	2,400	2,400	-	-
Private Debt Securities	241,396	299,551	241,396	226,431
Islamic Debt Securities	406,185	444,033	339,596	428,033
	<u>649,981</u>	<u>745,984</u>	<u>580,992</u>	<u>654,464</u>
Less : Net amortisation of premiums less accretion of discounts	(28,279)	(39,015)	(28,398)	(39,015)
Less : Accumulated impairment losses - Unquoted shares in Malaysia	(1,670)	(1,364)	-	-
Investment securities	<u>6,132,474</u>	<u>6,071,703</u>	<u>6,065,036</u>	<u>5,981,547</u>

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

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Maturity within one year	1,703,215	1,416,510	1,703,945	1,416,510
More than one year	4,428,529	4,654,157	4,361,091	4,565,037
	<u>6,131,744</u>	<u>6,070,667</u>	<u>6,065,036</u>	<u>5,981,547</u>

9. LOANS, ADVANCES AND FINANCING

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
(i) By loans type		
Term loans/financing		
Housing loans/financing	3,470,941	2,849,426
Personal loans	5,354,526	3,283,899
Hire purchase receivables	67,082	115,223
Other term loans/financing *	190,860	137,502
Micro credit	351,022	429,825
Micro finance	5,359	-
Staff loans/financing	142,768	159,644
Credit/charge cards	86,654	50,405
Revolving credit	209,344	263,128
Less: Unearned interest/income	(2,475,252)	(1,634,994)
Gross loans, advances and financing	<u>7,403,304</u>	<u>5,654,058</u>
Less: Allowance for bad and doubtful debts and financing:		
- General	(154,035)	(116,289)
- Specific	(465,052)	(405,835)
Interest/income-in-suspense	(92,275)	(79,863)
Total net loans, advances and financing	<u><u>6,691,942</u></u>	<u><u>5,052,071</u></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 on December 2010. As at 31 December 2007, the balance of loans is RM48.9 million and has been classified as non-performing.

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
(ii) By type of customer		
Domestic non-bank financial institutions		
- Co-operative	42,534	33,303
Domestic business enterprises		
- Subordinate	59,176	59,051
Individuals	7,301,594	5,561,704
	<u><u>7,403,304</u></u>	<u><u>5,654,058</u></u>

9. LOANS, ADVANCES AND FINANCING (Continued)

		GROUP/BANK	
		2007	2006
		RM'000	RM'000
(iii)	By interest/profit rate sensitivity		
	Fixed rate		
	Housing loans/financing	779,459	593,474
	Hire purchase receivables	67,082	114,630
	Other fixed rate loan/financing	4,138,695	2,649,050
	Micro credit	351,022	429,824
	Variable rate		
	BLR plus	1,825,169	1,613,747
	Cost-plus	241,877	253,333
		<u>7,403,304</u>	<u>5,654,058</u>

		GROUP/BANK	
		2007	2006
		RM'000	RM'000
(iv)	By sector		
	Manufacturing	10,000	10,000
	Purchase of landed residential property	2,711,594	2,322,274
	Wholesale & retail trade and restaurant & hotels	-	4,963
	Finance, insurance and business services	54,231	49,051
	Purchase of securities	6,935	8,858
	Purchase of transport vehicles	272,162	340,553
	Consumer durables	18,091	-
	Consumption credit	3,887,256	2,488,535
	Credit cards	86,654	-
	Micro credit	351,022	429,824
	Micro finance	5,359	-
		<u>7,403,304</u>	<u>5,654,058</u>

10. NON-PERFORMING LOANS/FINANCING

		GROUP/BANK	
		2007	2006
		RM'000	RM'000
(i)	Movements in non-performing loans/financing		
	At beginning of year	663,417	681,964
	Classified as non-performing during the year	171,575	242,780
	Reclassified as performing during the year	(79,656)	(258,341)
	Amount written off	<u>(30,702)</u>	<u>(2,986)</u>
	At end of year	724,634	663,417
	Specific allowance	(465,052)	(405,835)
	Interest/income-in-suspense	<u>(92,275)</u>	<u>(79,863)</u>
	Net non-performing loans/financing	<u>167,307</u>	<u>177,719</u>
	Ratio of net non-performing loans/financing to net loans and financing	<u>2.44%</u>	<u>3.44%</u>

10. NON-PERFORMING LOANS/FINANCING (Continued)

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

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
		(Restated)
General allowance		
At beginning of year	116,289	132,185
Allowance made during the year (Note 32)	48,210	40,500
Allowance written back during the year (Note 32)	(1)	(47,265)
Transfer to specific allowance	(10,463)	(9,131)
At end of year	<u>154,035</u>	<u>116,289</u>
As % of gross loans, advance and financing less specific allowance	<u>2.25%</u>	<u>2.25%</u>

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
		(Restated)
Specific allowance		
At beginning of year	405,835	321,333
Allowance made during the year (Note 32)	134,114	135,042
Transfer from general allowance	10,463	9,131
Amount recovered (Note 32)	(59,615)	(57,053)
Amount written off	(25,745)	(2,618)
At end of year	<u>465,052</u>	<u>405,835</u>

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
Interest/income-in-suspense		
At beginning of year	79,863	66,091
Allowance made during the year	37,409	37,269
Amount recovered	(20,040)	(23,081)
Amount written off	(4,957)	(416)
At end of year	<u>92,275</u>	<u>79,863</u>

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
(iii) Non Performing Loan/Financing by sector		
Manufacturing	10,000	10,000
Finance, insurance and business services	48,931	-
Purchase of landed residential property	235,483	228,562
Purchase of securities	6,670	8,287
Purchase of transport vehicles	66,601	98,214
Consumption credit	73,249	49,395
Consumer durables	3,065	2,217
Micro credit	277,424	262,158
Credit cards	3,211	4,584
	<u>724,634</u>	<u>663,417</u>

11. OTHER ASSETS

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Interest/income receivables	59,314	86,263	58,748	68,068
Deposits and prepayments	5,789	5,281	4,785	4,878
Sundry receivables	43,997	13,069	28,226	30,094
Dividend receivables	401	-	401	-
Due from related companies	219	-	-	-
Due from subsidiaries	397	5	397	401
	<u>110,117</u>	<u>104,618</u>	<u>92,557</u>	<u>103,441</u>
Less :				
Allowance for doubtful debts	(1,273)	(5,464)	(1,273)	(5,464)
	<u>108,844</u>	<u>99,154</u>	<u>91,284</u>	<u>97,977</u>

12. INVESTMENT IN SUBSIDIARY COMPANIES

	BANK	
	2007 RM'000	2006 RM'000
Unquoted shares, at cost	467,834	467,834
Less: Accumulated impairment losses	(2,500)	(1,711)
	<u>465,334</u>	<u>466,123</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
			2007 %	2006 %	
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	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 COMPANY

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Unquoted shares, at cost	231,809	231,809	231,809	231,809
Add: Group's share of post-acquisition results	8,679	(173,114)	-	-
Less: Accumulated impairment losses	(231,200)	(48,000)	(231,200)	(231,200)
	<u>9,288</u>	<u>10,695</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.

	2007 RM'000	2006 RM'000
Represented by:		
Share of net tangible assets	<u>9,288</u>	<u>10,695</u>

Details of the associated company are as follows:

Name	Principal activities	Country of incorporation	Effective equity interest		Financial year end
			2007 %	2006 %	
BSNC Corporation (M) Berhad	Investment holding	Malaysia	41.34	41.34	31 December

14. PROPERTY, PLANT AND EQUIPMENT

GROUP

COST	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
As at 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
Transfer to prepaid lease payment		(562)	-	-	-	-	-	-	-	(562)
Offset of accumulated depreciation on property transferred to investment property		-	-	-	-	-	-	-	228	228
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
As at 31 December 2006/ 1 January 2007		240,774	3,297	4,233	265,168	67,694	21,783	1,207	83,843	687,999
Other additions		-	-	-	11,783	1,282	340	61	2,968	16,434
Reclassification to prepaid lease payment		(35,498)	-	-	-	-	-	-	-	(35,498)
Write-off		-	-	-	(308)	(186)	(7)	-	(173)	(674)
Adjustments		-	-	-	(635)	(11)	-	(363)	-	(1,009)
Disposals		-	-	-	(18)	-	(574)	-	-	(592)
Reserve		-	-	-	-	-	(49)	-	-	(49)
As at 31 December 2007		205,276	3,297	4,233	275,990	68,779	21,493	905	86,638	666,611

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

GROUP

DEPRECIATION AND IMPAIRMENT LOSS	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
As at 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	30	4,815	110	169	16,850	2,743	953	-	4,394	30,034
Impairment loss	33	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)
As at 31 December 2006/ 1 January 2007										
Accumulated depreciation		53,590	830	1,093	205,034	58,853	10,763	-	69,981	400,144
Accumulated impairment loss		14,119	-	-	-	-	-	-	-	14,119
Depreciation for the year	30	4,110	136	240	18,476	2,472	1,016	-	4,264	30,714
Impairment loss	33	(8,375)	-	-	-	-	-	-	-	(8,375)
Reclassification		(5,645)	-	-	-	-	-	-	-	(5,645)
Disposals		-	-	-	(18)	-	(534)	-	-	(552)
Write-off		-	-	-	(165)	(141)	(2)	-	(153)	(461)
Adjustments		-	-	-	(185)	-	-	-	-	(185)
As at 31 December 2007										
Accumulated depreciation		52,055	966	1,333	223,142	61,184	11,243	-	74,092	424,015
Accumulated impairment loss		5,744	-	-	-	-	-	-	-	5,744
		57,799	966	1,333	223,142	61,184	11,243	-	74,092	429,759

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

GROUP

CARRYING AMOUNTS	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
As at 1 January 2006	224,359	-	-	60,619	9,499	9,894	4,409	16,469	325,249
As at 31 December 2006/ 1 January 2007	173,065	2,467	3,140	60,134	8,841	11,020	1,207	13,862	273,736
As at 31 December 2007	147,477	2,331	2,900	52,848	7,595	10,250	905	12,546	236,852

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

BANK

COST	NOTE	Buildings	Major components	Major components	Plant and	Fixtures and	Motor	Work in	Renovations	Total
		RM'000	lift RM'000	aircond RM'000	equipment RM'000	Fittings RM'000	vehicles RM'000	Progress RM'000	RM'000	RM'000
As at 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	16	(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
As at 31 December 2006/ 1 January 2007		240,774	3,297	4,233	258,127	67,272	21,278	1,207	83,472	679,660
Other additions		-	-	-	10,341	1,180	260	61	2,968	14,810
Reclassification to prepaid lease payment		(35,498)	-	-	-	-	-	-	-	(35,498)
Write-off		-	-	-	(308)	(186)	(7)	-	(173)	(674)
Adjustments		-	-	-	(635)	(11)	-	(363)	-	(1,009)
Disposals		-	-	-	-	-	(74)	-	-	(74)
Reserve		-	-	-	-	-	(49)	-	-	(49)
As at 31 December 2007		205,276	3,297	4,233	267,525	68,255	21,408	905	86,267	657,166

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

BANK

DEPRECIATION AND IMPAIRMENT LOSS	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
As at 1 January 2006										
Accumulated depreciation		54,552	-	-	186,343	65,973	11,335	-	55,448	373,651
Accumulated impairment loss		-	-	-	-	-	-	-	-	-
Depreciation for the year	30	4,815	110	169	15,971	2,729	927	-	4,371	29,092
Impairment loss	33	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)
As at 31 December 2006/ 1 January 2007										
Accumulated depreciation		53,589	830	1,093	202,349	58,613	10,280	-	69,869	396,623
Accumulated impairment loss		14,119	-	-	-	-	-	-	-	14,119
Depreciation for the year	30	4,110	136	240	16,639	2,431	1,001	-	4,241	28,798
Impairment loss	33	(8,375)	-	-	-	-	-	-	-	(8,375)
Reclassification to prepaid lease payment		(5,645)	-	-	-	-	-	-	-	(5,645)
Disposals		-	-	-	-	-	(74)	-	-	(74)
Write-off		-	-	-	(165)	(141)	(2)	-	(153)	(461)
Adjustments		-	-	-	(185)	-	-	-	-	(185)
As at 31 December 2007										
Accumulated depreciation		52,054	966	1,333	218,638	60,903	11,205	-	73,957	419,056
Accumulated impairment loss		5,744	-	-	-	-	-	-	-	5,744
		57,798	966	1,333	218,638	60,903	11,205	-	73,957	424,800

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

BANK

CARRYING AMOUNTS	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
As at 1 January 2006	224,359	-	-	60,500	9,418	9,832	4,416	16,483	325,008
As at 31 December 2006/ 1 January 2007	173,066	2,467	3,140	55,778	8,659	10,998	1,207	13,603	268,918
As at 31 December 2007	147,478	2,331	2,900	48,887	7,352	10,203	905	12,310	232,366

15. PREPAID LEASE PAYMENT

GROUP/BANK

COST	NOTE	Leasehold	
		Land RM'000	Total RM'000
As at 1 January 2006		62,469	62,469
Acquisition		2,293	2,293
Reclassification		563	563
As at 31 December 2006 / 1 January 2007		65,325	65,325
Transfer to investment property		(873)	(873)
Disposals		(83)	(83)
Reclassification from property, plant and equipment		35,498	35,498
As at 31 December 2007		99,867	99,867
DEPRECIATION AND IMPAIRMENT LOSS			
As at 1 January 2006		6,018	6,018
Depreciation charge for the year	30	641	641
Reclassification		108	108
As at 31 December 2006 / 1 January 2007		6,767	6,767
Transfer to investment property		(202)	(202)
Depreciation charge for the year	30	1,060	1,060
Disposals		(17)	(17)
Reclassification from property, plant and equipment		5,645	5,645
As at 31 December 2007		13,253	13,253
CARRYING AMOUNTS			
As at 1 January 2006		56,451	56,451
As at 31 December 2006/ 1 January 2007		58,558	58,558
As at 31 December 2007		86,614	86,614

16. INVESTMENT PROPERTIES

GROUP/BANK

COST	NOTE	Land RM'000	Buildings RM'000	Major components lift RM'000	Major components aircond RM'000	Total RM'000
As at 1 January 2006		-	-	-	-	-
Transfer from						
property, plant and equipment	14	-	30,045	-	-	30,045
Reclassification		-	(4,459)	820	3,639	-
As at 31 December 2006/ 1 January 2007		-	25,586	820	3,639	30,045
Transfer from						
prepaid lease payment	15	873	-	-	-	873
As at 31 December 2007		873	25,586	820	3,639	30,918
DEPRECIATION AND IMPAIRMENT LOSS						
As at 1 January 2006		-	-	-	-	-
Transfer from						
property, plant and equipment		-	4,025	-	-	4,025
Depreciation charge for the year	30	-	512	27	146	685
Reclassification		-	(602)	111	491	-
As at 31 December 2006/ 1 January 2007		-	3,935	138	637	4,710
Transfer from						
prepaid lease payment	15	202	-	-	-	202
Depreciation charge for the year	30	9	512	31	174	726
As at 31 December 2007		211	4,447	169	811	5,638
CARRYING AMOUNTS						
As at 1 January 2006		-	-	-	-	-
As at 31 December 2006/ 1 January 2007		-	21,651	682	3,002	25,335
As at 31 December 2007		662	21,139	651	2,828	25,280

17. GOODWILL

	GROUP	
	2007 RM'000	2006 RM'000
At beginning of year	-	236
Written off during the year - subsidiary	-	(236)
At end of year	<u>-</u>	<u>-</u>

18. DEPOSITS FROM CUSTOMERS

	GROUP/BANK	
	2007 RM'000	2006 RM'000
(i) By type of deposit		
Savings deposits	5,411,965	5,301,986
Fixed deposits	6,635,319	7,297,047
Others	901,241	839,622
	<u>12,948,525</u>	<u>13,438,655</u>
(ii) By type of customer		
Government and statutory bodies	1,890,997	2,824,340
Business enterprises	2,081,871	2,492,725
Individual investment deposits	8,752,778	8,003,959
Others	222,879	117,631
	<u>12,948,525</u>	<u>13,438,655</u>

19. DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Other financial institutions	462,665	379,207	476,465	379,207
	<u>462,665</u>	<u>379,207</u>	<u>476,465</u>	<u>379,207</u>

20. BORROWING FROM INSTITUTION

	GROUP/BANK	
	2007 RM'000	2006 RM'000
Borrowing from Employees Provident Fund	<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. However, total borrowing has been fully paid by the Bank on 18 February 2008.

21. OTHER LIABILITIES

	GROUP		BANK	
	2007 RM'000	2006 RM'000 (Restated)	2007 RM'000	2006 RM'000
Interest payable	119,079	108,736	119,079	107,823
Sundry payables	207,491	185,107	176,147	166,500
Accruals	53,976	8,788	45,200	8,858
Advanced loan repayment	96,533	57,506	96,533	57,506
Profit equalisation reserve (Note 41 (i))	55,744	15,985	55,744	15,985
Dividend on premium savings certificates payable	3,000	11,181	3,000	11,181
Amount due to subsidiary	-	-	440,020	440,024
	<u>535,823</u>	<u>387,303</u>	<u>935,723</u>	<u>807,877</u>

22. PROVISION FOR TAX AND ZAKAT/(TAX RECOVERABLE)

	GROUP		BANK	
	2007 RM'000	2006 RM'000 (Restated)	2007 RM'000	2006 RM'000
At beginning of year				
-zakat	856	260	856	260
Payment made during the year				
-tax	(29,542)	(2,204)	(29,143)	-
-zakat	(596)	-	(596)	-
Under provision in previous year	529	-	-	-
Provision for tax and zakat for the year				
-tax	44,067	2,204	44,089	-
-zakat	1,200	596	1,200	596
	<u>15,658</u>	<u>596</u>	<u>15,550</u>	<u>596</u>
	16,514	856	16,406	856
Less: Tax recoverable	(14,171)	(14,056)	(14,171)	(14,171)
At end of year	<u>2,343</u>	<u>(13,200)</u>	<u>2,235</u>	<u>(13,315)</u>

23. DEFERRED TAX ASSETS/(LIABILITIES)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when the deferred income taxes relates to the same fiscal authority.

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

GROUP

	ASSETS		LIABILITIES		NET	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Property, plant and equipment	-	-	(16,226)	(39)	(16,226)	(39)
Loans, advances and financing	40,049	-	-	-	40,049	-
Other liabilities	11,752	-	-	-	11,752	-
Others	645	-	-	-	645	-
Tax assets/(liabilities)	<u>52,446</u>	<u>-</u>	<u>(16,226)</u>	<u>(39)</u>	<u>36,220</u>	<u>(39)</u>

BANK

	ASSETS		LIABILITIES		NET	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Property, plant and equipment	-	-	(16,205)	-	(16,205)	-
Loans, advances and financing	40,049	-	-	-	40,049	-
Other liabilities	11,752	-	-	-	11,752	-
Others	645	-	-	-	645	-
Tax assets/(liabilities)	<u>52,446</u>	<u>-</u>	<u>(16,205)</u>	<u>-</u>	<u>36,241</u>	<u>-</u>

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 RM nil (2006:RM224.04 million) and RM nil respectively will not be available to the Group if there is substantial change in shareholders (more than 50%).

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

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Deductible temporary differences	-	124,861	-	124,861
Tax loss carry-forwards	-	224,042	-	224,042
	<u>-</u>	<u>348,903</u>	<u>-</u>	<u>348,903</u>

23. DEFERRED TAX ASSETS/(LIABILITIES) (Continued)

The movements and components of deferred tax assets and liabilities during the financial year are as follows:

GROUP

	As at 1 January 2006 RM'000	Recognised in income statement RM'000	As at 31 December 2006 RM'000	Recognised in income statement RM'000	As at 31 December 2007 RM'000
Property, plant and equipment	-	(39)	(39)	(16,187)	(16,226)
Loans, advances and financing	-	-	-	40,049	40,049
Other liabilities	-	-	-	11,752	11,752
Others	-	-	-	645	645
	-	(39)	(39)	36,259	36,220

BANK

	As at 1 January 2006 RM'000	Recognised in income statement RM'000	As at 31 December 2006 RM'000	Recognised in income statement RM'000	As at 31 December 2007 RM'000
Property, plant and equipment	-	-	-	(16,205)	(16,205)
Loans, advances and financing	-	-	-	40,049	40,049
Other liabilities	-	-	-	11,752	11,752
Others	-	-	-	645	645
	-	-	-	36,241	36,241

24. REVENUE

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

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Interest income (Note 25)	489,040	445,078	486,414	444,155
Fee and commission income (Note 27)	119,046	75,072	73,017	73,314
Income from Islamic Banking				
Operation (Note 41)	136,847	114,354	136,847	114,354
Other operating income *	252,072	122,129	243,166	120,768
	997,005	756,633	939,444	752,591

* Other operating income excludes loss on disposal of securities amounting to RM nil (2006: RM3,796,000).

25. INTEREST INCOME

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Loans and advances				
Interest income other than recoveries from non performing loans	233,347	223,172	233,347	223,172
Recoveries from non performing loans	13,190	17,368	13,190	17,368
Money at call and deposits with bank and other financial institutions	39,260	46,496	36,634	46,496
Investment securities :				
Held-to-maturity	196,062	182,669	196,062	181,746
Available-for-sale	18,493	21,940	18,493	21,940
	<u>500,352</u>	<u>491,645</u>	<u>497,726</u>	<u>490,722</u>
Net amortisation of premiums less accretion of discounts	6,049	(20,111)	6,049	(20,111)
Net interest suspended	(17,361)	(26,456)	(17,361)	(26,456)
Total interest income	<u>489,040</u>	<u>445,078</u>	<u>486,414</u>	<u>444,155</u>

26. INTEREST EXPENSE

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Deposits from customers	93,708	92,821	93,708	92,821
Deposits and placements of bank and other financial institutions	108,326	132,336	109,344	132,336
Others	27,419	24,838	27,419	24,838
	<u>229,453</u>	<u>249,995</u>	<u>230,471</u>	<u>249,995</u>

27. FEES AND COMMISSIONS INCOME

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Service charges and fees	102,893	53,555	55,766	53,555
Other fee income	16,153	21,517	17,251	19,759
	<u>119,046</u>	<u>75,072</u>	<u>73,017</u>	<u>73,314</u>

28. OTHER OPERATING INCOME

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<i>Gain on disposal of investment securities</i>				
Securities available-for-sale	211,061	80,332	211,061	80,332
Securities held-to-maturity	584	536	584	536
Securities held-for-trading	1,954	-	1,954	-
Loss on disposal of investment securities	-	(3,796)	-	(3,796)
<i>Other investment income</i>				
Securities held-to-maturity	-	14,623	-	14,623
Securities held-for-trading	(435)	140	(435)	140
<i>Gross dividend income</i>				
<i>Quoted in Malaysia</i>				
Securities available-for-sale	2,517	16,339	2,517	16,339
Securities held-for-trading	-	16	-	16
<i>Unquoted in Malaysia</i>				
Securities held-to-maturity	2,949	2,465	2,949	2,465
<i>Other income</i>				
- Net gain on foreign exchange currency	32	55	32	55
- Net gain on disposal of property, plant and equipment	62	358	42	358
- Rental income	4,778	3,634	4,905	3,759
- Others	28,570	3,631	19,557	2,145
	<u>252,072</u>	<u>118,333</u>	<u>243,166</u>	<u>116,972</u>

29. PERSONNEL EXPENSES

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Salaries and wages	125,687	118,488	120,836	105,884
Allowances and bonuses	38,572	12,588	38,572	12,588
Social security costs	2,312	1,809	2,235	1,809
Short term accumulated compensated absences	-	286	-	286
Pension costs - defined contribution plan	23,704	20,258	22,959	20,258
Other staff related expenses	27,650	26,206	26,871	26,206
	<u>217,925</u>	<u>179,635</u>	<u>211,473</u>	<u>167,031</u>

Included in personnel expenses of the Group and of the Bank is directors' remuneration amounting to RM901,000 (2006: RM833,000) and RM735,000 (2006: RM371,000) respectively as further disclosed in Note 31.

30. OTHER OVERHEADS

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Promotion and marketing:				
- Advertisement and publicity	9,695	2,913	8,147	2,898
Establishment:	-			
- Rental of premises	13,361	12,976	13,050	13,101
- Depreciation (Note 14,15 & 16)	32,500	31,360	30,584	30,418
- Electronic data processing expenses	10,599	12,328	9,371	12,327
- Hire of equipment	13,535	15,244	13,535	15,244
General expenses				
- Auditors' fee	285	167	187	163
- Directors' remuneration (Note 31)	312	251	185	168
- Amortisation of goodwill subsidiary (Note 17)	-	236	-	-
- Subsidised interest on staff loans*	443	1,944	443	1,944
- Reimbursement on micro credit financing**	(43,941)	(65,171)	(43,941)	(65,171)
- Property, plant and equipment written off	18	8	18	8
- Commission expenses	28,525	1,101	-	-
- Outsourcing fees	23,488	6,415	-	-
- Others	65,378	53,025	57,846	56,899
	<u>154,198</u>	<u>72,797</u>	<u>89,425</u>	<u>67,999</u>

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

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

31. KEY MANAGEMENT PERSONNEL COMPENSATION

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Directors				
- Salaries and other emoluments (Note 29)	901	833	735	371
- Fees (Nota 30)	312	251	185	168
	<u>1,213</u>	<u>1,084</u>	<u>920</u>	<u>539</u>
Other short term employee benefits (including estimated monetary value of benefits-in-kind)	181	22	99	-
	<u>1,394</u>	<u>1,106</u>	<u>1,019</u>	<u>539</u>
Other key management personnel:				
- Short-term employee benefits	1,395	3,416	886	1,497
	<u>1,395</u>	<u>3,416</u>	<u>886</u>	<u>1,497</u>
	<u>2,789</u>	<u>4,522</u>	<u>1,905</u>	<u>2,036</u>

32. ALLOWANCE FOR LOSSES ON LOANS, ADVANCE AND FINANCING

	GROUP/BANK	
	2007 RM'000	2006 RM'000 (Restated)
Allowance for bad and doubtful debts and financing		
General allowance		
- Provided during the year (Nota 10)	48,210	40,500
- Written back (Nota 10)	(1)	(47,265)
- Transfer to specific allowance (Nota 10)	(10,463)	(9,131)
Specific allowance		
- Provided during the year (Nota 10)	134,114	135,042
- Written back (Nota 10)	(59,615)	(57,053)
- Transfer from general allowance (Nota 10)	10,463	9,131
Bad debts (recovered)/written off		
- Recovered	(3,215)	(1,022)
- Written off	4,305	7,998
	<u>123,798</u>	<u>78,200</u>

33. IMPAIRMENT WRITE BACK/(LOSS)

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Impairment loss on investment in a subsidiary	-	-	(789)	(265)
Impairment write back/(loss) on property, plant and equipment (Note 14)	<u>8,375</u>	<u>(14,119)</u>	<u>8,375</u>	<u>(14,119)</u>
	<u>8,375</u>	<u>(14,119)</u>	<u>7,586</u>	<u>(14,384)</u>

34. TAX EXPENSE

	GROUP		BANK	
	2007 RM'000	2006 RM'000 (Restated)	2007 RM'000	2006 RM'000
Current tax expense				
- current year	<u>44,067</u>	<u>272</u>	<u>44,089</u>	<u>-</u>
	44,067	272	44,089	-
Deferred tax expense				
Origination and reversal of temporary differences	<u>(36,259)</u>	<u>39</u>	<u>(36,241)</u>	<u>-</u>
	<u>7,808</u>	<u>311</u>	<u>7,848</u>	<u>-</u>

34. TAX EXPENSE (Continued)

	GROUP	
	2007	2006
	RM'000	RM'000
		(Restated)
Profit before tax	278,599	513,715
Taxation at Malaysian statutory tax rate of 27% (2006: 28%)	75,222	143,310
Effect of income not subject to tax	7,465	(96,548)
Effect of expenses not deductible for tax purposes	23,082	11,126
Over provision in previous year	19	-
Recognition of previously unrecognised tax losses and capital allowances	(59,427)	(62,732)
Effect of change in tax rate	(2,284)	-
Recognition of previously unrecognised deferred tax assets	(36,259)	-
Other items	(10)	5,155
Tax expense for the year	7,808	311

	BANK	
	2007	2006
	RM'000	RM'000
Profit before tax	291,863	171,186
Taxation at Malaysian statutory tax rate of 27% (2006: 28%)	78,803	47,932
Effect of income not subject to tax	7,465	(4,764)
Effect of expenses not deductible for tax purposes	19,532	13,046
Recognition of previously unrecognised tax losses and capital allowances	(59,427)	(62,732)
Effect of change in tax rate	(2,284)	-
Recognition of previously unrecognised deferred tax assets	(36,241)	-
Other items	-	6,518
Tax expense for the year	7,848	-

35. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or if one other party controls both. The related parties of the Group and the Bank are:

(i) **Subsidiary companies**

Details of the subsidiary companies are shown in Note 12.

(ii) **Associated company**

Associated company is that entity in which the Group has significant influence but not control, and where it generally holds interest of between 20% to 50% in the entity as disclosed in Note 13.

(iii) **Key management personnel**

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and the Bank either directly or indirectly. The key management personnel of the Group and the Bank includes Executive Directors and Non-Executive Directors of the Bank and certain members of senior management of the Bank and heads of major subsidiary companies (including close members of their families) of the Group.

(iv) **Companies in which have financial interest**

These are entities in which significant voting power in such entities directly or indirectly resides with the Group and the Bank.

a) The significant transactions of the Group and the Bank with its related parties are as follows:

GROUP

	Associated company		Companies in which have financial interest	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Income received:				
Interest on loans, advances and financing	979	1,090	265	240
	<u>979</u>	<u>1,090</u>	<u>265</u>	<u>240</u>

35. RELATED PARTY TRANSACTIONS (Continued)

BANK

	Subsidiary companies		Associated company		Companies in which have financial interest	
	2007	2006	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Income received:						
Interest on loans, advances and financing	-	-	979	1,090	265	240
Commission received	1,098	51	-	-	-	-
Rental of premises	127	125	-	-	-	-
	<u>1,225</u>	<u>176</u>	<u>979</u>	<u>1,090</u>	<u>265</u>	<u>240</u>
Expenditure incurred:						
Interest on deposits	1,018	239	-	-	-	-
	<u>1,018</u>	<u>239</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

- b) The significant outstanding balances of the Group and the Bank with its related parties are as follows:

GROUP

	Associated company		Companies in which have financial interest	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Amount due from related parties:				
Loans, advances and financing	49,176	48,931	4,946	4,963
Interest receivable	-	-	-	120
	<u>49,176</u>	<u>48,931</u>	<u>4,946</u>	<u>5,083</u>

35. RELATED PARTY TRANSACTIONS (Continued)

BANK

	Subsidiary companies		Associated company		Companies in which have financial interest	
	2007	2006	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Amount due from related parties:						
Loans, advances and financing	392	376	49,176	48,931	4,946	4,963
Interest receivable	-	-	-	-	-	120
Amount due from expenses paid on behalf	109	279	-	-	-	-
	<u>501</u>	<u>655</u>	<u>49,176</u>	<u>48,931</u>	<u>4,946</u>	<u>5,083</u>
Amount due to related parties:						
Deposits and placements received	13,800	30,000	-	-	-	-
	<u>13,800</u>	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

During the year ended 31 December 2007, the Group repaid a loan and interest amount of RM nil (2006:RM8,349,484) received from its associated company.

- c) There were no granting of loans to the Directors of the Bank. Loans made to other key management personnel of the Group and the Bank are on the similar terms and conditions generally available to other employees within the Group.

All related party transactions are conducted at arm's length basis and on normal commercial terms which are not more favourable than those generally available to the public.

No provisions have been recognised in respect of loans given to key management personnel.

Remunerations and other benefits to the key management personnel for the Group and the Bank are shown in note 31.

36. COMMITMENTS AND CONTINGENCIES

	2007			2006		
	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	6,171	-	6,171	102,046	-	102,046
Maturity exceeding one year	374,658	187,329	374,658	519,164	259,582	519,164
	<u>380,829</u>	<u>187,329</u>	<u>380,829</u>	<u>621,210</u>	<u>259,582</u>	<u>621,210</u>
Capital commitments :						
Authorised and contracted for:						
Renovation works and supply of property, plant and equipment	2,047	-	2,047	571	-	571
	<u>2,047</u>	<u>-</u>	<u>2,047</u>	<u>571</u>	<u>-</u>	<u>571</u>
Contingent Liabilities :						
Amount guaranteed by Bank (Note 39)	481	-	481	481	-	481
	<u>383,357</u>	<u>187,329</u>	<u>383,357</u>	<u>622,262</u>	<u>259,582</u>	<u>622,262</u>

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

37. 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
As at 31 December 2007	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	% p.a
Assets								
Cash and short-term funds	751,707	-	-	-	369,818	-	1,121,525	3.71%
Deposits and placements with banks and other financial institutions	-	69,681	-	-	-	-	69,681	3.53%
Securities held-for-trading	-	-	-	-	29,107	-	29,107	-
Securities available-for-sale	-	9,638	190,863	-	99,744	-	300,245	3.72%
Securities held-to-maturity	653,917	1,050,028	3,938,214	422,877	-	-	6,065,036	3.71%
Loans, advances and financing	1,104	178,229	1,661,514	5,562,457	-	(711,362)	6,691,942	7.86%
Other assets	-	-	-	-	91,284	-	91,284	-
Investment in subsidiary companies	-	-	-	-	465,334	-	465,334	-
Investment in associated companies	-	-	-	-	609	-	609	-
Property, plant and equipment	-	-	-	-	232,366	-	232,366	-
Prepaid lease payment	-	-	-	-	86,614	-	86,614	-
Investment properties	-	-	-	-	25,280	-	25,280	-
Deferred tax assets	-	-	-	-	36,241	-	36,241	-
Total assets	1,406,728	1,307,576	5,790,591	5,985,334	1,436,397	(711,362)	15,215,264	

37. INTEREST/PROFIT RATE RISK (Continued)

BANK	Up to 1 month	> 1 month - 1 year	> 1 - 5 year	Over 5 years	Non- interest sensitive	Provision	Total	Average interest rate
As at 31 December 2007	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	% p.a
Liabilities								
Deposits from customers	5,411,965	5,352,330	2,184,230	-	-	-	12,948,525	2.66%
Deposits and placements of banks and other financial institutions	-	309,483	166,982	-	-	-	476,465	3.68%
Borrowing from institution	-	-	300,000	-	-	-	300,000	5.08%
Other liabilities	-	-	-	-	935,723	-	935,723	-
Provision for tax and zakat	-	-	-	-	2,235	-	2,235	-
Total liabilities	5,411,965	5,661,813	2,651,212	-	937,958	-	14,662,948	
Equities	-	-	-	-	552,316	-	552,316	-
Total liabilities and equities	5,411,965	5,661,813	2,651,212	-	1,490,274	-	15,215,264	
 Total interest sensitivity gap	 (4,005,237)	 (4,354,237)	 3,139,379	 5,985,334	 (53,877)	 (711,362)	 -	

37. INTEREST/PROFIT RATE RISK (Continued)

BANK	Up to 1 month	> 1 month - 1 year	> 1 - 5 year	Over 5 years	Non- interest sensitive	Provision	Total	Average interest rate
As at 31 December 2007	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 and placements with banks and 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%
Loans, advances and 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	

37. INTEREST/PROFIT RATE RISK (Continued)

BANK	Up to 1 month	> 1 month - 1 year	> 1 - 5 year	Over 5 years	Non- interest sensitive	Provision	Total	Average interest rate
As at 31 December 2007	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	% p.a
Liabilities								
Deposits from customers	9,314,669	3,985,022	138,964	-	-	-	13,438,655	2.16%
Deposits and placements of banks and other financial institutions	238,388	140,819	-	-	-	-	379,207	1.11%
Borrowing from institution	-	-	300,000	-	-	-	300,000	4.45%
Other liabilities	-	-	-	-	807,877	-	807,877	-
Provision for tax and zakat	-	-	-	-	856	-	856	-
Total liabilities	9,553,057	4,125,841	438,964	-	808,733	-	14,926,595	
Equities	-	-	-	-	417,110	-	417,110	-
Total liabilities and equities	9,553,057	4,125,841	438,964	-	1,225,843	-	15,343,705	
 Total interest sensitivity gap	 (7,729,231)	 (2,378,451)	 4,386,374	 5,575,008	 748,287	 (601,987)	 -	

38. CAPITAL ADEQUACY

	GROUP		BANK	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
The capital adequacy ratios of the reporting institution are as follows:				
Tier I Capital				
Retained profit	472,996	197,047	460,676	177,861
Other reserves	100,000	100,000	100,000	100,000
Minority interest	57,122	63,480	-	-
	<u>630,118</u>	<u>360,527</u>	<u>560,676</u>	<u>277,861</u>
Less:				
Deferred tax liabilities	-	39	-	-
Deferred tax assets	(36,220)	-	(36,241)	-
Total Tier I capital	<u>593,898</u>	<u>360,566</u>	<u>524,435</u>	<u>277,861</u>
Tier II Capital				
Revaluation reserves	1,722	1,771	1,722	1,771
General allowance for bad and doubtful debts and financing	154,035	116,289	154,035	116,289
Total Tier II capital	<u>155,756</u>	<u>118,059</u>	<u>155,756</u>	<u>118,060</u>
Less: Investment in subsidiary companies (Note 40)	-	-	465,334	466,123
	<u>749,654</u>	<u>478,625</u>	<u>214,857</u>	<u>(70,202)</u>
Capital base				
Core capital ratio	8.05%	4.94%	7.27%	3.92%
Risk-weighted capital ratio	10.16%	6.56%	2.98%	-0.99%
Core capital ratio (net of proposed dividends)	8.05%	4.94%	7.27%	3.92%
Risk-weighted capital ratio (net of proposed dividends)	10.16%	6.56%	2.98%	-0.99%

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

GROUP	2007		2006	
	Principal RM'000	Risk Weighted RM'000	Principal RM'000	Risk Weighted RM'000
0%	4,714,278	-	4,609,778	-
10%	191,843	19,184	608,135	60,814
20%	2,003,622	400,724	2,566,055	513,211
50%	2,941,693	1,470,847	2,182,897	1,046,371
100%	5,485,018	5,485,018	5,679,831	5,679,831
	<u>15,336,455</u>	<u>7,375,773</u>	<u>15,646,696</u>	<u>7,300,227</u>

38. CAPITAL ADEQUACY (Continued)

BANK	2007		2006	
	Principal RM'000	Risk Weighted RM'000	Principal RM'000	Risk Weighted RM'000
0%	4,691,236	-	4,597,112	-
10%	191,843	19,184	608,135	60,814
20%	2,003,622	400,724	2,566,055	513,211
50%	2,941,693	1,470,847	2,092,741	1,046,371
100%	5,319,063	5,319,063	5,463,270	5,463,270
	<u>15,147,457</u>	<u>7,209,818</u>	<u>15,327,313</u>	<u>7,083,666</u>

39. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURE

- 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.
- 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:

	GROUP		BANK	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial Assets				
As at 31 December 2007				
Securities held-for-trading (Note 6)	29,107	29,107	29,107	29,107
Securities available-for-sale (Note 7)	300,245	300,245	300,245	300,245
Securities held-to-maturity (Note 8)	6,132,474	6,004,619	6,065,036	5,937,181
Loans, advances and financing (Note 9)	6,691,942	6,218,388	6,691,942	6,218,388
	<u>13,153,768</u>	<u>12,552,359</u>	<u>13,086,330</u>	<u>12,484,921</u>
As 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>

39. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURE (Continued)

	GROUP		BANK	
	Carrying amount	Fair value	Carrying amount	Fair value
	RM'000	RM'000	RM'000	RM'000
Financial Liabilities				
As at 31 December 2007				
Borrowing from institution (Note 20)	300,000	317,733	300,000	317,733

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	Net fair value
	RM'000	RM'000
As at 31 December 2007		
Contingent liabilities (Note 36)	481	*
As at 31 December 2006		
Contingent liabilities (Note 36)	481	*

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

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.

39. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURE (Continued)

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.

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

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.

40. 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. On 17 December 2007, the Bank appointed a liquidator to manage the liquidation process.

The financial impacts 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 company	<u>466,123</u>	<u>32,789</u>

41. THE OPERATIONS OF ISLAMIC BANKING

BALANCE SHEET AS AT 31 DECEMBER 2007

	NOTE	GROUP/BANK	
		2007 RM'000	2006 RM'000 (Restated)
ASET			
Cash and short-term funds	(a)	376,672	174,791
Deposits and placements with banks and other financial institutions	(b)	69,681	516,870
Securities held-to-maturity	(c)	711,713	330,222
Advances and financing	(d)	2,845,635	2,041,449
Other assets	(f)	3,376	116
Property, plant and equipment		184	144
		<u>4,007,261</u>	<u>3,063,592</u>
LIABILITIES AND ISLAMIC BANKING			
CAPITAL FUNDS			
Deposits from customers	(g)	3,552,183	2,146,021
Deposits and placements of banks and other financial institutions	(h)	153,901	110,666
Other liabilities		63,806	655,167
Profit equalisation reserve	(i)	55,745	15,985
		<u>3,825,635</u>	<u>2,927,839</u>
ISLAMIC BANKING CAPITAL FUNDS			
Islamic banking funds		10,000	10,000
Reserves		171,626	125,753
Islamic banking capital funds		<u>181,626</u>	<u>135,753</u>
Liabilities and Islamic banking capital funds		<u>4,007,261</u>	<u>3,063,592</u>

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

41. THE OPERATIONS OF ISLAMIC BANKING (Continued)

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTE	GROUP/BANK	
		2007 RM'000	2006 RM'000
Revenue	(j)	<u>238,235</u>	<u>159,693</u>
Income derived from investment of depositors' funds	(k)	265,015	162,564
Allowance for losses on advances and financing	(l)	(33,692)	(38,191)
Transfer to profit equalisation reserve	(i)	(39,760)	(12,650)
Income attributable to the depositors	(m)	(101,388)	(45,339)
Income derived from investment of Islamic banking capital funds	(n)	<u>12,979</u>	<u>9,779</u>
Total net income		103,154	76,163
Other operating expenses	(o)	<u>(56,081)</u>	<u>(12,915)</u>
Profit before zakat		47,073	63,248
Zakat	(q)	<u>(1,200)</u>	<u>(596)</u>
Net profit for the year		<u>45,873</u>	<u>62,652</u>

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	
		2007 RM'000	2006 RM'000
Income derived from Bai-Bithamil Ajil financing	(j)	235,575	125,541
Income derived from investment of depositors' funds	(j)	24,841	32,217
Other income	(j)	17,579	14,585
Income attributable to depositors	(m)	(101,388)	(45,339)
Transfer to profit equalisation reserves	(i)	<u>(39,760)</u>	<u>(12,650)</u>
Net income from Islamic banking operations as reported in the income statement of the Group and the Bank		<u>136,847</u>	<u>114,354</u>

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

41. THE OPERATIONS OF ISLAMIC BANKING (Continued)

STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 31 DECEMBER 2007

	Islamic Banking Fund RM'000	<i>Distributable</i> Retained profits RM'000	Total RM'000
As at 1 January 2006	10,000	63,101	73,101
Net profit for the year	-	62,652	62,652
As at 31 December 2006	10,000	125,753	135,753
As at 1 January 2007	10,000	125,753	135,753
Net profit for the year	-	45,873	45,873
As at 31 December 2007	10,000	171,626	181,626

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

41. THE OPERATIONS OF ISLAMIC BANKING (Continued)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	GROUP/BANK	
	2007	2006
	RM'000	RM'000 (Restated)
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before zakat	47,073	62,652
Adjustments for:		
Depreciation	4	88
Net profit suspended	6,254	4,096
Allowance for losses on financing	33,507	38,191
Net gain from disposal of investment securities	-	646
Operating profit before working capital changes	<u>86,838</u>	<u>105,673</u>
Increase in deposits and placements with financial institutions	447,189	(398,617)
Increase in advances and financing	(843,947)	(1,332,531)
(Increase)/Decrease in other assets	(3,260)	15,882
Increase in deposits from customers	1,449,397	809,743
(Decrease)/Increase in other liabilities	(591,965)	177,452
Increase in profit equalisation reserve	<u>39,760</u>	<u>12,649</u>
Net cash generated from/(used in) operating activities	584,012	(609,749)
Zakat paid	<u>(596)</u>	<u>-</u>
	583,416	(609,749)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(44)	-
Net (purchases)/sales of investment securities representing net cash (used in)/ generated from investing activities	<u>(381,491)</u>	<u>754,249</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		
	201,881	144,500
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>174,791</u>	<u>30,291</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>376,672</u>	<u>174,791</u>
CASH AND CASH EQUIVALENTS REPRESENT:		
Cash and short term funds [Nota 41(a)]	<u>376,672</u>	<u>174,791</u>

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

41. THE OPERATIONS OF ISLAMIC BANKING (Continued)

a) Cash and short term funds

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
Cash and balances with banks and other financial institutions	19,168	8,874
Money at call and deposit placements maturing within one month	357,504	165,917
	<u>376,672</u>	<u>174,791</u>

b) Deposits and placements with banks and other financial institutions

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
Licensed banks	30,000	436,870
Licensed finance companies	9,000	80,000
Development financial institutions	30,681	-
	<u>69,681</u>	<u>516,870</u>

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

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
Maturity within one year	69,681	516,870
	<u>69,681</u>	<u>516,870</u>

41. THE OPERATIONS OF ISLAMIC BANKING (Continued)

c) Securities held-to-maturity

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
At amortised cost		
<u>Money Market Instruments (Long Term)</u>		
Malaysian Government Investment Issues	31,032	31,038
Khazanah Bonds	17,143	-
	<u>48,175</u>	<u>31,038</u>
<u>Money Market Instruments (Short Term)</u>		
Negotiable Islamic Debt Certificate	278,278	133,170
Commercial Paper	230,806	83,853
Bankers Acceptance	75,038	9,209
	<u>584,122</u>	<u>226,232</u>
<u>Unquoted securities in Malaysia :</u>		
Islamic Debt Securities	75,405	70,349
	<u>75,405</u>	<u>70,349</u>
Add : Net amortisation of premiums less accretion of discounts	4,011	2,603
	<u>711,713</u>	<u>330,222</u>

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

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
More than one year	711,713	330,222
	<u>711,713</u>	<u>330,222</u>

Indicative market value of money market instruments

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
Islamic Debt Securities		
- Malaysian Government Investment Issues	30,583	31,084
- Islamic Cagamas Bonds	-	204,878
- Khazanah Bonds	17,143	-
- Others	657,844	330,222
	<u>705,570</u>	<u>566,184</u>

41. THE OPERATIONS OF ISLAMIC BANKING (Continued)

d) Advances and financing

		GROUP/BANK	
		2007	2006
		RM'000	RM'000
(i)	By type		
	Term financing		
	Housing financing	1,645,771	1,235,675
	Personal financing	2,907,924	2,113,486
	Other term financing	87,232	40,808
	Staff financing	35,346	44,030
	Credit/charge cards	37,991	-
	Less: Unearned income	(1,761,799)	(1,321,654)
	Gross advances and financing	<u>2,952,465</u>	<u>2,112,345</u>
	Tolak: Allowance for bad and doubtful debts and financing		
	General	(65,500)	(46,991)
	Specific	(35,076)	(20,050)
	Income-in-suspense	(6,254)	(3,855)
	Total net advances and financing	<u><u>2,845,635</u></u>	<u><u>2,041,449</u></u>

		GROUP/BANK	
		2007	2006
		RM'000	RM'000
(ii)	By type of customer		
	Corporate	10,000	10,000
	Individuals	2,942,465	2,102,345
		<u>2,952,465</u>	<u>2,112,345</u>

		GROUP/BANK	
		2007	2006
		RM'000	RM'000
(iii)	By profit rate sensitivity		
	Fixed rate		
	Housing financing	779,458	593,474
	Other term financing	2,173,007	1,518,871
		<u>2,952,465</u>	<u>2,112,345</u>

41. THE OPERATIONS OF ISLAMIC BANKING (Continued)

d) Advances and financing (Continued)

	GROUP/BANK	
	2007 RM'000	2006 RM'000
(iv) By sector		
Manufacturing	10,000	10,000
Purchase of landed residential property	779,458	593,474
Purchase of transport vehicles	248	369
Consumer durables	18,091	26,094
Credit cards	37,991	29
Consumption credit	2,106,677	1,482,379
	<u>2,952,465</u>	<u>2,112,345</u>

	GROUP/BANK	
	2007 RM'000	2006 RM'000
(v) By contract		
Bai' Bithaman Ajil	2,857,218	2,071,537
Murabahah	85,247	30,808
Others	10,000	10,000
	<u>2,952,465</u>	<u>2,112,345</u>

e) Non-performing advances and financing

	GROUP/BANK	
	2007 RM'000	2006 RM'000
(i) Movements in non-performing advances and financing		
At beginning of year	56,723	48,834
Classified as non-performing during the year	33,516	16,258
Reclassified as performing during the year	(12,736)	(8,369)
Amount written off	(231)	-
At end of year	<u>77,272</u>	<u>56,723</u>
Specific allowance	(35,076)	(20,050)
Income-in-suspense	(6,254)	(3,855)
Net non-performing advances and financing	<u>35,942</u>	<u>32,818</u>
Ratio of net non-performing advances and financing to net advances and financing	<u>1.23%</u>	<u>1.57%</u>

41. THE OPERATIONS OF ISLAMIC BANKING (Continued)

e) Non-performing advances and financing (Continued)

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
		(Restated)
(iii) Non performing advances and financing by sector		
Purchase of landed residential property	36,590	32,860
Purchase of transport vehicles	31	28
Consumption credit	30,651	13,835
Manufacturing	10,000	10,000
	<u>77,272</u>	<u>56,723</u>

f) Other assets

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
Income receivables	2,980	72
Sundry receivables	396	44
	<u>3,376</u>	<u>116</u>

g) Deposits from customers

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
		(Restated)
(i) By type of deposits		
Mudharabah fund:		
Fixed deposits	3,177,067	1,853,624
Non-mudharabah fund:		
Savings deposits	375,116	292,397
	<u>3,552,183</u>	<u>2,146,021</u>

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
		(Restated)
(ii) By type of customer		
Government and statutory bodies	871,946	704,872
Business enterprises	1,403,347	968,557
Individuals	1,276,890	472,592
	<u>3,552,183</u>	<u>2,146,021</u>

41. THE OPERATIONS OF ISLAMIC BANKING (Continued)

h) Deposits and placements of banks and other financial institutions

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
		(Restated)
Other financial institutions	153,901	110,666
	<u>153,901</u>	<u>110,666</u>

i) Profit equalisation reserve ("PER")

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
At beginning of year	15,985	3,335
Amount provided during the year	39,760	12,650
At end of year (Note 21)	<u>55,745</u>	<u>15,985</u>

j) 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	
	2007	2006
	RM'000	RM'000
Income derived from Bai-Bithamil Ajil financing	235,575	125,541
Income derived from investment of depositors' funds		
- Loss from disposal of investment securities	-	(646)
- Income from Islamic debt securities	-	5,864
- Income from placements with financial institutions	14,005	3,415
- Others	10,836	23,584
Other income	17,579	14,585
Transfer to profit equalisation reserves	(39,760)	(12,650)
	<u>238,235</u>	<u>159,693</u>

41. THE OPERATIONS OF ISLAMIC BANKING (Continued)

k) Income derived from investment of depositors' funds

	NOTA	GROUP/BANK	
		2007 RM'000	2006 RM'000
Income derived from investment of:			
- General investment deposits	(i)	238,192	141,501
- Other deposits	(ii)	26,823	21,063
		<u>265,015</u>	<u>162,564</u>
Transfer to profit equalisation reserves		(39,760)	(12,650)
		<u>225,255</u>	<u>149,914</u>

(i) Income derived from investment of general investment deposits

	GROUP/BANK	
	2007 RM'000	2006 RM'000
Finance income		
Income derived from Bai-Bithamil Ajil financing	201,845	103,075
Income derived from investment of depositors' funds		
- Loss from disposal of investment securities	-	(531)
- Income from Islamic debt securities	-	4,814
- Income from placements with financial institutions	12,000	2,804
- Others	9,285	19,364
Total income from investment and financing	<u>223,130</u>	<u>129,526</u>
Other income		
- Commissions	2,251	2,188
- Charges	12,811	9,787
Total income	<u>238,192</u>	<u>141,501</u>

41. THE OPERATIONS OF ISLAMIC BANKING (Continued)

k) Income derived from investment of depositors' funds (Continued)

(ii) Income derived from investment of other deposits

	GROUP/BANK	
	2007 RM'000	2006 RM'000
Finance income		
Income derived from Bai-Bithamil Ajil financing	22,731	15,343
Income derived from investment of depositors' funds		
- Loss from disposal of investment securities	-	(79)
- Income from Islamic debt securities	-	717
- Income from placements with financial institutions	1,351	417
- Others	1,045	2,882
Total income from investment and financing	<u>25,127</u>	<u>19,280</u>
Other income		
- Commissions	253	326
- Charges	1,443	1,457
Total income	<u>26,823</u>	<u>21,063</u>

l) Allowance for losses on advances and financing

	GROUP/BANK	
	2007 RM'000	2006 RM'000 (Restated)
Allowance for bad and doubtful debts on advances and financing:		
(a) Specific allowance		
- Made in the financial year (Note 41(e))	(23,702)	(13,046)
- Transfer from general allowance (Note 41(e))	(788)	(451)
- Written back (Note 41(e))	9,493	5,005
(b) General allowance		
- Made in the financial year (Note 41(e))	(19,298)	(30,150)
- Transfer to specific allowance (Note 41(e))	788	451
Bad debts written off	(185)	-
	<u>(33,692)</u>	<u>(38,191)</u>

41. THE OPERATIONS OF ISLAMIC BANKING (Continued)

m) Income attributable to depositors

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
Deposits from customers		
- Mudharabah fund	98,118	43,387
- Non-Mudharabah fund	3,270	1,952
	<u>101,388</u>	<u>45,339</u>

n) Income derived from investment of Islamic banking capital funds

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
Finance income		
Income derived from Bai-Bithamil Ajil financing	10,999	7,123
Income derived from investment of depositors' funds		
- Loss from disposal of investment securities	-	(36)
- Income from Islamic debt securities	-	333
- Income from placements with financial institutions	654	194
- Others	506	1,338
Total income from investment and financing	<u>12,159</u>	<u>8,952</u>
Other income		
- Commissions	122	151
- Charges	698	676
Total income	<u>12,979</u>	<u>9,779</u>

o) Other operating expenses

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
Personnel expenses		
Salaries and wages	426	252
Allowances and bonuses	12	26
Social security costs	67	50
Other staff related expenses	4	14
	<u>509</u>	<u>342</u>
General administrative expenses*	48,897	8,477
Other cost	6,675	4,096
	<u>56,081</u>	<u>12,915</u>

* Included in general administrative expenses is Syariah Committee's remuneration amounting to RM55,000 (2006: RM52,000) as further disclosed in Note 41(p)

41. THE OPERATIONS OF ISLAMIC BANKING (Continued)

p) Syariah Committee's remuneration

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
Syariah committee's allowance	55	52

q) 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.

r) 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.

s) Capital adequacy

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

	GROUP/BANK	
	2007	2006
	RM'000	RM'000
Tier I Capital		
Retained profit	171,626	125,753
Islamic banking funds	10,000	10,000
Total Tier I capital	181,626	135,753
Tier II Capital		
General allowance for bad and doubtful debts and financing	65,500	46,991
Total Tier II capital	65,500	46,991
	247,126	182,744
Capital base		
Core capital ratio	6.64%	6.44%
Risk-weighted capital ratio	9.03%	8.67%
Core capital ratio (net of proposed dividends)	6.64%	6.44%
Risk-weighted capital ratio (net of proposed dividends)	9.03%	8.67%

41. THE OPERATIONS OF ISLAMIC BANKING (Continued)

s) Capital adequacy (Continued)

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

	GROUP/BANK 2007		GROUP/BANK 2006	
	Principal RM'000	Risk Weighted RM'000	Principal RM'000	Risk Weighted RM'000
0%	67,814	-	39,892	-
10%	-	-	-	-
20%	1,013,025	202,605	778,521	155,704
50%	785,435	392,717	584,848	292,424
100%	2,140,987	2,140,987	1,660,330	1,660,330
	<u>4,007,261</u>	<u>2,736,310</u>	<u>3,063,591</u>	<u>2,108,458</u>

42. GENERAL TAKAFUL AND FAMILY TAKAFUL FUNDS' BALANCE SHEET AS AT 31 DECEMBER 2007

GROUP	2007			2006		
	General Takaful Fund RM'000	Family Takaful Fund RM'000	Total RM'000	General Takaful Fund RM'000	Family Takaful Fund RM'000	Total RM'000
ASSETS						
Cash and short-term funds	(170)	-	(170)	172	-	172
Investments	2,842	29,602	32,444	-	27	27
Other assets	350	188	538	316	746	1,062
Deferred tax assets	-	-	-	195	-	195
Investment-linked business assets	-	35,000	35,000	-	17,142	17,142
	<u>3,022</u>	<u>64,790</u>	<u>67,812</u>	<u>683</u>	<u>17,915</u>	<u>18,598</u>
LIABILITIES						
Other liabilities	2,930	16,085	19,015	251	28	279
Provision for outstanding claims	431	4,214	4,645	43	-	43
Deferred tax liabilities	-	45	45	-	-	-
Investment-linked business liabilities	-	327	327	-	138	138
	<u>3,361</u>	<u>20,671</u>	<u>24,032</u>	<u>294</u>	<u>166</u>	<u>460</u>
Liabilities/(Assets) of general and family takaful policy holder's funds	(339)	44,119	43,780	389	17,749	18,138
	<u>3,022</u>	<u>64,790</u>	<u>67,812</u>	<u>683</u>	<u>17,915</u>	<u>18,598</u>

The operating revenue generated from the general takaful and family takaful businesses of the Group for the financial year amounted to approximately RM89,894,000 (2006: RM19,751,000).