

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

If you have sold or transferred all your shares in **Malayan Banking Berhad (3813-K)** (“**Maybank**” or “**the Company**”), you should at once hand this Circular together with the enclosed Form of Proxy to the agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Bursa Malaysia Securities Berhad takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular. You should rely on your own evaluation to assess the merits and risks of the Proposed Acquisition (as defined herein).



Maybank

MALAYAN BANKING BERHAD

(Company No. 3813-K)

(Incorporated in Malaysia under the Companies Act, 1965)

**CIRCULAR TO SHAREHOLDERS
IN RELATION TO THE**

PROPOSED ACQUISITION OF UP TO 100% OF PT BANK INTERNASIONAL INDONESIA TBK (“BII”) PURSUANT TO:

- (A) **PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN SORAK FINANCIAL HOLDINGS PTE. LTD. (“SORAK”) WHICH HOLDS APPROXIMATELY 55.6% EQUITY INTEREST IN BII FOR A TOTAL CASH CONSIDERATION OF APPROXIMATELY INDONESIAN RUPIAH (“RP”)13.9 TRILLION OR THE EQUIVALENT OF APPROXIMATELY RM4.8 BILLION (“PROPOSED ACQUISITION”);**

AND

- (B) **TENDER OFFER BY MAYBANK ARISING FROM THE PROPOSED ACQUISITION FOR THE REMAINING APPROXIMATELY 44.4% EQUITY INTEREST IN BII NOT OWNED BY SORAK AND ANY NEW ORDINARY SHARES IN BII THAT MAY BE ISSUED PURSUANT TO THE EXERCISE OF OPTIONS UNDER BII’S EMPLOYEE SHARE OPTION PLAN FOR A TOTAL CASH CONSIDERATION OF UP TO APPROXIMATELY RP11.6 TRILLION OR THE EQUIVALENT OF APPROXIMATELY RM4.0 BILLION**

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Adviser



Aseambankers

Aseambankers Malaysia Berhad (15938-H)

The notice convening the Extraordinary General Meeting (“EGM”) of Maybank to be held at Nirwana Ballroom, Lower Lobby, Crowne Plaza Mutiara Kuala Lumpur, Jalan Sultan Ismail, 50250 Kuala Lumpur on 15 May 2008, Thursday at 10.00 a.m. or at any adjournment thereof to consider the abovementioned proposal is enclosed with this Circular.

The Form of Proxy in respect of the said EGM is also enclosed herewith which you are urged to complete and deposit at the Registered Office of the Company at 14th Floor, Menara Maybank, 100, Jalan Tun Perak, 50050 Kuala Lumpur not later than forty eight (48) hours before the time set for holding the EGM or any adjournment thereof. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the meeting should you subsequently wish to do so.

The last day and time for lodging the Form of Proxy is on Tuesday, 13 May 2008 at 10.00 a.m.

This Circular is dated 30 April 2008

DEFINITIONS

In this Circular and the accompanying appendices, the following abbreviations shall have the following meanings unless otherwise stated:

“Act”	:	The Companies Act, 1965 as amended from time to time and any re-enactment thereof
“ATM”	:	Automated teller machine
“Aseambankers”	:	Aseambankers Malaysia Berhad (15938-H)
“BAFIA”	:	Banking and Financial Institutions Act 1989
“BI”	:	Bank Indonesia
“BII”	:	PT Bank Internasional Indonesia Tbk
“BII Group”	:	BII and its subsidiaries
“BII Share(s)”	:	Ordinary share(s) of BII
“BNM”	:	Bank Negara Malaysia
BNP Paribas	:	BNP Paribas Capital (Asia Pacific) Limited
“Board” or “Directors”	:	Board of Directors of Maybank
“Bursa Securities”	:	Bursa Malaysia Securities Berhad (635998-W)
“Completion”	:	The completion of the acquisition by Maybank of Sorak Shares from FFH and KB
“CP(s)”	:	Condition(s) precedent
“Drag-Along Right”	:	The right of FFH pursuant to the Shareholders’ Agreement to require KB to sell and transfer the KB Shares to Maybank subject to and upon the terms and conditions set out in the SSA
“Drag Notice”	:	The drag notice which may be issued by FFH pursuant to the Shareholders’ Agreement to require KB to sell and transfer the KB Shares to Maybank
“EGM”	:	Extraordinary General Meeting
“EPS”	:	Earnings per share
“ESOP”	:	Employee share option plan
“FFH”	:	Fullerton Financial Holdings Pte. Ltd.
“FFH Shares”	:	The 4,266,647 Sorak Shares held by FFH to be sold to Maybank subject to and upon the terms of the SSA
“FYE”	:	Financial Year Ended / Ending
“GDP”	:	Gross Domestic Product
“KB”	:	Kookmin Bank

DEFINITIONS (*Cont'd*)

“KB Shares”	:	The 1,422,216 Sorak Shares held by KB to be sold by KB to Maybank subject to and upon the terms of the SSA
“Maybank” or “Company”	:	Malayan Banking Berhad (3813-K)
“Maybank Group” or “Group”	:	Maybank and its subsidiaries
“Maybank Share(s)” or “Share(s)”	:	Ordinary share(s) of RM1.00 each in Maybank
“MI”	:	Minority interest
“NA”	:	Net assets
“NTA”	:	Net tangible assets
“NPL”	:	Non performing loan
“PAT”	:	Profit after taxation
“PBT”	:	Profit before taxation
“Proposed Acquisition”	:	Proposed acquisition by Maybank of the entire equity interest in Sorak which holds approximately 55.6% equity interest in BII for a total cash consideration of approximately Rp13.9 trillion or the equivalent of approximately RM4.8 billion
“Proposal”	:	Collectively, the Proposed Acquisition and the subsequent Tender Offer
“RM” and “sen”	:	Ringgit Malaysia and sen respectively
“Rp”	:	Indonesian Rupiah
“SGD”	:	Singapore Dollar
“Shareholders’ Agreement”	:	Shareholders’ agreement dated 20 November 2003 entered into between Sorak, FFH and KB, setting out amongst others, FFH’s and KB’s rights and obligations in relation to the affairs of Sorak
“Sorak”	:	Sorak Financial Holdings Pte. Ltd.
“Sorak Group”	:	Sorak and its subsidiaries
“Sorak Shares”	:	Ordinary shares of Sorak
“SSA”	:	The share sale agreement dated 26 March 2008 entered into between Maybank and FFH in relation to the Proposed Acquisition
“Tag-Along Right”	:	The right of KB pursuant to the Shareholders’ Agreement to offer and transfer the KB Shares to Maybank subject to and upon the terms and conditions set out in the SSA
“Tag Notice”	:	The tag notice issued by FFH pursuant to the Shareholders’ Agreement to invite KB to sell and transfer the KB Shares to Maybank

DEFINITIONS (Cont'd)

“Tender Offer” : The tender offer by Maybank arising from the Proposed Acquisition to acquire the remaining approximately 44.4% equity interest in BII not owned by Sorak and any new BII Shares that may be issued pursuant to the exercise of options under BII’s ESOP for a total cash consideration of up to approximately Rp11.6 trillion or the equivalent of approximately RM4.0 billion

Words importing the singular shall, where applicable, include the plural and vice and versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. Reference to persons shall include corporations.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted.

Any reference to a time of day in this Circular shall be a reference to Malaysian time, unless otherwise stated.

All references to “you” in this Circular are to the shareholders of the Company.

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NOTICE OF EGM (*Enclosed*)

FORM OF PROXY (*Enclosed*)



Maybank

MALAYAN BANKING BERHAD

(Company No. 3813-K)
(Incorporated in Malaysia)

Registered Office:
14th Floor, Menara Maybank
100, Jalan Tun Perak
50050 Kuala Lumpur
Malaysia

30 April 2008

The Board of Directors

Tan Sri Mohamed Basir Bin Ahmad (*Non-Independent Non-Executive Director/Chairman*)
Haji Mohd Hashir Bin Haji Abdullah (*Independent Non-Executive Director*)
Teh Soon Poh (*Independent Non-Executive Director*)
Datuk Abdul Rahman Bin Mohd Ramli (*Non-Independent Non-Executive Director*)
Tan Sri Dato' Megat Zaharuddin Bin Megat Mohd Nor (*Independent Non-Executive Director*)
Datuk Zainun Aishah Binti Ahmad (*Non-Independent Non-Executive Director*)
Datuk Syed Tamim Ansari Bin Syed Mohamed (*Independent Non-Executive Director*)
Tan Sri Dato' Sri Chua Hock Chin (*Independent Non-Executive Director*)
Dato' Aminuddin Md Desa (*Non-Independent Executive Director*)

To: The Shareholders of Malayan Banking Berhad

Dear Sir/Madam,

MALAYAN BANKING BERHAD

PROPOSED ACQUISITION OF UP TO 100% OF BII PURSUANT TO:

- (A) **PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN SORAK WHICH HOLDS APPROXIMATELY 55.6% EQUITY INTEREST IN BII FOR A TOTAL CASH CONSIDERATION OF APPROXIMATELY RP13.9 TRILLION OR THE EQUIVALENT OF APPROXIMATELY RM4.8 BILLION; AND**
- (B) **TENDER OFFER BY MAYBANK ARISING FROM THE PROPOSED ACQUISITION FOR THE REMAINING APPROXIMATELY 44.4% EQUITY INTEREST IN BII NOT OWNED BY SORAK AND ANY BII SHARES THAT MAY BE ISSUED PURSUANT TO THE EXERCISE OF OPTIONS UNDER BII'S ESOP FOR A TOTAL CASH CONSIDERATION OF UP TO APPROXIMATELY RP11.6 TRILLION OR THE EQUIVALENT OF APPROXIMATELY RM4.0 BILLION.**

1. INTRODUCTION

On 26 March 2008, Aseambankers announced on behalf of the Board that the Company had entered into a share sale agreement with FFH, which is ultimately owned by Temasek Holdings (Private) Limited, for the acquisition of 5,688,863 Sorak Shares representing 100% of the issued and paid-up share capital of Sorak for a total cash consideration of approximately Rp13.9 trillion or the equivalent of approximately RM4.8 billion (at the exchange rate of Rp2,873.56 : RM1.00, as at 25 March 2008).

As at 31 March 2008, Sorak owns approximately 55.6% of the issued and paid-up share capital of BII, a bank incorporated in Indonesia and listed on the Indonesia Stock Exchange. Upon completion of the SSA, Maybank or its nominated wholly-owned subsidiary, through Sorak, shall be the controlling shareholder of BII.

On 7 April 2008, Aseambankers announced on behalf of the Board that KB has executed a Deed of Adherence which forms part of the SSA wherein KB has agreed to the sale of its 1,422,216 Sorak Shares to Maybank in accordance with the terms of the SSA.

Details of the Proposal, including the salient terms of the SSA, are set out in the ensuing sections.

The purpose of this Circular is to provide you with details of the Proposal and to set out the view and recommendation of your Board as well as to seek your approval for the resolution which will be tabled at the forthcoming EGM to be convened. A notice of the EGM together with the Form of Proxy are enclosed and set out in this Circular.

SHAREHOLDERS ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSAL AT THE FORTHCOMING EGM.

2. THE PROPOSED ACQUISITION

2.1 Details of the Proposed Acquisition

The Proposed Acquisition entails the acquisition by Maybank or its nominated wholly-owned subsidiary, of 4,266,647 Sorak Shares representing 75% of the issued and paid-up share capital of Sorak from FFH for a total cash consideration of approximately Rp10.4 trillion or the equivalent of approximately RM3.6 billion (at the exchange rate of Rp2,873.56 : RM1.00, as at 25 March 2008).

As part of the terms of the SSA, Maybank will also acquire the remaining 1,422,216 Sorak Shares representing 25% of the issued and paid-up share capital of Sorak from KB for a total cash consideration of approximately Rp3.5 trillion or the equivalent of approximately RM1.2 billion (at the exchange rate of Rp2,873.56 : RM1.00, as at 25 March 2008).

The total purchase consideration of approximately Rp13.9 trillion or the equivalent of approximately RM4.8 billion (at the exchange rate of Rp2,873.56 : RM1.00, as at 25 March 2008) shall be satisfied entirely by cash and will be financed via internally generated funds.

2.2 Background information on Sorak

Sorak, incorporated on 30 May 1990 in Singapore, was previously known as MSD Consultants Private Limited, and changed to its present name in September 2003. The principal activity of Sorak is investment holding and its principal investment is the ownership of 27,179,506,578 ordinary shares in BII, representing approximately 55.6% of BII's issued and paid-up capital.

Sorak is a 75% owned subsidiary of FFH whilst KB holds the remaining 25% equity interest in Sorak.

Based on the audited financial statements of Sorak Group for the FYE 31 December 2007, the consolidated PAT and NA of the Sorak Group are approximately SGD60.99 million and SGD917.84 million or the equivalent of approximately RM140.89 million and RM2.12 billion respectively (at the exchange rate of SGD2.31 : RM1.00, as at 25 March 2008).

Please refer to Appendix I for further information on Sorak.

2.3 Background information on BII

BII was established on 15 May 1959 and licensed as a foreign exchange bank in 1988. Subsequently BII made an Initial Public Offering in 1989 on the Jakarta Stock Exchange and Surabaya Stock Exchange. The principal activity of BII is commercial banking.

BII is currently the 6th largest bank in Indonesia in terms of total assets and operate a nationwide network comprising over 230 branches and 700 ATMs in Indonesia. BII provides an extensive range of financial services through its branch and ATM network, phone banking and internet banking channels. BII provides products and services to medium and commercial size enterprises and individuals with credit cards, mortgages, deposit, lending, and wealth management services. Corporate clients are provided with services in trade finance, cash management, lending, custody, and foreign exchange.

BII also owns 99.99% and 50.03% equity interest in PT BII Finance Center and PT Wahana Ottomitra Multiartha Tbk respectively, both of which are currently involved in multi-financing business.

Based on the audited financial statements of BII Group for the FYE 31 December 2007, the consolidated PAT and NA of the BII Group are approximately Rp284 billion and Rp5.34 trillion or the equivalent of approximately RM98.98 million and RM1.86 billion respectively (at the exchange rate of Rp2,873.56 : RM1.00, as at 25 March 2008).

Please refer to Appendix II for further information on BII.

2.4 Details of the vendors and their original cost of investment in Sorak

The vendors of the 5,688,863 Sorak Shares are FFH and KB.

The information on the original cost of investment and the dates of investment by FFH and KB in Sorak is not publicly available.

2.5 Basis of arriving at the purchase consideration

The total purchase consideration for the 5,688,863 Sorak Shares of approximately Rp13.9 trillion or the equivalent of approximately RM4.8 billion was arrived at on a willing buyer-willing seller basis (through a bidding process) after taking into consideration the following:

- (i) the audited net assets of BII Group for the financial year ended 31 December 2007 of approximately Rp5.34 trillion or the equivalent of approximately RM1.86 billion (at the exchange rate of Rp2,873.56 : RM1.00, as at 25 March 2008);
- (ii) the earnings potential of the BII Group; and
- (iii) the potential benefits to Maybank arising from the acquisition of the BII Group through Sorak.

2.6 Salient terms of the SSA

The salient terms of the SSA, include amongst others, the following:

- (i) Maybank shall purchase all FFH Shares held from FFH and all KB Shares from KB, subject to and upon the terms and conditions of the SSA.
- (ii) Pursuant to the Shareholders' Agreement, KB has a Tag-Along Right while FFH has a Drag-Along Right in the event of a sale of Sorak Shares. In the event that KB exercises its Tag-Along Right, or if FFH exercises its Drag-Along Right, KB will sell its KB Shares pursuant to the terms of the SSA.
- (iii) Save for the obligation to issue a notice to KB pursuant to the Drag-Along Right, FFH is not obliged to do any act or take any other action to compel KB to sell and transfer the KB Shares to Maybank and FFH shall not have any liability arising from or in connection with KB's failure or refusal to sell and transfer the KB Shares to Maybank under the terms and conditions of the SSA.

- (iv) The respective obligations of FFH and KB for the sale of FFH Shares and KB Shares respectively are several in nature and each of FFH and KB shall not be liable in any way whatsoever to Maybank in respect of the sale of the relevant Sorak Shares by the other party under the SSA.
- (v) Maybank shall place a deposit of 10% of the consideration payable to FFH with FFH upon the execution of the SSA. When KB becomes a party to the SSA, Maybank will also place a deposit representing 10% of the consideration payable to KB with KB. Refund of these deposits will be made in the event of default by either FFH and/or KB and such default entitles Maybank not to complete the purchase of Sorak Shares, or the non-fulfilment of the conditions as stipulated in the SSA within six (6) months of executing the SSA, subject to Maybank's compliance of its obligation under the SSA. The balance 90% of the consideration payable to FFH and KB respectively shall be paid by Maybank upon the Completion.
- (vi) Subject to the CPs being fulfilled or duly waived, the Completion shall take place on a date not earlier than seven (7) business days after the CPs have been fulfilled, thirty (30) days after the issuance of the Tag Notice and thirty (30) days after the issuance of the Drag Notice, but no later than six (6) months from the date of the SSA or such other date as may be agreed between FFH and Maybank.
- (vii) The Completion is conditional upon the approvals as stipulated in Section 8 of this Circular being obtained and the following CPs being fulfilled or duly waived:
 - (a) Maybank having to pass the fit and proper test as stipulated by BI;
 - (b) all consents, approvals and actions of, filings with and notices, as may be necessary from any governmental or regulatory body or relevant competent authority having jurisdiction over the entry into and completion of the SSA, whether in or outside Indonesia, being granted or obtained and being in full force as at the Completion; and
 - (c) no breach of the warranties as provided by FFH, KB and Maybank having occurred and the said warranties remaining true and correct as at the Completion.
- (viii) Completion shall take place simultaneously provided that:
 - (a) notwithstanding that Maybank is entitled under the SSA to not complete the purchase of the KB Shares due to KB's default of its obligations to Maybank under the SSA or otherwise, Maybank shall still be bound to complete the purchase of the FFH Shares unless Maybank is entitled under the SSA not to complete the purchase of the FFH Shares due to FFH's default of its obligations to Maybank under the SSA; and
 - (b) subject to (a) above, neither FFH nor KB shall complete the sale of their respective Sorak Shares to Maybank unless Completion takes place simultaneously.
- (ix) Pursuant to the SSA and as required by the regulatory rules in Indonesia, Maybank will incur an obligation to undertake the Tender Offer, details of which are disclosed in Section 3 of this Circular.

(x) Maybank undertakes to FFH and KB that in the event that BII declares dividends in respect of the FYE 31 December 2007 (“BII Dividends”) prior to the Completion, Sorak will accordingly declare and pay dividends to FFH and KB. Further, in the event that BII Dividends are received by Maybank after the Completion, Maybank shall make payments to FFH and KB an amount equal to 75% and 25% respectively of the BII Dividends within ten (10) business days.

(xi) The Sorak Shares shall be sold free from encumbrances as of the Completion date, as the case may be, together with all rights and advantages attaching to them as at such date.

2.7 Policies on foreign investments and repatriation of profits

Subject to applicable withholding taxes, profit from investment in BII can be repatriated without any restrictions.

Please refer to Appendix V for further information on policies on foreign investments and repatriation of profits.

2.8 Dividend policy

To the best knowledge of the Board, both Sorak and BII have presently not adopted any dividend policy.

2.9 Liabilities to be assumed and encumbrances on the Sorak Shares

The Sorak Shares are to be acquired free from encumbrances pursuant to the SSA. There will be no additional liabilities, including contingent liabilities and guarantees, to be assumed by Maybank arising from the Proposed Acquisition.

3. TENDER OFFER OBLIGATION FOR THE REMAINING BII SHARES NOT OWNED BY SORAK AS A RESULT OF THE PROPOSED ACQUISITION

As a result of the Proposed Acquisition, Maybank will incur an obligation to undertake the Tender Offer and any other obligations as required by the regulatory rules in Indonesia. Maybank, or its nominated wholly-owned subsidiary company will make the necessary announcements in Indonesia at the appropriate time, and will file the required statements with Badan Pengawas Pasar Modal and Lembaga Keuangan (“Bapepam”), Indonesia, the Indonesia Stock Exchange and BII.

Pursuant to the SSA, the tender price of each share in BII shall be Rp510, being the higher of:

- (a) the minimum tender offer price which must be paid per BII Share as determined in accordance with the applicable regulations of Bapepam; and
- (b) Rp510, being the implicit price per BII Share derived based on the aggregate purchase consideration payable by Maybank for the Sorak Shares.

The maximum amount involved for the Tender Offer is up to approximately Rp11.6 trillion or the equivalent of approximately RM4.0 billion (at the exchange rate of Rp2,873.56 : RM1.00, as at 25 March 2008) and will be funded via internally generated funds.

The aforesaid amount includes any new shares to be issued pursuant to the exercise of options under BII’s ESOP. As at 31 March 2008, the number of the outstanding options under BII’s ESOP stands at approximately 1.2 billion options, which can be exercised into approximately 1.2 billion BII Shares.

4. RATIONALE

The Proposal offers opportunities for the Maybank Group to further expand its banking franchise in the Indonesian market and is in line with Maybank's continuous effort to establish a strong foothold in the regional markets. In particular, the Proposal will provide Maybank Group with a platform to capitalise on the growth opportunities in view of the following:

- (i) Indonesia is the fourth most populous nation in the world and banking penetration remains relatively low;
- (ii) the Maybank Group is well-positioned to leverage on the strong and growing trade flows between Indonesia and Malaysia given Maybank and BII presence and extensive customer base in their respective markets; and
- (iii) strong strategic fit given Indonesia's proximity to and similarities with Malaysia which will allow the Maybank Group to leverage on its strengths and experience to strengthen and grow BII banking franchise.

The Proposal also provides the Maybank Group with a platform for growth with limited execution risks as BII Group has built a strong market position and branding in key segments of the Indonesian market, in particular in commercial/small medium enterprise and consumer banking.

5. PROSPECTS

5.1 Prospects Of The Indonesian Economy

Growth in 2008 is likely to be driven by domestic demand. The reductions in domestic interest rates since May 2006 and an improving investment climate are set to push investment growth next year, while a recovery in consumer confidence will lead to an acceleration in private consumption expenditure. GDP growth will be supported by higher rates of credit expansion to the private sector as bank and corporate balance sheets strengthen. Moreover, government infrastructure outlays are expected to increase.

These positive developments are likely to be partly offset by a smaller surplus in net exports as imports rise in response to stronger investment and consumption demand, and as exports moderate in line with a projected decline in global non fuel commodity prices. Overall, GDP growth in 2008 is forecast to edge up to 6.4%, a marginal upward revision from that in *Asian Development Outlook 2007*.

The 2008 budget predicts a wider deficit of 1.7% of GDP, reflecting a near 50% increase in capital spending from the revised 2007 budget; a 16.2% reduction in state spending on consumption; and increased allocations for education and health, and for transfers to the regions. The authorities aim to meet the additional financing needs through the issuance of government securities, the recovery of state bank assets as part of banks' restructuring efforts, increased privatisation receipts, and external loans. But even with these higher budget financing requirements, the central Government's total debt-to-GDP ratio is projected to decline further to around 33% in 2008 from 36% this year.

(Source: Indonesia: Asian Development Outlook 2007 Update, Asian Development Bank)

5.2 Prospects Of The Indonesian Banking Industry

The Indonesian banking industry is set to be transformed over the next few years as the industry is expected to consolidate, giving rise to opportunities for banks with sufficient scale and quality to capture future growth of the market as a result of a policy framework introduced by the Indonesian government known as Indonesia Banking Architecture ("API"). Underpinning the API is the Single Presence Policy which would prohibit shareholders from having a controlling stake in more than one bank by the end of 2010. This represents an opportunity for potential bidders to take part in the growth of the Indonesian banking industry.

Positive government initiatives (such as the API) and strong growth in disposable income with a population base of 230 million people have fuelled Indonesia's healthy economic growth. At the same time, the banking penetration rate in Indonesia is relatively low compared to other markets, placing the industry on track for rapid growth. In addition, the strong capital position and improved credit quality of the Indonesian banks following restructuring have reduced their risk profiles and would promote the healthy growth of the sector going forward. Indonesia's robust macroeconomic growth has served as a healthy backdrop for the Indonesian banking sector's strong return to growth after the Asian financial crisis.

5.3 Prospects of the Maybank Group After the Proposal

Premised on the above, the Board has a positive view on the growth prospects in the Indonesian banking industry. Hence, the Board believes that the Proposal will augur well for the future prospects of BII Group and the Maybank Group.

6. RISK FACTORS

Sorak is a single purpose vehicle company set up to hold FFH and KB's interest in BII. As such the major investment considerations / risk factors in relation to the Proposal (which may not be exhaustive) relate to the business of BII Group, which includes the following:

6.1 Risks relating to the banking industry

(i) Business Risks

Like any other bank operating in Indonesia, BII is subject to business risks relating to banking operations in Indonesia. These may include fluctuation in interest rates, inflation, liquidity risk, default risks and government regulations.

Although the management of BII would have sought to limit these risks through, amongst others, implementation of prudent financial policies, risk management and liquidity framework, no assurance can be given that any change to these factors will not have a material adverse effect on the business of BII.

(ii) Political, Regulatory and Economic Considerations

The future growth and level of profitability of BII are subject to risks that are linked to the political, economic, regulatory and social developments in Indonesia. Any adverse developments in the political situation and economic uncertainties in Indonesia may materially and adversely affect the financial performance of BII. These include but are not limited to risks of war, terrorism, outbreak of infectious disease, global economic downturn, unfavourable change in government policy such as introduction of new regulations, changes in interest rates, methods of taxation and currency exchange rates.

There can also be no assurance that the legal and/or regulatory environment in which BII operates will not change from time to time, requiring increases in costs to be incurred by BII, which may result in a loss or reduction in revenue to Maybank. As such, no assurance can be given that these factors will not have a material adverse effect on the performance of BII.

(iii) Competitive industry environment

The Indonesian banking sector is relatively concentrated with the top ten (10) banks accounting for more than 60% of total assets and credit. However, with more than a hundred (100) commercial banks in Indonesia, the sector as a whole is overcrowded. The competition is expected to intensify among the key regional and global players which may lead to some players consolidating through merger and/or acquisitions that may result in creation of bigger participants. Increased competition may lead to loss of market share, which may affect BII's financial performance.

As a mitigating factor, BII will continue to focus on its major banking segments such as deposits and wealth management, consumer finance, small and medium enterprises / commercial lending and corporate lending.

Nevertheless, there can be no assurance that any changes in the competitive environment will not have a material effect on BII's businesses.

(iv) Foreign Exchange Risks

The businesses of BII are conducted in amongst others, Rp, United States Dollars, British Pound Sterling, Japanese Yen and Euro. As such, any fluctuation in relation to the aforesaid currencies will have an effect on the financial performance of BII. Further, fluctuation in the exchange rate between Rp and RM could negatively affect investment returns of the Maybank Group in Indonesia.

No assurance can be given that any change in the foreign currency rates will not have a material adverse effect on the financial performance of BII.

6.2 Risks relating to BII's business

(i) Dependence on Key Personnel

The success of BII will depend, to some extent, upon the abilities and continued efforts of its existing management team. The loss of any key members of the management team may materially and adversely affect the financial performance of BII. The future success of BII will also depend upon its ability to attract and retain skilled personnel.

Notwithstanding the above, it is the intention of Maybank to retain the services of BII's existing management team as well as nominate some of the experienced senior personnel from the Maybank Group to participate in the management of BII for its future growth and development.

Furthermore, efforts are continuously made by the Maybank Group to attract skilled and experienced staff through attractive remuneration and good human resource management for continued performance.

Nevertheless, there can be no assurance that the above measures will always be successful.

(ii) Indonesian labour laws

Maybank relies on Indonesian workforce for BII's operations. Under Indonesian labour laws, in the event of a change of ownership over BII, each employee is entitled to request for the termination of employment upon which each employee so requesting will be entitled to receive severance payment. The workforce is also entitled to receive severance payments in the event of involuntary termination of employment. The quantum of these payments is determined by a number of factors, such as the length of service, the staff compensation package and the circumstances under which his / her service is terminated such as whether it was a resignation, retrenchment, or resulted from a corporate restructuring or change of ownership of the employer.

Accordingly, in the event BII has to make payouts due to change of ownership over BII resulting from the request for or involuntary termination of employment as prescribed by Indonesian labour laws, these payouts may have an adverse effect on its operations and financial position.

(iii) Indonesian workforce

BII's workforce in Indonesia is unionised and are therefore able under certain conditions laid down by Indonesian laws and regulations to negotiate for the collective interests of their union members. If a dispute between the union members and BII leads to a work stoppage or a strike which cannot be resolved through mediation or through other alternative legal recourse, BII's operations and business performance may be adversely affected.

6.3 Risks relating to the Proposal

(i) Acquisition Risk

Following the Proposal, there can be no assurance that the anticipated benefits to be derived from the BII will be fully realised or that Maybank will be able to generate sufficient revenues from the Proposal to offset associated costs.

Upon completion of the Proposal, Maybank will undertake the necessary efforts to mitigate the various risks and ensure that a proper integration exercise will be put in place to ensure successful integration. However, no assurance can be given that any of the aforesaid risks will not have a material adverse effect on Maybank Group's performance or its prospects.

(ii) Single Presence Policy

In 2006, the Government of Indonesia via BI imposed a restriction amongst others, against any shareholder(s) from owning a controlling stake (25% interests or more) in more than one Indonesian bank i.e. the Single Presence Policy ("SPP"). Such shareholder(s) would be required to merge, divest or reduce its interests, or establish an Indonesian bank holding company to hold such interests, in order to meet this requirement by the end of 2010.

As part of the terms of the SSA, Maybank has submitted an application to BI for the Fit and Proper test as required by BI. BI may review the application of the SPP to Maybank as part of its evaluation process and Maybank will continue to provide BI with all the necessary documents and/or information as required.

However, there can be no assurance that BI will approve the Proposed Acquisition or that it will not impose any conditions, which may have a less favourable impact on the Maybank Group.

7. EFFECTS OF THE PROPOSAL

7.1 Share capital, foreign and substantial shareholders' shareholding and NA

The Proposal will not have any effect on the issued and paid-up share capital, the foreign and substantial shareholders' shareholding and the NA position of Maybank as the Proposal will be satisfied entirely by cash.

7.2 Earnings

The Proposal is estimated to be completed in the third quarter of 2008 and is not expected to have any effect on the earnings of the Maybank Group for the FYE 30 June 2008. However, the Proposal is expected to contribute positively to the revenue and earnings per share of the Maybank Group in the future financial years.

7.3 Gearing

The pro forma effect of the Proposal on the gearing of the Maybank Group based on its audited financial statements as at 30 June 2007 is as follows:

	Audited As At 30 June 2007 RM'000	After the Proposal RM'000
Borrowings	⁽¹⁾ 6,349,060	⁽²⁾ 6,829,947
Shareholders' funds	19,197,656	19,197,656
Gearing ratio (times)	0.33	0.36

Notes:

(1) Comprises subordinated obligations of the Maybank Group.

(2) Includes the BII Group's subordinated obligations of approximately Rp1.38 trillion or the equivalent of approximately RM480.89 million (at the exchange rate of Rp2,873.56 : RM1.00, as at 25 March 2008), based on the audited financial statements of BII Group as at 31 December 2007.

8. APPROVALS REQUIRED

The Proposal is subject to and is conditional upon the following approvals being obtained:

- (i) BNM pursuant to Section 29 of the BAFIA (of which approval was obtained on 25 March 2008);
- (ii) the shareholders of Maybank at an EGM to be convened; and
- (iii) other relevant authorities as may be necessary from any governmental or regulatory body including BI, having jurisdiction over the entry into Indonesia and completion of the SSA.

The Proposal is not conditional upon any other corporate exercise / scheme.

9. ESTIMATED TIMEFRAME FOR THE COMPLETION OF THE PROPOSAL

Barring unforeseen circumstances, the Proposal is expected to be completed by the third quarter of 2008.

10. OUTSTANDING PROPOSALS ANNOUNCED BUT PENDING IMPLEMENTATION

Save for the following, the Board has confirmed that, as at 31 March 2008, the Company does not have any outstanding corporate exercises / schemes which have been announced but are pending completion:

- (i) the memorandum of understanding entered into by Maybank with PT Panin Life Tbk ("Panin") in relation to a possible joint venture partnership via the acquisition of a 60% stake in PT Anugrah Life Insurance, a subsidiary of Panin as announced on 30 March 2007. On 4 April 2008, Maybank announced that Mayban Fortis Holdings Berhad ("Mayban Fortis") will be the legal entity (instead of Maybank) that will pursue the proposed acquisition of PT Anugrah Life Insurance and that Mayban Fortis had on 26 March 2008 obtained the approval from BNM for the proposed acquisition which is one of the prerequisites in the submissions to the Indonesia authorities;

- (ii) the proposed acquisition by Maybank, of approximately 15% of the total charter capital of An Binh Bank (“ABBank”) for a total cash consideration of approximately Vietnam Dong (“VND”)2.1 trillion or the equivalent of approximately RM430 million as announced on 21 March 2008; and
- (iii) the Proposal, which is the subject of this Circular.

11. DIRECTORS’ AND MAJOR SHAREHOLDERS’ INTEREST

None of the Directors or major shareholders of Maybank or persons connected to them has any interest, direct or indirect in the Proposal.

12. DIRECTORS’ RECOMMENDATION

The Board, after having considered all aspects of the Proposal, is of the opinion that the Proposal is in the best interest of the Company and its shareholders. Accordingly, the Board recommends that you vote in favour of the ordinary resolution relating to the Proposal to be tabled at the forthcoming EGM.

13. EGM

An EGM, the notice of which is enclosed in this Circular, will be held at Nirwana Ballroom, Lower Lobby, Crowne Plaza Mutiara Kuala Lumpur, Jalan Sultan Ismail, 50250 Kuala Lumpur for the purpose of considering and, if thought fit, passing the resolution pertaining to the Proposal.

If you are unable to attend and vote in person at the EGM, you are requested to complete, sign and return the enclosed Form of Proxy in accordance with the instructions printed therein as soon as possible and in any event, so as to arrive at the Registered Office of Maybank at 14th Floor, Menara Maybank, 100, Jalan Tun Perak, 50050 Kuala Lumpur, Malaysia not later than 48 hours before the time set for the EGM or any adjournment thereof. The lodging of the Form of Proxy does not preclude you from attending and voting in person should you subsequently wish to do so.

14. FURTHER INFORMATION

Shareholders are requested to refer to the enclosed appendices for further information.

Yours faithfully
for and on behalf of the Board of
MALAYAN BANKING BERHAD

Dato’ Aminuddin Md Desa
Acting Chief Executive Officer

INFORMATION ON SORAK

1. HISTORY AND BUSINESS

Sorak, incorporated on 30 May 1990 in Singapore, was previously known as MSD Consultants Private Limited, and changed to its present name to Sorak Financial Holdings Pte. Ltd. in September 2003. The issued and paid-up share capital of Sorak as at 24 March 2008 is approximately SGD477.63 million comprising approximately 5.69 million ordinary shares. The principal activity of Sorak is investment holding and its principal investment is the ownership of approximately 27.18 billion BII Shares, representing approximately 55.6% of BII's issued and paid-up share capital.

2. SHARE CAPITAL

The issued and paid-up share capital of Sorak as at 24 March 2008 is as follows:

Type	No. of Ordinary Shares '000	Total SGD '000
Authorised*		
Ordinary shares		
- A shares	-	-
Issued and fully paid-up		
Ordinary shares		
- A shares	5,689	477,632

Note:

* *The Companies (Amendment) Act 2005 has abolished the concept of authorised share capital in relation to Singapore incorporated companies.*

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3. CHANGES IN THE ISSUED AND PAID-UP SHARE CAPITAL SINCE INCORPORATION

The changes in the issued and paid-up share capital of Sorak since incorporation are as follows:

3.1 A shares

Year of Allotment	No. of A Shares Allotted	Par Value	Consideration/ Type of Issue	Total Issued and Paid-Up Share Capital
	'000	SGD		SGD
				'000
1990	^	1.00	Cash	^
1990	1,000	1.00	Cash	1,000
2003	3,021	1.00	Cash	4,021
2003 ¹	58	1.00	Conversion of C shares to A shares	4,079
2004	477	1.00	Cash	4,556
2004	113	1.00	Cash	4,669
			Effect of Companies (Amendment Act 2005) ³	476,612
2007 ²	1,020	-	Conversion of B shares to A shares	477,632

3.2 B shares

Year of Allotment	No. of B Shares Allotted	Par Value	Consideration/ Type of Issue	Total Issued and Paid-Up Share Capital
	'000	SGD		SGD
				'000
2003	1,020	1.00	Cash	1,020
2007 ²	(1,020)	-	Conversion of B shares to A shares	-

3.3 C shares

Year of Allotment	No. of C Shares Allotted	Par Value	Consideration/ Type of Issue	Total Issued and Paid-Up Share Capital
	'000	SGD		SGD
				'000
2003	10,000	0.01	Cash	100
2003 ¹	(5,816)	-	Conversion of C shares to A shares	42
2003 ¹	(4,184)	-	Redemption	-

Notes:

- Pursuant to a board resolution passed on 10 December 2003, 5,815,900 of the C shares were converted into 58,159 A shares and the balance of the remaining 4,184,100 C shares were redeemed by Sorak.*
- Pursuant to a board resolution passed on 23 February 2007, 1,019,710 of the B shares were converted into 1,019,710 A shares.*
- The Companies (Amendment) Act 2005 has abolished the concept of authorised share capital in relation to Singapore incorporated companies. Pursuant to this, all amounts under share premium account have been re-classed in to issued and paid-up share capital of the company.*

^ *Comprises 2 Sorak Shares.*

4. SUBSTANTIAL SHAREHOLDERS' SHAREHOLDINGS

The substantial shareholders' holding 5% or more of the issued and paid-up share capital of Sorak as at 24 March 2008 are as follows:

Substantial Shareholders	No. of Ordinary Shares			
	Direct	%	Indirect	%
FFH	4,266,647	75.0	-	-
KB	1,422,216	25.0	-	-

5. DIRECTORS' SHAREHOLDINGS

The directors and their respective shareholdings of Sorak as at 24 March 2008 are as follows:

Director	Nationality	No. of Ordinary Shares			
		Direct	%	Indirect	%
Tow Heng Tan	Singaporean	-	-	-	-
Heng Chen Seng	Singapore P.R. ^	-	-	-	-
Shin Hyun Kap	South Korean	-	-	-	-
Clarence Kulasingam Poopalasingam	Singapore P.R. ^	-	-	-	-
Woo Shick Lee	South Korean	-	-	-	-
Bridget Lee Siow Pei	Singaporean	-	-	-	-

Note:

^ Singapore P.R. refers to permanent resident of Singapore.

6. SUBSIDIARY COMPANY

The subsidiary company of Sorak as at 24 March 2008 is as follows:

Company	Date and Place of Incorporation	Issued and Paid-Up capital Rp million	Effective Equity Interest %	Principal Activities
BII	15 May 1959, Indonesia	3,240,802	55.6	Banking
<u>Subsidiaries of BII</u>				
PT BII Finance Center	13 February 1991, Indonesia	15,000	99.99	Multi-financing
PT Wahana Ottomitra Multiartha Tbk	23 March 1982, Indonesia	200,000	50.03	Multi-financing

Note:

(i) Sorak does not have any associated company.

7. PROFIT AND DIVIDEND RECORD

The profit and dividend record of Sorak Group based on the audited financial statements for the past five (5) FYEs 31 December 2003 to 31 December 2007 are as follows:

	←----- Audited As At 31 December ----->				
	2003	2004	2005 [^]	2006	2007
	SGD	SGD	SGD	SGD	SGD
	'000	'000	'000	'000	'000
Interest income	1,034	541,879	774,357	1,053,807	891,345
Interest expense	(872)	(245,545)	(391,143)	(616,352)	(492,792)
Net interest income	162	296,334	383,214	437,455	398,553
(Loss before tax) / PBT	(158)	149,471	146,751	105,941	86,925
Taxation (expense) / credit	(164)	1,212	(12,905)	(9,419)	(25,932)
(Loss after tax) / PAT	(322)	150,683	133,846	96,522	60,993
Minority interest	-	(75,351)	(67,770)	(48,485)	(14,480)
Net (loss) / profit attributable to ordinary shareholders	(322)	75,332	66,076	48,037	46,513
Issued and paid-up share capital (No. of shares in thousand)	5,098	5,688	5,688	5,688	5,688
EPS (SGD)	(0.06)	26.49	23.53	16.97	10.72
Dividend rate	-	-	- [#]	- [#]	- [#]

Notes:

(i) Sorak is a single purpose vehicle company set up to hold FFH and KB's interest in BII and Sorak's income is mainly derived from its investment in BII.

[^] The comparative figures for the FYE 31 December 2005 have been restated as Sorak Group has adopted the new and revised Singapore Financial Reporting Standards that are mandatory to conform with the presentation in the FYE 31 December 2006 consolidated financial statements.

[#] The dividend rate is not applicable as the Companies (Amendment) Act 2005 has abolished the concept of par value in relation to Singapore incorporated companies. As disclosed in the audited financial statements, Sorak declared and paid dividends which amounted to SGD42.02 million, SGD48.79 million and SGD37.12 million for the FYE 31 December 2007, FYE 31 December 2006 and FYE 31 December 2005 respectively.

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INFORMATION ON BII

1. HISTORY AND BUSINESS

BII was established on 15 May 1959 and licensed as a foreign exchange bank in 1988. Subsequently BII made an Initial Public Offering in 1989 on the Jakarta Stock Exchange and Surabaya Stock Exchange. The principal activity of BII is commercial banking.

As at 31 March 2008, BII's authorised share capital was Rp12,864,766 million with issued and paid-up share capital of Rp3,240,802 million comprising:

- 388,146,231 Class "A" ordinary shares of Rp900.00 each;
- 8,767,735,274 Class "B" ordinary shares of Rp225.00 each;
- 123,464,726 Class "C" preference shares of Rp225.00 each; and
- 39,597,804,000 Class "D" ordinary shares of Rp22.50 each.

All shares are ordinary shares except for "C" shares which are preference shares and may only be owned by the Government of the Republic of Indonesia, companies wholly-owned by the Government of Republic of Indonesia or public sector utilities.

BII is currently the 6th largest bank in Indonesia in terms of total assets and operate a nation-wide network comprising over 230 branches and 700 ATMs in Indonesia. BII provides an extensive range of financial services through its branch and ATM network, phone banking and internet banking channels. BII provides products and services to medium and commercial size enterprises and individuals with credit cards, mortgages, deposit, lending, and wealth management services. Corporate clients are provided with services in trade finance, cash management, lending, custody, and foreign exchange.

2. SHARE CAPITAL

The issued and paid-up share capital of BII as at 31 March 2008 is as follows:

Type	No. of Ordinary Shares	Par Value Rp	Total Rp
Authorised			
- Class "A" ordinary shares	388,146,231	900.00	349,331,607,900
- Class "B" ordinary shares	8,759,435,681*	225.00	1,970,873,028,225*
- Class "C" preference shares	131,764,319	225.00	29,646,971,775
- Class "D" ordinary shares	467,329,511,000	22.50	10,514,913,997,500
	476,608,857,231		12,864,765,605,400
Issued and fully paid-up			
- Class "A" ordinary shares	388,146,231	900.00	349,331,607,900
- Class "B" ordinary shares	8,767,735,274*	225.00	1,972,740,436,650*
- Class "C" preference shares	123,464,726	225.00	27,779,563,350
- Class "D" ordinary shares	39,597,804,000	22.50	890,950,590,000
	48,877,150,231		3,240,802,197,900

Note:

- * The issued and paid-up share capital for Class "B" ordinary shares exceeds its authorised share capital as 31 March 2008 due to a recent conversion of Class "C" preference shares to Class "B" ordinary shares. A deed is presently being prepared to increase the limit of the authorised share capital for Class "B" ordinary shares.

3. SUBSTANTIAL SHAREHOLDERS' SHAREHOLDINGS

The substantial shareholders, holding 5% or more of the issued and paid-up share capital of BII as at 31 March 2008 are as follows:

Substantial Shareholders	←----- No. of Ordinary Shares ----->			
	Direct	%	Indirect	%
Sorak	27,179,506,578	55.6	-	-
Aranda Investments (Mauritius) Pte. Ltd.	2,938,224,500	6.0	-	-

4. DIRECTORS' SHAREHOLDINGS

The directors and their respective shareholdings of BII as at 31 March 2008 are as follows:

Director	Nationality	←----- No. of Ordinary Shares ----->			
		Direct	%	Indirect	%
Hendry Ho Hon Cheong	Malaysian	9,366,000	*	-	-
Sanjay Kapoor	Indian	2,464,000	*	-	-
Dira K. Mochtar	Indonesian	2,464,500	*	-	-
Ventje Rahardjo	Indonesian	-	-	-	-
Sukatmo Padmosukarno	Indonesian	4,820,500	*	-	-
Fransiska Oei	Indonesian	2,572,000	*	-	-
Prem Kumar	Malaysian	3,155,500	*	-	-
Satinder Pal Singh Ahluwalia	Indian	1,966,500	*	-	-
Rita Mas'Oen	Indonesian	2,248,000	*	-	-

Note:

* Negligible

5. SUBSIDIARY COMPANIES

The subsidiary companies of BII as at 31 March 2008 are as follows:

Company	Date and Place of Incorporation	Issued and Paid-Up capital Rp billion	Effective Equity Interest %	Principal Activities
PT BII Finance Center	13 February 1991, Indonesia	15	99.99	Multi-financing
PT Wahana Ottomitra Multiartha Tbk	23 March 1982, Indonesia	200	50.03	Multi-financing

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6. PROFIT AND DIVIDEND RECORD

The profit and dividend record of BII Group based on the audited financial statements for the past five (5) FYEs 31 December 2003 to 31 December 2007 are as follows:

	←----- Audited As At 31 December ----->				
	2003 ⁽¹⁾ Rp billion	2004 Rp billion	2005 ⁽²⁾ Rp billion	2006 Rp billion	2007 Rp billion
Interest income	3,343	2,955	4,646	6,203	5,547
Interest expense	(2,325)	(1,313)	(2,302)	(3,575)	(3,021)
Net interest income	1,018	1,642	2,344	2,628	2,526
Operating profit	256	810	896	720	320
PBT	270	815	916	743	377
Taxation	39	6	⁽³⁾ (66)	(59)	(93)
PAT	309	822	819	684	284
Minority interest	-	-	(94)	(51)	120
Net profit attributable to ordinary shareholders	309	822	725	633	404
EPS (Rp)	6	17	15	13	8
Dividend rate	-	[^]	[^]	[^]	[*]

Notes:

- (1) The comparative figures for the FYE 31 December 2003 have been restated due to the post quasi-restructuring exercise.
 - (2) The comparative figures for the FYE 31 December 2005 have been restated to conform with the presentation in the FYE 31 December 2006 consolidated financial statements.
 - (3) After incorporating pre-acquisition income of a subsidiary which amounted to Rp30,768 million for the FYE 31 December 2005.
- [^] As disclosed in the audited financial statements, BII declared and paid dividends which amounted to Rp253.48 million, Rp253.79 million and Rp246.08 million for the FYE 31 December 2006, FYE 31 December 2005, FYE 31 December 2004 respectively.
- ^{*} As disclosed in the audited financial statements, BII declared dividends which amounted to Rp202.38 million for the FYE 31 December 2007, subject to approvals from shareholders and regulator.

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Commentary

(i) **FYE 31 December 2003**

In the FYE 31 December 2003, the BII Group posted PAT of Rp309.1 billion, representing a significant increase of 133.2% over the Rp133 billion booked in FYE 31 December 2002. This increase is a result of higher interest income and a significant reduction in interest expenses. Net interest income increased substantially from a negative Rp50.0 billion in FYE 31 December 2002 to Rp1,017.9 billion in FYE 31 December 2003. The PAT increase is also contributed by the increase of Rp42.6 billion in commission and fees in the FYE 31 December 2003.

Operating profit increased from Rp112.2 billion in the FYE 31 December 2002 to Rp256.0 billion in the FYE 31 December 2003. The favorable increase is primarily attributed to the marked increase in net interest revenues and other operating revenues. The BII Group posted a 104.8% increase in PBT of Rp270.1 billion in the FYE 31 December 2003. This represents an increase of Rp138.2 billion compared to Rp131.9 billion in the FYE 31 December 2002.

(Source: Annual Report 2003)

(ii) **FYE 31 December 2004**

PAT grew more than two-and-a-half times in FYE 31 December 2004 to Rp822 billion or an EPS of Rp17. Net interest earnings growth was the main driver behind this performance, reflecting a substantial improvement in the spread between lending and deposit rates of interest. Fee income improved as the BII Group's business expanded and other operating income increased from gains made on sales of marketable securities.

Net interest income was 61% higher from Rp1,018 billion to Rp1,642 billion. Increase in interest income and lower interest expenses were the main contributors of the increased earnings. The major factors driving this were a 28% growth in lending coupled with improved fee income and reduced interest expenses as market rates trended lower through most of the year.

The substantial increase in operating profit from Rp256 billion to Rp810 billion is a result of the improvement in net interest earnings and other operating revenues. PAT increased from Rp309 billion to Rp822 billion.

(Source: Annual Report 2004)

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(iii) FYE 31 December 2005

Net profit attributable to ordinary shareholders fell 12% in 2005 from Rp822 billion to Rp725 billion or an EPS of Rp15. A combination of factors influenced the result. First, while considerable growth in interest earning assets was achieved, spreads between loan and deposit rates of interest narrowed over the course of the year, reflecting both the general increase in interest rates and strong competition for business. Second, a related issue, although customer deposits grew 25% there was a shift in the funding mix away from low cost current and savings balances towards time deposits resulting in a higher overall cost of funds. Third, a tightening of liquidity over the final quarter contributed to increasing the cost of funding in both the commercial and interbank markets. Fourth, the BII Group continued its crucial investment programme in new systems and technology. Finally, last year's net profits were boosted by the one off gains from sales of fixed rate bonds.

Net interest income increased 43% to Rp2,344 billion. Strong loan growth helped raise interest income by 57% to Rp4,646 billion. A further positive development was the reduction of the contribution from Government bonds from 40% to 22% of interest received.

(Source: Annual Report 2005)

(iv) FYE 31 December 2006

Net profit attributable to ordinary shareholders for the FYE 31 December 2006 was 13% lower at Rp633 billion or an EPS of Rp13, primarily due to increasing credit costs, including provisions for NPLs, while a downturn in economic growth during a period of high inflation and high interest rate and low consumer spending power dampened demand for loans. Collectively, these factors had an impact on the bank's net interest earnings to a lower growth of 12% in the FYE 31 December 2006.

Net interest income increased 12% to Rp2,628 billion, largely due to an expansion of loan growth of 12% and an improvement in the asset mix (with loans now comprising 55% of earning assets from 52% a year earlier).

(Source: Annual Report 2006)

(v) FYE 31 December 2007

Net profit attributable to ordinary shareholders for the FYE 31 December 2007 was 36% lower at Rp404 billion. BII's performance was mainly impacted by increased provisions for loans in the book's of PT Wahana Ottomitra Multiartha Tbk. However, there was an increase of 2% in gross operating income constituted a combination of lower net interest income and a robust increase in non-interest earnings which rose 16% primarily due to increases in fees from trade services, wealth management and remittances services, while overhead costs were 3% higher.

Net interest income was slightly lower by 4% year on year reflecting competition, margin compression and the effect of compliance with the central bank provisioning norms which impacted interest accruals on receivables.

(Source: Annual Report 2007)

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AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF SORAK FOR THE FINANCIAL
YEAR ENDED 31 DECEMBER 2007



SORAK FINANCIAL HOLDINGS PTE. LTD.
(Incorporated in Singapore. Registration Number: 199002614Z)
AND ITS SUBSIDIARIES

FINANCIAL STATEMENTS
For the financial year ended 31 December 2007

SORAK FINANCIAL HOLDINGS PTE. LTD.
(Incorporated in Singapore)
AND ITS SUBSIDIARIES

FINANCIAL STATEMENTS
For the financial year ended 31 December 2007

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**SORAK FINANCIAL HOLDINGS PTE. LTD.
AND ITS SUBSIDIARIES**

DIRECTORS' REPORT

For the financial year ended 31 December 2007

The directors present their report to the members together with the audited financial statements of the Group for the financial year ended 31 December 2007 and the balance sheet of the Company at 31 December 2007.

Directors

The directors of the Company in office at the date of this report are as follows:

Tow Heng Tan	
Heng Chen Seng	
Clarence Kulasingam Poopalasingam	
Woo Shick Lee	(appointed on 23 February 2007)
Bridget Lee Siow Pei	(appointed on 6 March 2007)
Shin Hyun Kap	(appointed on 30 January 2008)

Arrangements to enable directors to acquire shares or debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests in shares or debentures

According to the register of directors' shareholdings kept by the Company for the purposes of Section 164 of the Singapore Companies Act, Chapter 50 (the Act), none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

<u>Name of director and corporations in which interests held</u>	<u>Description of interests</u>	<u>Holdings in the name of the director, or their spouse or infant child</u>	
		<u>At 01.01.07/date of appointment</u>	<u>At 31.12.07</u>
<u>Tow Heng Tan</u>			
Singapore Telecommunications Limited	Ordinary shares	2,850	2,850
SNP Corporation Ltd	Ordinary shares	18,500	18,500
<u>Heng Chen Seng</u>			
Singapore Airlines Limited	Ordinary shares	12,000	-
SMRT Corporation Ltd	Ordinary shares	10,000	-

**SORAK FINANCIAL HOLDINGS PTE. LTD.
AND ITS SUBSIDIARIES**

DIRECTORS' REPORT

For the financial year ended 31 December 2007

Directors' interests in shares or debentures (continued)

<u>Name of director and corporations in which interests held</u>	<u>Description of interests</u>	<u>Holdings in the name of the director, or their spouse or infant child</u>	
		<u>At 01.01.07/date of appointment</u>	<u>At 31.12.07</u>
<u>Clarence Kulasingam Poopalasingam</u>			
Singapore Airlines Limited	Ordinary shares	1,000	1,000
Singapore Telecommunications Limited	Ordinary shares	2,000	2,000
SP AusNet, a stapled group comprising SP Australia Networks (Finance) Trust, SP Australia Networks (Transmission) Ltd and SP Australia Networks (Distribution) Ltd	Stapled Securities (1)	6,000	6,000
<u>Bridget Lee Siow Pei</u>			
Singapore Telecommunications Limited	Ordinary shares	190	190
SP AusNet, a stapled group comprising SP Australia Networks (Finance) Trust, SP Australia Networks (Transmission) Ltd and SP Australia Networks (Distribution) Ltd	Stapled Securities (1)	2,000	2,000

- (1) Each stapled security in SP AusNet consists of:-
- A unit in SP Australia Networks (Finance) Trust;
 - A share in SP Australia Networks (Transmission) Ltd; and
 - A share in SP Australia Networks (Distribution) Ltd.

**SORAK FINANCIAL HOLDINGS PTE. LTD.
AND ITS SUBSIDIARIES**

DIRECTORS' REPORT

For the financial year ended 31 December 2007

Directors' contractual benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest, except as disclosed in the accompanying financial statements and in this report, and except that certain directors have employment relationships with the ultimate holding corporation, and have received remuneration in those capacities.

Temasek Staff Co-Investment Plan

Tow Heng Tan, Heng Chen Seng, Clarence Kulasingam Poopalasingam and Bridget Lee Siow Pei have each received an award of units granted under the Temasek Staff Co-Investment Plan (the "Plan") implemented by Temasek Holdings (Private) Limited ("Temasek"), the ultimate holding company of the Company, subject to certain performance conditions being met by Temasek and other terms and conditions. The units confer the right, when exercised, to receive cash payments, the value of which is based on the compounded total shareholders' return of Temasek over the period commencing from the financial year of Temasek during which the commencement date occurs and ending on the financial year of Temasek immediately preceding the exercise date, as calculated in accordance with the provisions of the Plan.

Share options

There were no options granted during the financial year to subscribe for unissued shares of the Company.

No shares have been issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.

There were no unissued shares of the Company under option at the end of the financial year.

**SORAK FINANCIAL HOLDINGS PTE. LTD.
AND ITS SUBSIDIARIES**

DIRECTORS' REPORT

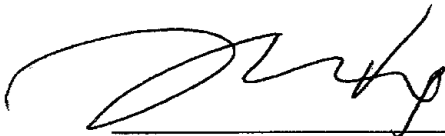
For the financial year ended 31 December 2007

Auditors

At an Extraordinary General Meeting of the Company held on 28 November 2007, KPMG was appointed as auditors of the Company in place of PricewaterhouseCoopers.

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

On behalf of the directors



Heng Chen Seng
Director



Bridget Lee Siow Pei
Director

7 April 2008

**SORAK FINANCIAL HOLDINGS PTE. LTD.
AND ITS SUBSIDIARIES**

STATEMENT BY DIRECTORS

For the financial year ended 31 December 2007

In the opinion of the directors,

- (a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 30 to 88 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

On behalf of the directors



Heng Chen Seng
Director



Bridget Lee Siow Pei
Director

7 April 2008



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Internet www.kpmg.com.sg

Independent auditors' report

Members of the Company
Sorak Financial Holdings Pte. Ltd.

We have audited the accompanying financial statements of Sorak Financial Holdings Pte. Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 30 to 88, which comprise the balance sheets of the Group and the Company as at 31 December 2007, consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements for the year ended 31 December 2006 were audited by another auditor whose report dated 27 March 2007 expressed an unqualified opinion on these statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the Act) and Singapore Financial Reporting Standards.

Management has acknowledged that its responsibility includes:

- (a) selecting and applying appropriate accounting policies; and
- (b) making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.



Sorak Financial Holdings Pte. Ltd.
Independent auditors' report
Year ended 31 December 2007

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion,

- (a) the consolidated financial statements of the Group and balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2007 and the results, changes in equity and cash flows of the Group for the year ended on that date; and
- (b) the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

KPMG

KPMG
Public Accountants and
Certified Public Accountants

Singapore
7 April 2008

**SORAK FINANCIAL HOLDINGS PTE. LTD.
AND ITS SUBSIDIARIES**

CONSOLIDATED INCOME STATEMENT
For the financial year ended 31 December 2007

	Note	Group	
		2007 \$'000	2006 \$'000
Interest income	4	891,345	1,053,807
Less: Interest expense	4	(492,792)	(616,352)
Net interest income		<u>398,553</u>	<u>437,455</u>
Fee and commission income (net)	5	177,043	167,812
Other income	6	67,710	7,517
Non-interest income		<u>244,753</u>	<u>175,329</u>
Net operating income		643,306	612,784
Less: Staff costs	7	(164,995)	(133,058)
Other operating expenses	8	(214,265)	(246,444)
Allowance for loan losses and impairment losses	9	(177,121)	(127,341)
Total operating expenses		<u>(556,381)</u>	<u>(506,843)</u>
Profit before income tax		86,925	105,941
Income tax expense	10	(25,932)	(9,419)
Profit for the year		<u>60,993</u>	<u>96,522</u>
Attributable to:			
Equity holders of the Company		46,513	48,037
Minority interests		14,480	48,485
		<u>60,993</u>	<u>96,522</u>

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

**SORAK FINANCIAL HOLDINGS PTE. LTD.
AND ITS SUBSIDIARIES**

BALANCE SHEETS

As at 31 December 2007

	Note	Group		Company	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Assets					
Cash and balances with the central bank	18	673,205	694,261	3,414	3,173
Government securities	19	1,150,886	1,701,618	-	-
Financial assets at fair value through profit or loss	20	201,991	373,562	-	-
Placements and balances with other banks	21	137,201	495,946	-	-
Loans and advances to non-bank customers	22	4,955,932	4,319,753	-	-
Other assets	23	181,325	213,423	-	24
Investment securities	24	903,041	936,348	-	-
Subsidiaries	25	-	-	475,263	475,263
Property and equipment	26	110,262	133,051	-	-
Deferred tax assets	10	22,148	18,720	-	-
Intangible assets	27	119,989	119,657	-	-
Total assets		8,455,980	9,006,339	478,677	478,460
Liabilities					
Deposits and balances of non-bank customers	13	5,685,013	6,301,439	-	-
Deposits and balances of other banks	14	583,455	485,793	-	-
Loans from immediate holding company	15	-	12	-	12
Borrowings	16	962,716	752,847	-	-
Current tax liabilities		18,540	9,801	8	23
Deferred tax liabilities	10	-	10,875	-	-
Provisions and other liabilities	17	288,413	429,717	493	427
Total liabilities		7,538,137	7,990,484	501	462
Net assets		917,843	1,015,855	478,176	477,998
Equity					
Capital and reserves attributable to equity holders of the Company					
Share capital	11	477,632	477,632	477,632	477,632
Reserves	12	(128,910)	(54,512)	-	-
Retained earnings		174,036	149,133	544	366
		522,758	572,253	478,176	477,998
Minority interests		395,085	443,602	-	-
Total equity		917,843	1,015,855	478,176	477,998
Off-balance sheet items					
Commitments	28	370,086	309,261	-	-
Financial derivatives	29	163,280	135,403	-	-

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

**SORAK FINANCIAL HOLDINGS PTE. LTD.
AND ITS SUBSIDIARIES**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the financial year ended 31 December 2007

Note	Attributable to equity holders of the Company							Minority interests	Total equity
	Share capital \$'000	Share premium \$'000	Currency translation reserve \$'000	Share option reserve \$'000	General reserve \$'000	Fair value reserve \$'000	Retained earnings \$'000	\$'000	\$'000
	477,632	-	(65,002)	6,584	1,503	2,403	149,133	443,602	1,015,855
	Balance at 1 January 2007								
	Net change in fair value of available-for-sale financial assets								
	-	-	-	-	-	(31,597)	-	(16,229)	(47,826)
	- Recognised in equity								
	-	-	-	-	-	(1,196)	-	(945)	(2,141)
	- Transferred to the income statement								
	Currency translation differences relating to financial statements of foreign subsidiaries								
	-	-	(49,369)	-	-	-	-	(39,371)	(88,740)
	Tax on gains taken to equity								
10	-	-	-	-	-	6,251	-	4,941	11,192
	Net losses recognised directly in equity								
	-	-	(49,369)	-	-	(26,542)	-	(51,604)	(127,515)
	Profit for the year								
	-	-	-	-	-	-	46,513	14,480	60,993
	Total recognised income and expenses for the year								
	-	-	(49,369)	-	-	(26,542)	46,513	(37,124)	(66,522)
	Employee share option scheme:								
	- Value of employee services								
7	-	-	-	4,298	-	-	-	3,398	7,696
	- Share options exercised								
	-	-	-	(3,346)	-	-	-	9,183	5,837
	Transfer to general reserve								
12	-	-	-	-	561	-	(561)	-	-
	Acquisitions of interests in subsidiaries								
25	-	-	-	-	-	-	-	(3,004)	(3,004)
	Dividends declared and paid								
	-	-	-	-	-	-	(21,049)	(20,970)	(42,019)
	477,632	-	(114,371)	7,536	2,064	(24,139)	174,036	395,085	917,843
	Balance at 31 December 2007								
	5,688	471,944	(63,414)	8,695	796	(6,893)	123,421	402,104	942,341
	Balance at 1 January 2006								
	Net change in fair value of available-for-sale financial assets								
	-	-	-	-	-	12,550	-	9,993	22,543
	- Recognised in equity								
	-	-	-	-	-	(401)	-	(311)	(712)
	- Transferred to the income statement								
	Currency translation differences relating to financial statements of foreign subsidiaries								
	-	-	(1,588)	-	-	-	-	(737)	(2,325)
	Tax on gains taken to equity								
10	-	-	-	-	-	(2,853)	-	(2,172)	(5,025)
	Net losses recognised directly in equity								
	-	-	(1,588)	-	-	9,296	-	6,773	14,481
	Profit for the year								
	-	-	-	-	-	-	48,037	48,485	96,522
	Total recognised income and expenses for the year								
	-	-	(1,588)	-	-	9,296	48,037	55,258	111,003
	Employee share option scheme:								
	- Value of employee services								
7	-	-	-	3,618	-	-	-	2,805	6,423
	- Share options exercised								
	-	-	-	(5,729)	-	-	-	14,617	8,888
	Transfer from share premium account to share capital upon implementation of the Companies (Amendment) Act 2005								
11	471,944	(471,944)	-	-	-	-	-	-	-
	Transfer to general reserve								
12	-	-	-	-	707	-	(707)	-	-
	Acquisitions of interests in subsidiaries								
25	-	-	-	-	-	-	-	(4,013)	(4,013)
	Dividends declared and paid								
	-	-	-	-	-	-	(21,618)	(27,169)	(48,787)
	477,632	-	(65,002)	6,584	1,503	2,403	149,133	443,602	1,015,855
	Balance at 31 December 2006								

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

**SORAK FINANCIAL HOLDINGS PTE. LTD.
AND ITS SUBSIDIARIES**

CONSOLIDATED CASH FLOW STATEMENT
For the financial year ended 31 December 2007

	Note	Group 2007 \$'000	2006 \$'000
Operating activities			
Profit for the year		60,993	96,522
Adjustments for:			
- Income tax expense	10	25,932	9,419
- Depreciation	26	25,156	23,021
- Net allowance for loan losses and impairment losses	9	177,121	127,341
- Share option expense	7	7,696	6,423
		<u>296,898</u>	<u>262,726</u>
Changes in operating assets and liabilities, net of effects from acquisition of subsidiaries:			
- Deposits and balances of non-bank customers		(616,426)	52,340
- Deposits and balances of other banks		97,662	23,984
- Mandatory deposits		9,357	(2,217)
- Placements and balances with the central bank and other banks		300,213	113,066
- Government securities and financial assets at fair value through profit or loss		683,528	353,455
- Loans and advances to non-bank customers		(774,650)	(572,943)
- Provisions and other liabilities		(142,868)	(374)
- Other assets		(23,201)	(7,903)
Cash generated from operations		<u>(169,487)</u>	<u>222,134</u>
Income taxes paid		(21,992)	(3,052)
Cash flows from operating activities		<u>(191,479)</u>	<u>219,082</u>
Investing activities			
Acquisition of subsidiaries	25	(5,492)	(7,145)
Net proceeds from sale/(purchase) of investment securities		37,175	(481,289)
Purchase of property, plant and equipment		(15,738)	(21,413)
Proceeds from sale of property and equipment		1,081	3,075
Cash flows from investing activities		<u>17,026</u>	<u>(506,772)</u>
Financing activities			
Net proceeds from borrowings		209,869	294,942
Dividends paid		(42,019)	(48,787)
Repayment of loan to the immediate holding company		(12)	(401)
Proceeds from issue of shares under share option scheme		5,557	8,825
Cash flows from financing activities		<u>173,395</u>	<u>254,579</u>
Net change in cash and cash equivalents		<u>(1,058)</u>	<u>(33,111)</u>
Cash and cash equivalents at beginning of the year		737,027	773,715
Effect of exchange rate fluctuations		(69,173)	(3,577)
Cash and cash equivalents at end of the year	18	<u>666,796</u>	<u>737,027</u>

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

**SORAK FINANCIAL HOLDINGS PTE. LTD.
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2007

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. Domicile and activities

Sorak Financial Holdings Pte. Ltd. (the "Company") is incorporated in the Republic of Singapore and has its registered office at 60B Orchard Road, #06-18 Tower 2, The Atrium@Orchard, Singapore 238891.

The principal activity of the Company is that of an investment holding company. The principal activities of its subsidiaries are set out in Note 25(b).

The immediate and ultimate holding companies during the financial year are Fullerton Financial Holdings Pte. Ltd. and Temasek Holdings (Private) Limited respectively. Both are incorporated in the Republic of Singapore.

The consolidated financial statements relate to the Company and its subsidiaries (together referred to as the "Group").

2. Significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared under the historical cost basis, except as disclosed in the accounting policies below.

The financial statements are presented in Singapore dollars which is the Company's functional currency. All financial information presented in Singapore dollars has been rounded to the nearest thousand, unless otherwise stated.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

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 affects.

The accounting policies used by the Group have been applied consistently to all periods presented in these financial statements.

**SORAK FINANCIAL HOLDINGS PTE. LTD.
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2007

2. Significant accounting policies (continued)

2.2 Revenue recognition

Revenue is recognised as follows:

(a) *Net interest income*

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

(b) *Fee and commission income (net)*

Fee and commission income is earned from a range of services rendered by the Group to its customers, comprising income earned from services rendered over a period of time and from providing transaction-type services.

Fees earned from providing services over a period of time is recognised over the service period during which the related service is provided or credit risk is undertaken. Fee and commission income from such services comprise mainly credit cards, loans, guarantees, fund management and other management and advisory fees. Fees earned from providing transaction-type services are recognised when the service has been performed, which include underwriting fees and brokerage income.

Fee and commission expenses are netted off against the gross fee and commission income in the consolidated income statement.

**SORAK FINANCIAL HOLDINGS PTE. LTD.
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2007

2. Significant accounting policies (continued)

2.2 Revenue recognition (continued)

(c) Dividend income

Dividends are recognised when the right to receive dividends is established.

2.3 Group accounting

(a) Subsidiaries

Subsidiaries are entities over which the Group has power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value on the date of acquisition, irrespective of the extent of any minority interests. Please refer to the paragraph "Intangible assets - Goodwill" for the accounting policy on goodwill on acquisition of subsidiaries.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests are that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned directly or indirectly by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the date of acquisition by the Group and the minorities' share of changes in equity since the date of acquisition, except when the losses applicable to the minority interests in a subsidiary exceed the minority interests in the equity of that subsidiary.

**SORAK FINANCIAL HOLDINGS PTE. LTD.
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2007

2. Significant accounting policies (continued)

2.3 Group accounting (continued)

(a) *Subsidiaries* (continued)

In such cases, the excess and further losses applicable to the minority interests are attributed to the equity holders of the Company, unless the minority interests have a binding obligation to, and are able to, make good the losses. When that subsidiary subsequently reports profits, the profits applicable to the minority interests are attributed to the equity holders of the Company until the minority interests' share of losses previously absorbed by the equity holders of the Company have been recovered.

Please refer to the paragraph "Investments in subsidiaries" for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

(b) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests, which result in gains and losses for the Group, are recorded in the consolidated income statement. The difference between any consideration paid to minority interests for purchases of additional equity interest in a subsidiary and the incremental share of the carrying value of the net assets of the subsidiary is recognised as goodwill.

2.4 Property and equipment

(a) *Measurement*

(i) *Land and buildings*

Land and buildings are initially recognised at cost.

Freehold land is subsequently carried at cost less accumulated impairment losses. Buildings and leasehold land are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

(ii) *Other property and equipment*

All other items of property and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

**SORAK FINANCIAL HOLDINGS PTE. LTD.
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2007

2. Significant accounting policies (continued)

2.4 Property and equipment (continued)

(a) *Measurement (continued)*

(iii) *Components of costs*

The cost of an item of property and equipment includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The projected cost of dismantlement, removal or restoration is also included as part of the cost of property and equipment if the obligation for the dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

(b) *Depreciation*

Freehold land is not depreciated. Buildings including leasehold improvements are depreciated on a straight-line basis over their estimated useful lives of 4 to 20 years. Depreciation on other property and equipment are depreciated on a reducing balance basis at annual depreciation rates of 25% to 50%.

The residual values and useful lives of property and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision of the residual values and useful lives are included in the consolidated income statement for the financial year in which the changes arise.

(c) *Subsequent expenditure*

Subsequent expenditure relating to property and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Other subsequent expenditure is recognised as repair and maintenance expense in the consolidated income statement during the financial year in which it is incurred.

(d) *Disposal*

On disposal of an item of property and equipment, the difference between the net disposal proceeds and its carrying amount is taken to the consolidated income statement.

**SORAK FINANCIAL HOLDINGS PTE. LTD.
AND ITS SUBSIDIARIES**

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2007

2. Significant accounting policies (continued)

2.5 Intangible assets - Goodwill

Goodwill represents the excess of the cost of an acquisition of subsidiaries, joint ventures or associated companies over the fair value of the Group's share of the identifiable net assets of the acquired subsidiaries at the date of acquisition. Goodwill arising from acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Goodwill recognised separately as intangible assets is tested at least annually for impairment and carried at cost less accumulated impairment losses.

Gains and losses on the disposal of the subsidiaries include the carrying amount of goodwill relating to the entity sold.

2.6 Investments in subsidiaries

Investments in subsidiaries are stated at cost less accumulated impairment losses in the Company's balance sheet. On disposal of investments in subsidiaries, the difference between net disposal proceeds and the carrying amount of the investments are taken to the income statement.

2.7 Impairment of non-financial assets

(a) *Goodwill*

Goodwill is tested annually for impairment, as well as when there is any indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating-units (CGU) expected to benefit from synergies arising from the business combination. The Group considers each individual investment as a separate CGU and measures its recoverable value based on fair value less costs to sell which is determined using an observable market price for each CGU, or utilises value-in-use calculations from a discounted cash flow model using cash flow projections based on financial budgets and forecasts.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. Recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use. The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU. An impairment loss on goodwill is recognised in the consolidated income statement and is not reversed in a subsequent period.

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For the financial year ended 31 December 2007

2. Significant accounting policies (continued)

2.7 Impairment of non-financial assets (continued)

(b) Property and equipment and investments in subsidiaries

Property and equipment and investments in subsidiaries are reviewed for impairment whenever there is any indication that these assets may be impaired. If any such indication exists, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) of the asset is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined based on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs to.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The impairment loss is recognised in the consolidated income statement.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the assets in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the consolidated income statement.

2.8 Investments in financial assets

(a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date. The designation of financial assets at fair value through profit or loss is not revocable.

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2. Significant accounting policies (continued)

2.8 Investments in financial assets (continued)

(a) Classification (continued)

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed, and their performance are evaluated on a fair value basis, in accordance with a documented Group's investment strategy or are hybrid contracts which contain one or more embedded derivatives.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise mainly "placements and balances with banks" and "loans to and bills receivable from customers" on the consolidated balance sheet.

(iii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

(b) Recognition and derecognition

Financial assets are recognised when the Group becomes a party to the contracted provisions of the financial asset. In particular, loans and receivables are recognised when cash is advanced to borrowers. Regular purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset.

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For the financial year ended 31 December 2007

2. Significant accounting policies (continued)

2.8 Investments in financial assets (continued)

(b) Recognition and derecognition (continued)

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

On the sale of a financial asset, the difference between the net sale proceeds and its carrying amount is taken to the consolidated income statement. Any amount in the fair value reserve relating to that asset is also taken to the consolidated income statement.

(c) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs, except for financial assets at fair value through profit or loss, which are recognised at fair value. Transaction costs for financial assets at fair value through profit and loss are recognised in the consolidated income statement.

(d) Subsequent measurement

Financial assets classified as available-for-sale and at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and financial assets classified as held-to-maturity are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of 'financial assets at fair value through profit or loss', including interest and dividend income, in relation to such financial assets are presented in the consolidated income statement in the financial year in which the changes in fair values arise.

Changes in the fair value of monetary assets denominated in a foreign currency and classified as available-for-sale are analysed into translation differences resulting from changes in the amortised cost of the financial asset and other changes. The translation differences are recognised in the consolidated income statement, and other changes are recognised in the fair value reserve within equity. Changes in fair values of other monetary and non-monetary financial assets that are classified as available-for-sale are recognised in the fair value reserve within equity.

Interest income on financial assets classified as available-for-sale, calculated using the effective interest method, is recognised in the consolidated income statement. Dividend income on available-for-sale equity securities are recognised in the consolidated income statement when the Group's right to receive payment is established.

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NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2007

2. Significant accounting policies (continued)

2.8 Investments in financial assets (continued)

(d) Subsequent measurement (continued)

When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in the fair value reserve within equity are included in the consolidated income statement.

(e) Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(i) Loans and receivables

An allowance for impairment of loans and receivables, including trade and other receivables, is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the allowance for impairment is recognised in the consolidated income statement.

(ii) Held-to-maturity financial assets

If there is objective evidence that an impairment loss on held-to-maturity financial assets has incurred, the carrying amount of the asset is reduced by an allowance for impairment. This allowance, calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate, is recognised in the consolidated income statement in the period in which the impairment occurs.

Impairment loss is reversed through the consolidated income statement. The carrying amount of an held-to-maturity financial asset that is previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost as if no impairment had been recognised in prior periods.

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For the financial year ended 31 December 2007

2. Significant accounting policies (continued)

2.8 Investments in financial assets (continued)

(e) Impairment (continued)

(iii) Available-for-sale financial assets

In the case of a financial asset classified as available-for-sale, a significant or prolonged decline in the fair value below its cost is considered an indicator that the available-for-sale financial asset is impaired.

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that has been recognised directly in the fair value reserve is removed from the fair value reserve within equity and recognised in the consolidated income statement. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in consolidated income statement.

Impairment losses on debt instruments classified as available-for-sale financial assets are reversed through the consolidated income statement. Impairment losses on equity instruments classified as available-for-sale financial assets are not reversed through the consolidated income statement.

2.9 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. These financial guarantees are given to other parties on behalf of customers, such as in order to secure borrowings.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less cumulative amortisation calculated to recognise in the consolidated income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

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For the financial year ended 31 December 2007

2. Significant accounting policies (continued)

2.10 Foreclosed properties

Foreclosed property is recognised at its net realisable value. Any shortfall between the value of the foreclosed property and the remaining loan principal will be charged to the consolidated income statement in the financial year the foreclosed property is taken over in satisfaction of the debt. Market value of the foreclosed property is based on the appraised value of an independent appraiser less cost to sell.

Any difference between the book value of the foreclosed property and the proceeds from its sale is recognised in the consolidated income statement as a gain or loss on disposal of such property at the date of disposal.

2.11 Financial liabilities

Financial liabilities comprise borrowings. Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

2.12 Derivative financial instruments

A derivative financial instrument is initially recognised at its fair value on the date the contract is entered into and is subsequently remeasured at its fair value. Subsequent change in fair value are recorded as derivative receivables (under "Other assets") and derivative payables (under "Provisions and other liabilities").

As the Group does not adopt hedge accounting, fair value changes for derivative instruments are included in the consolidated income statement in the financial year when the changes arise.

2.13 Fair value estimation

The carrying amounts of financial assets and liabilities with maturities of less than 12 months, carried at amortised cost, are assumed to approximate their fair values.

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets held by the Group are the current bid prices; the appropriate quoted market prices for financial liabilities are the current ask price. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2007

2. Significant accounting policies (continued)

2.13 Fair value estimation (continued)

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as estimated discounted cash flows, are also used to determine the fair values of the financial instruments.

The fair values of financial liabilities carried at amortised cost are estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Group for similar financial liabilities.

2.14 Income taxes

Current tax liabilities (and assets) for current and prior periods are recognised at the amounts expected to be paid to (or recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date.

Deferred tax assets/liabilities are recognised for all deductible taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred tax assets/liabilities arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred tax liability is recognised on temporary differences arising on investments in subsidiaries and associated companies, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Deferred tax assets and liabilities are measured at:

- (i) the tax rates that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date; and

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NOTES TO THE FINANCIAL STATEMENTS

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2. Significant accounting policies (continued)

2.14 Income taxes (continued)

- (ii) the tax consequence that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred tax are recognised as income or expenses in the consolidated income statement for the period, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax on temporary differences arising from fair value gains and losses on available-for-sale financial assets are charged or credited directly to equity in the same period the temporary differences arise. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

2.15 Provisions and other liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably measured. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in the consolidated income statement as interest expense.

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in the consolidated income statement for the period the changes in estimates arise except for asset dismantlement, removal and restoration costs, which are adjusted against the cost of the related property and equipment unless the decrease in the liability exceeds the carrying amounts of the asset. In such cases, the excess of the decrease over the carrying amount of the asset or the changes in the liability is recognised in the consolidated income statement immediately.

2.16 Employee compensation

(a) *Employee leave entitlement*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

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NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2007

2. Significant accounting policies (continued)

2.16 Employee compensation (continued)

(b) Defined contribution plan and other employee benefits

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The Group's contributions are recognised as employee compensation expense when they are due.

Other post employment benefits, and termination benefits are calculated for past service rendered by employees using an actuarial Projected Unit Credit method in accordance with Labour Law No. 13/2003 and a provision is made for the estimated liability when incurred.

(c) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the consolidated income statement with a corresponding increase in the share option reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted on the date of the grant. Non-market vesting conditions are included in the estimation of the number of shares under options that are expected to become exercisable on the vesting date. At each balance sheet date, the Group revises its estimates of the number of shares under options that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in the consolidated income statement, with a corresponding adjustment to the share option reserve over the remaining vesting period.

When the options are exercised, the proceeds received (net of any directly attributable transaction costs) and the related balance previously recognised in the share option reserve are credited to share capital, when new ordinary shares are issued.

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NOTES TO THE FINANCIAL STATEMENTS
For the financial year ended 31 December 2007

2. Significant accounting policies (continued)

2.17 Currency translation

(a) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency translation gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in the consolidated income statement, except for currency translation differences on the net investment in foreign operations, which are included in the currency translation reserve within equity.

Changes in the fair value of monetary financial assets denominated in foreign currencies classified as available-for-sale are analysed into currency translation differences on the amortised cost of the securities, and other changes. Currency translation differences on the amortised cost are recognised in the consolidated income statement, and other changes are recognised in fair value reserve within equity.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined. Currency translation differences on non-monetary items, whereby the gains or losses are recognised in the consolidated income statement are reported in "net foreign exchange gain or loss". Currency translation differences on non-monetary items whereby the gains or losses are recognised directly in equity are included in the fair value reserve.

(b) Translation of Group entities' financial statements

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each balance sheet are translated at the closing rate at the date of that balance sheet;
- (ii) Income and expenses for each income statement are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and

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NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2007

2. Significant accounting policies (continued)

2.17 Currency translation (continued)

(b) Translation of Group entities' financial statements (continued)

- (iii) All resulting exchange differences are taken to the currency translation reserve within equity.

Goodwill and fair value adjustments arising on the acquisition of foreign operations on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and translated at the closing rates at the date of the balance sheet. For acquisitions prior to 1 January 2005, the exchange rates at the dates of acquisition were used.

(c) Consolidation adjustments

On consolidation, currency translation differences arising from the net investment in foreign operations and borrowings in foreign currencies are taken to the currency translation reserve. When a foreign operation is sold, such currency translation differences recorded in the currency translation reserve are recognised in the consolidated income statement as part of the gain or loss on sale.

2.18 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and non-restricted balances with central banks and current accounts with other banks, which are repayable on demand.

2.19 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

2.20 Dividends

Interim dividends are recorded in the financial year in which they are declared payable. Final dividends are recorded in the financial year in which the dividends are approved by the shareholders.

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NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2007

2. Significant accounting policies (continued)

2.21 Off-setting financial instruments

Financial assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.22 Sale and repurchase agreements

The counterparty liability in relation to securities sold subject to repurchase agreements ('repos') is included in deposits from and balances of other banks or deposits from non-bank customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as placements and balances with other banks or loans and advances to non-bank customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties pursuant to repos are retained in the consolidated financial statements. Securities borrowed pursuant to reverse repos are not recognised in the consolidated financial statements.

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3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) *Estimated impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.7(a). The recoverable amounts of cash-generating units ("CGU") have been determined based on the observable market price for each CGU or value-in-use calculations. These calculations require the use of estimates (Note 27).

(ii) *Income taxes*

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the capital allowances and deductibility of certain expenses during the estimation of the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.