

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2007

3. Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and assumptions (continued)

(iii) Fair value estimation

The Group holds certain financial instruments that are not traded in an active market. For securities where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying securities. For government bonds where there are no quoted market prices, a reasonable estimate of the fair value is calculated using a yield-to-maturity approach.

The fair value of non-current financial assets and financial liabilities, which reprice at periods of greater than one year, for disclosure purpose is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

The fair values of the financial instruments are mainly exposed to the volatility in the global capital and financial markets. The fair values of financial instruments which are not traded in an active market are based on management's best estimates, utilising market observable data as of the balance sheet date. Accordingly, any worsening of global capital and financial market conditions, which are beyond the control of the Group, could adversely affect the fair values of the Group's financial instruments.

(b) Critical judgements in applying the entity's accounting policies

(i) Impairment of available-for-sale financial assets

The Group follows the guidance of FRS 39 on determining when an investment is other-than-temporarily impaired. This determination requires significant judgement. The Group evaluates the duration and extent to which the fair value of an investment is less than its cost; the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

(iii) Impairment loss on loans

The Group follows the guidance of FRS 39 to determine when its loans to customers are impaired. The determination of whether the loans are impaired requires considerable judgement whether objective evidence of impairment exists at the balance sheet date.

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4. Net interest income

| | <u>Group</u> | |
|---|----------------|------------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Interest income analysed by major sources: | | |
| - Loans and deposits | 670,632 | 759,045 |
| - Investments | 216,570 | 292,281 |
| - Others | 4,143 | 2,481 |
| | <u>891,345</u> | <u>1,053,807</u> |
| Interest expense analysed by major sources: | | |
| - Deposits | 332,186 | 532,331 |
| - Borrowings | 146,876 | 71,004 |
| - Others | 13,730 | 13,017 |
| | <u>492,792</u> | <u>616,352</u> |

The majority of interest income and expense are derived from or incurred on financial assets and liabilities not designated at fair value through profit or loss.

5. Fee and commission income (net)

Fee and commission income comprises commission, fees related to lending activities and all other fee-related income.

Fee and commission income is presented net of fee and commission expense amounting to \$2,707,000 (2006: \$2,310,000).

6. Other income

| | <u>Group</u> | |
|---|---------------|--------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Net profit on disposal of securities | 8,970 | 2,256 |
| Net change in fair value of financial assets at fair value through profit or loss | 9,359 | (13,785) |
| Net foreign exchange gain | 31,893 | 15,031 |
| Others | 17,488 | 4,015 |
| | <u>67,710</u> | <u>7,517</u> |

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7. Staff costs

| | <u>Group</u> | |
|---|----------------|----------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Wages and salaries | 117,297 | 107,920 |
| Employer's contribution to defined benefit plans | 13,002 | 11,879 |
| Employer's contribution to defined contribution plans | 1,593 | 1,380 |
| Share option expense | 7,696 | 6,423 |
| Others | 25,407 | 5,456 |
| | 164,995 | 133,058 |

8. Other operating expenses

| | <u>Group</u> | |
|-----------------------------|----------------|----------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Depreciation (Note 26) | 25,156 | 23,021 |
| Rental expense | 32,915 | 34,266 |
| Legal and professional fees | 1,852 | 4,526 |
| Travelling expenses | 5,793 | 6,129 |
| Communications | 16,727 | 17,127 |
| Advertising and promotions | 21,866 | 24,302 |
| Repairs and maintenance | 11,678 | 15,648 |
| Water and electricity | 6,481 | 6,912 |
| Research and development | 6,295 | 5,440 |
| Others | 85,502 | 109,073 |
| | 214,265 | 246,444 |

9. Allowance for loan losses and impairment losses

| | <u>Group</u> | |
|---|----------------|----------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Allowance for loan losses (Note 22(b)) | 138,471 | 132,700 |
| Writeback for impairment loss of investment securities | (3,868) | (83) |
| Allowance/(writeback) for impairment loss of other assets | 40,674 | (5,613) |
| Allowance for other contingencies | 1,844 | 337 |
| | 177,121 | 127,341 |

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10. Income taxes

(a) Income tax expense

| | <u>Group</u> | |
|---|---------------|--------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Tax expense attributable to profit is made up of: | | |
| Current income tax: | | |
| - Singapore | 8 | 23 |
| - Foreign | 32,293 | 2,519 |
| Deferred income tax | (6,369) | 4,668 |
| | <u>25,932</u> | <u>7,210</u> |
| Under provision in preceding financial years | | |
| - Current income tax - foreign | - | 2,209 |
| | <u>25,932</u> | <u>9,419</u> |

The tax expense on profit differs from the amount that would arise using the Singapore standard rate of income tax due to the following:

| | <u>Group</u> | |
|---|---------------|--------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Profit before tax | <u>86,925</u> | 105,941 |
| Tax calculated at a tax rate of 18% (2006: 20%) | 15,647 | 21,188 |
| Effects of: | | |
| - Different tax rate in other country | 12,418 | 4,811 |
| - Expenses not deductible for tax purposes | 5,097 | 10,896 |
| - Income not subject to tax | (7,230) | (29,660) |
| - Utilisation of previously unrecognised tax losses | - | (25) |
| Tax charge | <u>25,932</u> | <u>7,210</u> |

The applicable tax rate in relation to the Company was reduced from 20% to 18% in the current financial year, as announced by the Minister of Finance of Singapore in his Budget on 15 February 2008.

(b) Deferred tax assets

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses at 31 December 2006 of \$40,967,000 which could be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies with unrecognised tax losses in their respective countries of incorporation. Unrecognised tax losses as at 31 December 2006 have expired during the year.

Deferred income tax taken into equity during the financial year is as follows:

| | <u>Group</u> | |
|--------------------|---------------|----------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Fair value reserve | <u>11,192</u> | <u>(5,025)</u> |

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10. Income taxes (continued)

(b) Deferred tax assets (continued)

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

Deferred tax assets

| | <u>Group</u> | |
|--|----------------------|----------------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| <i>Provisions</i> | | |
| Balance at beginning of financial year | 15,652 | 14,239 |
| (Charged)/credited to income statement | (771) | 1,763 |
| Currency translation difference | (1,409) | (350) |
| Balance at end of financial year | <u>13,472</u> | <u>15,652</u> |
| <i>Others</i> | | |
| Balance at beginning of financial year | 3,068 | 5,071 |
| Credited/(charged) to income statement | 15,731 | (2,019) |
| Currency translation difference | (2,235) | 16 |
| Balance at end of financial year | <u>16,564</u> | <u>3,068</u> |
| <i>Fair Value Loss</i> | | |
| Balance at beginning of financial year | - | 3,907 |
| Credited/(debited) to equity | 10,074 | (3,907) |
| Currency translation difference | (597) | - |
| Balance at end of financial year | <u>9,477</u> | <u>-</u> |
| Total deferred tax assets | <u>39,513</u> | <u>18,720</u> |

(c) Deferred tax liabilities

| | <u>Group</u> | |
|--|---------------|---------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| <i>Others</i> | | |
| Balance at beginning of financial year | 9,757 | 5,329 |
| Charged to income statement | 8,591 | 4,412 |
| Currency translation difference | (983) | 16 |
| Balance at end of financial year | <u>17,365</u> | <u>9,757</u> |

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10. Income taxes (continued)

(c) Deferred tax liabilities (continued)

| | <u>Group</u> | |
|--|-------------------|-------------------|
| | 2007 \$'000 | 2006 \$'000 |
| <i>Fair Value Gains</i> | | |
| Balance at beginning of financial year | 1,118 | - |
| (Credited)/debited to equity | <u>(1,118)</u> | 1,118 |
| Balance at end of financial year | - | <u>1,118</u> |
| Total deferred tax liabilities | <u>17,365</u> | <u>10,875</u> |

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The amounts determined after appropriate offsetting are included in the balance sheet as follows:

| | <u>Group</u> | |
|--------------------------|----------------|----------------|
| | 2007 \$'000 | 2006 \$'000 |
| Deferred tax assets | 22,148 | 18,720 |
| Deferred tax liabilities | - | <u>10,875</u> |

11. Share capital

| | <u>Number of shares</u> | | <u>Amount</u> | | |
|---|--|------------------------------------|--|----------------------------|--------------------------------------|
| | Authorised share capital '000 | Issued share capital '000 | Authorised share capital \$'000 | Share premium \$'000 | Issued share capital \$'000 |
| 2007 | | | | | |
| Beginning of financial year | | | | | |
| -A shares | - | 4,669 | - | - | 396,515 |
| -B shares | - | 1,019 | - | - | 81,117 |
| | <u>-</u> | <u>5,688</u> | <u>-</u> | <u>-</u> | <u>477,632</u> |
| Issuance of A shares | - | 1,019 | - | - | 81,117 |
| Conversion of B Shares to A Shares | - | (1,019) | - | - | (81,117) |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| End of financial year | | | | | |
| -A shares | - | 5,688 | - | - | 477,632 |
| | <u>-</u> | <u>5,688</u> | <u>-</u> | <u>-</u> | <u>477,632</u> |
| 2006 | | | | | |
| Beginning of financial year | | | | | |
| -A shares | 790,000 | 4,669 | 790,000 | 391,846 | 4,669 |
| -B shares | 200,000 | 1,019 | 200,000 | 80,098 | 1,019 |
| -C shares | 1,000,000 | - | 1,000,000 | - | - |
| | <u>1,990,000</u> | <u>5,688</u> | <u>1,990,000</u> | <u>471,944</u> | <u>5,688</u> |
| Effect of Companies (Amendment) Act 2005 | (1,990,000) | - | (1,990,000) | (471,944) | 471,944 |
| End of financial year | <u>-</u> | <u>5,688</u> | <u>-</u> | <u>-</u> | <u>477,632</u> |

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11. Share capital (continued)

All issued shares are fully paid, with no par value.

The A Shares, B Shares and C Shares (the "Shares") have the same rights as, and rank *pari passu* with, each other, except as follows:

- (i) in a winding-up or dissolution of the Company, after all the liabilities of the Company have been paid or otherwise provided for, any remaining assets of the Company available for distribution shall be distributed among the holders of the A Shares, the B Shares and the C Shares pro-rata in accordance with the nominal capital of such shares, provided that the holders of the C Shares shall be entitled in preference to the holders of the A Shares and the B Shares to receive the first \$0.01 of any such distribution;
- (ii) the holders of the A Shares, the holders of the B Shares and the holders of the C Shares shall be entitled to receive pro-rata in accordance with the nominal capital of such Shares any dividends declared by the Board of Directors of the Company provided that the holders of the C Shares shall be entitled, in preference to the holders of A Shares and the holders of B Shares, to receive the first \$0.01 of any such dividends declared;
- (iii) at a general meeting of the Company, each holder of the B Shares shall be entitled to M votes per B Share, where:

$$M = \frac{46.68 \times A}{53.32 \times B}$$

where

A = the total number of all Shares (other than B Shares) issued and paid up from time to time; and

B = the total number of B Shares issued and paid up from time to time.

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11. Share capital (continued)

- (iv) The holders of C Shares shall not be entitled to any voting rights in the Company, except:
- (I) when any dividend on the C Shares is in arrear and unpaid for more than six months after the due date of the dividend;
 - (II) upon a resolution which varies the rights attached to the C Shares; or
 - (III) upon any resolution for the winding-up of the Company,
- in which case the holders of the C Shares shall have one vote for each C Share held.
- (v) The Company shall mandatorily convert all or any of the B Shares into A Shares at the conversion ratio of 1 B Share for 1 A Share upon notice by Fullerton Financial Holdings Pte. Ltd. requiring such conversion. The holders of the C Shares may at any time convert, or be required by the Company to convert, all or any of the C Shares into A Shares at the conversion ratio of 100 C Shares for 1 A Share. All A Shares issued upon the conversion of the B Shares or C Shares shall be issued fully-paid and rank *pari passu* in all respects with the then existing A Shares.

12. Reserves

| | <u>Group</u> | |
|------------------------------|------------------|-----------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| General reserve | 2,064 | 1,503 |
| Fair value reserve | (24,139) | 2,403 |
| Share option reserve | 7,536 | 6,584 |
| Currency translation reserve | (114,371) | (65,002) |
| | <u>(128,910)</u> | <u>(54,512)</u> |

General reserve

As at 31 December 2007, the Company's subsidiary set up a capital reserve of \$2,064,000 (2006: \$1,503,000) in accordance with Indonesian Limited Company Law No. 40/2007 which requires Indonesian companies to set aside a general reserve amounting to at least 20% of the issued and paid up share capital. There is no set period of time over which this amount should be maintained.

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12. Reserves (continued)

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale securities held until the securities are derecognised.

Share option reserve

The share option reserve comprises the cumulative value of employee services received for the issue of share options, in relation to the employee share option plan of the Company's subsidiary, PT Bank International Indonesia Tbk ("BII").

Employee Share Option Plan of BII

Based on the Shareholders' Extraordinary General Meeting on 30 June 2004, the shareholders of BII approved the Employee Share Option Plan ("ESOP"). Directors and employees of this subsidiary, having met certain requirements, will be given an option to participate/buy the ESOP share, without pre-emptive rights, at the exercise price determined by the subsidiary's Remuneration Committee, subject to the prevailing capital market regulation in Indonesia. The share option term is eight years from the date of the grant.

BII plans to issue additional Series D shares for the options granted, up to a maximum of 5% of the total shares issued and fully paid up in the subsidiary of the Company, or in total 2,389,167,311 Series D shares.

| | No. of options 2007 ('000) | Weighted average exercise price 2007 Rp | No. of options 2006 ('000) | Weighted average exercise price 2006 Rp |
|-------------------------------|-------------------------------------|---|-------------------------------------|---|
| At 1 January | 1,922,408 | 176.57 | 1,374,780 | 140.00 |
| Granted | - | - | 995,275 | 223.66 |
| Forfeited | (106,363) | 185.82 | (66,353) | 140.04 |
| Exercised | (416,552) | 151.01 | (381,294) | 135.74 |
| As 31 December | <u>1,399,493</u> | <u>183.48</u> | <u>1,922,408</u> | 176.57 |
| Exercisable at 31 December | 630,138 | 183.48 | 801,630 | 176.57 |

The schedule of options issued is as follows:

| | Grant date | Vesting 1 | Vesting 2 | Vesting 3 | Exercise price Rp |
|-------------|-----------------|-----------------|------------------|------------------|-------------------------|
| Tranche I | 1 December 2004 | 30 June 2005 | 31 December 2005 | 31 December 2006 | 131.10 |
| Tranche II | 1 November 2005 | 31 October 2006 | 31 October 2007 | 31 October 2008 | 150.00 |
| Tranche III | 1 November 2006 | 31 October 2007 | 31 October 2008 | 31 October 2009 | 209.20 |

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12. Reserves (continued)

Employee Share Option Plan of BII (continued)

The new shares are granted from the authorised capital, and not from issued or repurchased share capital.

The fair value of each share option is estimated on the grant date using the Modified Black-Scholes option pricing model, with the following principal assumptions:

| Date of grant of options | Tranche 1 1 December 2004 Rp | Tranche 2 1 November 2005 Rp | Tranche 3 1 November 2006 Rp |
|-----------------------------|------------------------------------|------------------------------------|------------------------------------|
| Fair value at measured date | 89.26 – 111.56 | 58.94 – 68.85 | 71.90 – 77.24 |
| Share price | 175.00 | 145.00 | 205.00 |
| Exercise price | 131.10 | 150.00 | 209.20 |
| Expected volatility | 74.58% | 43.87% | 29.47% |
| Expected option life | 1.7 – 3.3 years | 3.5 – 5.0 years | 5.0 – 5.9 years |
| Expected dividends | 0.00% | 2.75% | 2.75% |
| Risk-free interest rate | 8.75% | 14.17% | 10.42% |

The expected volatility is based on the historical volatility.

Currency translation reserve

The currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the functional currency of the Company.

13. Deposits and balances of non-bank customers

| | <u>Group</u> | |
|------------------|------------------|------------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Current accounts | 1,474,862 | 1,546,765 |
| Savings accounts | 1,101,550 | 951,664 |
| Time deposits | 3,108,601 | 3,803,010 |
| | <u>5,685,013</u> | <u>6,301,439</u> |

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14. Deposits and balances of other banks

| | <u>Group</u> | |
|-----------------------|----------------|----------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Saving deposits | 57,445 | - |
| Call accounts | 174,213 | 283,143 |
| Current accounts | 152,365 | 60,665 |
| Time deposits | 45,345 | 40,122 |
| Repurchase agreements | 154,087 | 101,863 |
| | <u>583,455</u> | <u>485,793</u> |

15. Loans from immediate holding company

As at 31 December 2007, there are no outstanding loans from the immediate holding company. The loans from the immediate holding company of \$12,000 as at 31 December 2006 were unsecured, interest-free and repayable on demand.

16. Borrowings

| | <u>Group</u> | |
|--|----------------|----------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Loans from Bank Indonesia ("BI") ^(a) | 37,015 | 54,904 |
| Bonds issued ^(b) | 326,243 | 247,835 |
| Subordinated loans ^(c) | 212,487 | 224,206 |
| Motor vehicle ownership financing ^(d) | 358,812 | 187,297 |
| Others ^(e) | 28,159 | 38,605 |
| | <u>962,716</u> | <u>752,847</u> |

(a) Included in loans from BI are credit facilities obtained from international funding institutions through BI which are used to finance specific projects in Indonesia. These loans bear variable interest rates and their maturity ranges from 11 years to 20 years.

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16. Borrowings (continued)

- (b) These relate to three tranches of bonds denominated in Indonesian Rupiah as follows:

| | <u>Group</u> | |
|--|----------------|----------------|
| | 2007 \$'000 | 2006 \$'000 |
| Issuance date | | |
| - 31 October 2003 | - | 25,466 |
| - 26 May 2005 | 47,668 | 84,886 |
| - 24 May 2006 | 126,859 | 140,062 |
| - 29 May 2007 | 153,769 | - |
| Total nominal value | <u>328,296</u> | <u>250,414</u> |
| Less: Unamortised bond's issuance cost | <u>(2,053)</u> | <u>(2,579)</u> |
| | <u>326,243</u> | <u>247,835</u> |

These loans bear fixed interest rates of 11.25% to 15.35% per annum and their maturity ranges from 2 years to 4 years. They are generally secured with fiduciary transfer of the subsidiary's consumer financing receivables from third parties relating to the financing of the purchases of motor vehicles.

- (c) On 28 April 2005, BII issued subordinated notes listed on the Singapore Stock Exchange of US\$150 million (2006: US\$150 million) or \$212 million (2006: \$224 million). The subordinated notes are unsecured and subordinated to all other obligations of BII. The notes will expire on 28 April 2015, with an option to call by BII on 28 April 2010 subject to approval from BI.

The notes bear interest at a rate of 7.75% per annum and will reset at US Treasury rate plus 7.424% per annum on 28 April 2010 unless previously redeemed.

- (d) This relates to loans and credit facilities for motor vehicle ownership financing. These loans and credit facilities bear variable interest rates and their maturity ranges from 1 year to 5 years. They are generally secured or guaranteed with the subsidiary's consumer financing receivables from third parties.
- (e) This relates to overdraft current accounts with other banks.

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17. Provisions and other liabilities

| | <u>Group</u> | | <u>Company</u> | |
|---|----------------|----------------|----------------|----------------|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Derivative payables (Note 29) | 557 | 1,754 | - | - |
| Interest payable | 24,359 | 26,862 | - | - |
| Payables on joint financing transactions | 130,965 | 229,232 | - | - |
| Provision for employee benefits ^(a) | 23,220 | 30,632 | - | - |
| Accruals for operating expenses | 25,296 | 34,119 | 493 | 427 |
| Allowances for other contingencies ^(b) | 9,484 | 7,919 | - | - |
| Payables to credit card merchants | 21,201 | 28,084 | - | - |
| Transfers and cheques for collection and clearing | 10,497 | 8,736 | - | - |
| Margin deposits | 8,991 | 5,833 | - | - |
| Unclaimed matured deposits | 157 | 578 | - | - |
| Advances from customers | 12,473 | 18,122 | - | - |
| Payables to motor dealers | 5,192 | 14,866 | - | - |
| Others | 16,021 | 22,980 | - | - |
| | 288,413 | 429,717 | 493 | 427 |

(a) Provision for employee benefits

The provision for employee benefits consists of unfunded obligations for service payments, severance payments, termination benefits, pension plan contribution and other employee compensation, calculated using the "Projected Unit Credit" method.

| | <u>Group</u> | |
|---|-----------------|-----------------|
| | 2007 \$'000 | 2006 \$'000 |
| Current service cost | 5,896 | 4,830 |
| Interest cost | 4,967 | 5,069 |
| Net actuarial losses recognised during the year | 593 | 135 |
| Amortisation of past service costs – non vested | 730 | 1,619 |
| | 12,186 | 11,653 |
| Present value of defined benefit obligations | (58,759) | (54,734) |
| Fair value of plan assets | - | - |
| | (58,759) | (54,734) |
| Unrecognised amounts of: | | |
| Actuarial losses | 30,052 | 17,236 |
| Past service costs | 5,487 | 6,866 |
| Net liability in the balance sheet | (23,220) | (30,632) |

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Changes in the present value of the defined benefit obligations are as follows:

| | <u>Group</u> | |
|--|-----------------|-----------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Balance at beginning of financial year | (30,632) | (44,162) |
| Employee benefit expense during the year | (13,002) | (11,879) |
| Benefits paid | 17,830 | 8,061 |
| Actuarial calculation difference | - | 17,742 |
| Currency translation difference | 2,584 | (394) |
| Balance at end of financial year | <u>(23,220)</u> | <u>(30,632)</u> |

The key assumptions used in the calculation are as follows:

| | <u>Indonesia's Commissioner's Standard Ordinary table (CSO 1980)</u> |
|--|--|
| <u>Mortality rate</u> | |
| Normal pension age | |
| - Age less than 30 years | 10% per annum |
| - Age 30 to 40 years | 5% per annum |
| - Age 45 years and over | 2% per annum |
| Salary increase rate | 8.5% per annum |
| Actuary interest rate | 10.5% per annum |
| Remaining years of service employee | 20 years |

(b) Allowance for other contingencies comprises:

| | <u>Group</u> | |
|--|--------------|--------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Allowance for other contingencies ⁽ⁱ⁾ | 9,484 | 7,919 |
| | <u>9,484</u> | <u>7,919</u> |

(i) Allowance for other contingencies includes the following provision:

Cancellation of foreclosed properties

On 25 March 1994, BII foreclosed on a loan and repossessed the collateral i.e. land in respect of a defaulted loan of Rp1,574 million (approximately \$276,000). The debtor had filed a legal suit against BII to cancel the foreclosure. The debtor won the legal suit in the District Court in Indonesia but lost in the High Court in Indonesia. In early 2004, the Supreme Court in Indonesia issued its decision in favour of the debtor. As of 31 December 2007 and 2006, BII has made a provision for this case. The loan and the foreclosed collaterals to this debtor were among the assets that were transferred to PT Perusahaan Pengelolaan Asset ("PPA") (formerly Indonesian Banking Restructuring Agency ("IBRA")) in 1999.

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18. Cash and balances with the central bank

| | <u>Group</u> | | <u>Company</u> | |
|--|----------------|----------------|----------------|----------------|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Cash at bank | 197,089 | 142,823 | 3,414 | 3,173 |
| Current accounts with the central bank | 476,116 | 544,648 | - | - |
| Placements with the central bank | - | 6,790 | - | - |
| | 673,205 | 694,261 | 3,414 | 3,173 |

For the purposes of the consolidated cash flow statement, the consolidated cash and cash equivalents comprise the following:

| | <u>Group</u> | |
|---|----------------|----------------|
| | 2007 \$'000 | 2006 \$'000 |
| Cash at bank | 197,089 | 142,823 |
| Current accounts with the central bank | 476,116 | 544,648 |
| Current accounts with other banks (Note 21) | 35,188 | 100,510 |
| Less: Mandatory deposits | (41,597) | (50,954) |
| | 666,796 | 737,027 |

Mandatory deposits are maintained in current accounts with central banks as liquidity reserve in accordance with Bank Indonesia Regulation.

19. Government securities

| | <u>Group</u> | |
|----------------------|------------------|------------------|
| | 2007 \$'000 | 2006 \$'000 |
| Classified as: | | |
| - Held for trading | - | 1,507,199 |
| - Available-for-sale | 1,150,886 | 127,829 |
| - Held-to-maturity | - | 66,590 |
| | 1,150,886 | 1,701,618 |

Included in government securities classified as available-for-sale are \$154 million (2006: \$102 million) of bonds sold under repurchase agreements.

In May 2007, the subsidiary changed its investment intention and transferred all government securities in the "held-to-maturity" classification into "available-for-sale" classification. As at 31 December 2007, there are no financial assets classified as "held-to-maturity".

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20. Financial assets at fair value through profit or loss

| | <u>Group</u> | |
|--|----------------|----------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Debt securities | 7,353 | 127,493 |
| Structured deposits | 194,638 | 246,069 |
| | <u>201,991</u> | <u>373,562</u> |
| Designated as financial assets: | | |
| - Held for trading | - | 77,303 |
| - At fair value on initial recognition | 201,991 | 296,259 |
| | <u>201,991</u> | <u>373,562</u> |

21. Placements and balances with other banks

| | <u>Group</u> | |
|--|----------------|---------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Placements and balances with other banks | <u>137,201</u> | 495,946 |

Included in placements and balances with other banks is an amount of \$35,188,000 (2006: \$100,510,000) relating to current accounts with other banks.

22. Loans and advances to non-bank customers

(a)

| | <u>Group</u> | |
|----------------------------------|------------------|------------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Gross loans and receivables | 5,069,575 | 4,450,358 |
| Less: Allowances for loan losses | | |
| - Specific allowance | (55,604) | (100,674) |
| - Portfolio allowance | (58,039) | (29,931) |
| | <u>4,955,932</u> | <u>4,319,753</u> |

(b) Movements in allowances for loan losses are as follows:

| | 2007 | | | 2006 | | |
|--|---------------------------|----------------------------|----------------|---------------------------|----------------------------|----------------|
| | <u>Specific allowance</u> | <u>Portfolio allowance</u> | <u>Total</u> | <u>Specific allowance</u> | <u>Portfolio allowance</u> | <u>Total</u> |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| <u>The Group</u> | | | | | | |
| Balance at beginning of financial year | 100,674 | 29,931 | 130,605 | 61,862 | 17,058 | 78,920 |
| Currency translation adjustments | 4,253 | (15,443) | (11,190) | (2,317) | (1,016) | (3,333) |
| Recovery of loans previously written off | 15,334 | - | 15,334 | 6,145 | - | 6,145 |
| Charged to income statement (Note 9) | 94,920 | 43,551 | 138,471 | 105,251 | 27,449 | 132,700 |
| Write-offs/transfers during the financial year | (159,577) | - | (159,577) | (70,267) | (13,560) | (83,827) |
| Balance at end of financial year | <u>55,604</u> | <u>58,039</u> | <u>113,643</u> | <u>100,674</u> | <u>29,931</u> | <u>130,605</u> |

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23. Other assets

| | <u>Group</u> | | <u>Company</u> | |
|----------------------------------|----------------|----------------|----------------|----------------|
| | 2007 \$'000 | 2006 \$'000 | 2007 \$'000 | 2006 \$'000 |
| Derivative receivables (Note 29) | 2,212 | 990 | - | - |
| Interest receivable | 60,823 | 68,084 | - | - |
| Deposits and prepayments | 48,441 | 60,866 | - | - |
| Foreclosed properties | 18,938 | 22,141 | - | - |
| Card center receivables | 5,935 | 20,828 | - | - |
| Others | 61,503 | 55,579 | - | 24 |
| | 197,852 | 228,488 | - | 24 |
| Less: Allowance for impairment | (16,527) | (15,065) | - | - |
| | 181,325 | 213,423 | - | 24 |

24. Investment securities

| | <u>Group</u> | |
|--------------------------------|----------------|----------------|
| | 2007 \$'000 | 2006 \$'000 |
| Available-for-sale: | | |
| - Debt securities | 902,631 | 291,116 |
| - Equities | 869 | 2,442 |
| | 903,500 | 293,558 |
| Held-to-maturity: | | |
| - Debt securities | - | 648,431 |
| | 903,500 | 941,989 |
| Less: Allowance for impairment | (459) | (5,641) |
| | 903,041 | 936,348 |

In May 2007, the subsidiary changed its investment intention and transferred all investment securities in the "held-to-maturity" classification into "available-for-sale" classification. As at 31 December 2007, there are no financial assets classified as "held-to-maturity".

25. Subsidiaries

(a) Investment in subsidiaries

| | <u>Company</u> | |
|-------------------------------------|----------------|----------------|
| | 2007 \$'000 | 2006 \$'000 |
| Investment in subsidiaries, at cost | 475,263 | 475,263 |

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25. Subsidiaries (continued)

(b) Details of subsidiaries as at 31 December 2007 are as follows:

| | Country of incorporation/ business carried in | Carrying amount of Company's investment | | Percentage of paid-up capital held by the Company | |
|---|--|---|---------|---|-------|
| | | 2007 | 2006 | 2007 | 2006 |
| | | \$'000 | \$'000 | % | % |
| Commercial banking | | | | | |
| PT Bank International Indonesia Tbk ("BII") ⁽¹⁾ | Indonesia | 475,263 | 475,263 | 55.85 | 56.33 |

⁽¹⁾ For the financial year ended 2007, BII is audited by PricewaterhouseCoopers in Jakarta, Indonesia.
For the financial year ended 2006, it was audited by Ernst & Young in Jakarta, Indonesia.

| | Country of incorporation/ business carried in | Percentage of paid-up capital held by the subsidiary | |
|---|--|--|-------|
| | | 2007 | 2006 |
| | | % | % |
| Subsidiaries of BII | | | |
| Commercial banking | | | |
| BII Finance Co. Ltd. | Hong Kong | 100 | 100 |
| Financing | | | |
| PT BII Finance Center | Indonesia | 99.99 | 99.99 |
| Motor vehicle financing | | | |
| PT Wahana Ottomitra Multiartha Tbk ⁽²⁾ | Indonesia | 50.03 | 46.99 |

⁽²⁾ On 28 June 2007, BII acquired additional interest of 3.04% of PT Wahana Ottomitra Multiartha Tbk ("WOM") at a purchase price of Rp33,473 million (\$5,492,000), increasing its ownership from 46.99% to 50.03%. The carrying amount of WOM's net assets in the consolidated financial statements on the date of acquisition is \$98,829,000. The Group recognised a decrease in minority interest of \$3,004,000 and an increase in goodwill of \$2,488,000.

On 29 June 2006, BII acquired additional interest of 3.99% of WOM at a purchase price of Rp42,075 million (\$7,145,000). WOM has been consolidated as a subsidiary as BII has control over WOM based on the conditional Sale and Purchase Agreement.

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26. Property and equipment

| <u>Group</u> | <u>Freehold land and buildings</u> \$'000 | <u>Constructions in progress</u> \$'000 | <u>Office equipment</u> \$'000 | <u>Motor vehicles</u> \$'000 | <u>Total</u> \$'000 |
|----------------------------------|--|--|---------------------------------------|-------------------------------------|------------------------|
| <i>Cost</i> | | | | | |
| At 1 January 2007 | 120,293 | 1,109 | 128,106 | 10,000 | 259,508 |
| Currency translation differences | (11,431) | (127) | (8,146) | (402) | (20,106) |
| Additions | 1,508 | 4,328 | 9,198 | 704 | 15,738 |
| Reclassifications | 4,345 | (3,904) | 266 | 14 | 721 |
| Disposals | (428) | (62) | (519) | (1,193) | (2,202) |
| At 31 December 2007 | <u>114,287</u> | <u>1,344</u> | <u>128,905</u> | <u>9,123</u> | <u>253,659</u> |
| <i>Accumulated depreciation</i> | | | | | |
| At 1 January 2007 | 17,161 | - | 101,002 | 8,294 | 126,457 |
| Currency translation differences | (1,312) | - | (5,936) | (231) | (7,479) |
| Depreciation charge | 9,909 | - | 14,603 | 644 | 25,156 |
| Reclassifications | 332 | - | 46 | 6 | 384 |
| Disposals | (31) | - | (455) | (635) | (1,121) |
| At 31 December 2006 | <u>26,059</u> | <u>-</u> | <u>109,260</u> | <u>8,078</u> | <u>143,397</u> |
| <i>Net book value</i> | | | | | |
| At 31 December 2007 | <u>88,228</u> | <u>1,344</u> | <u>19,645</u> | <u>1,045</u> | <u>110,262</u> |

| <u>Group</u> | <u>Freehold land and buildings</u> \$'000 | <u>Constructions in progress</u> \$'000 | <u>Office equipment</u> \$'000 | <u>Motor vehicles</u> \$'000 | <u>Total</u> \$'000 |
|----------------------------------|--|--|---------------------------------------|-------------------------------------|------------------------|
| At 1 January 2006 | 117,405 | - | 116,177 | 9,139 | 242,721 |
| Currency translation differences | 289 | (21) | (25) | (5) | 238 |
| Additions | 3,340 | 1,130 | 15,728 | 1,215 | 21,413 |
| Reclassifications | (294) | - | (110) | (21) | (425) |
| Disposals | (447) | - | (3,664) | (328) | (4,439) |
| At 31 December 2006 | <u>120,293</u> | <u>1,109</u> | <u>128,106</u> | <u>10,000</u> | <u>259,508</u> |
| <i>Accumulated depreciation</i> | | | | | |
| At 1 January 2006 | 13,729 | - | 83,762 | 7,795 | 105,286 |
| Currency translation differences | (42) | - | (225) | (4) | (271) |
| Depreciation charge | 3,612 | - | 18,680 | 729 | 23,021 |
| Reclassifications | (125) | - | (80) | (10) | (215) |
| Disposals | (13) | - | (1,135) | (216) | (1,364) |
| At 31 December 2006 | <u>17,161</u> | <u>-</u> | <u>101,002</u> | <u>8,294</u> | <u>126,457</u> |
| <i>Net book value</i> | | | | | |
| At 31 December 2006 | <u>103,132</u> | <u>1,109</u> | <u>27,104</u> | <u>1,706</u> | <u>133,051</u> |

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27. Intangible assets

| | Group | |
|--|----------------|----------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Goodwill | | |
| Balance at beginning of financial year | 119,657 | 116,301 |
| Acquisition of additional interest in a subsidiary (Note 25) | 2,488 | 3,132 |
| Currency translation differences | (2,156) | 224 |
| Balance at end of financial year | <u>119,989</u> | <u>119,657</u> |

Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units ("CGU") for impairment testing purposes.

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 as follows:

| | Carrying value at 31 December 2007 \$'000 | Basis of determining recoverable value |
|---------------------------------------|---|--|
| Goodwill | | |
| Goodwill attributable to: | | |
| - PT Bank International Indonesia Tbk | 80,795 | Fair value less estimated costs to sell |
| - PT Wahana Ottomitra Multiartha Tbk | 39,194 | Fair value less estimated costs to sell |
| | <u>119,989</u> | |

No impairment loss was recorded in relation to goodwill for the year ended 31 December 2007 as their recoverable values were in excess of their carrying values.

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28. Commitments and contingencies

Undrawn credit facilities and irrevocable letters of credit can either be made for a fixed year, or have no specific maturity but are cancellable by the Group, subject to notice requirements.

Acceptances are undertakings by the Group to pay on bills of exchange drawn on customers. Guarantees are issued by the Group to guarantee the performance of customers to third parties. Documentary credits commit the Group to make payments to third parties on production of documents. No assets of the Group have been pledged as security for these commitments and contingencies.

As at 31 December 2007, the Group has the following commitments and contingencies:

| | <u>Group</u> | |
|--|----------------|----------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Undrawn credit facilities | 34,695 | 39,900 |
| Irrevocable letter of credit | 73,338 | 83,145 |
| Acceptances and endorsements | 90,208 | 76,755 |
| Guarantees and standby letters of credit | 171,845 | 109,461 |
| | <u>370,086</u> | <u>309,261</u> |

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28. Commitments and contingencies (continued)

Other outstanding commitment

In 2000, BII's ownership interest in Bank International Ningbo ("BI Ningbo") was diluted from 100% to 51% and BII had not held any control on this subsidiary since then. On 9 March 2001, BII sold its 51% interest of BI Ningbo to PT Purinusa Eka Persada ("Purinusa") pursuant to the Sale and Purchase Agreement, dated 9 March 2001 (the "SPA") for USD76.3 million (approximately \$130 million). Under the SPA, it was agreed that the approval of the People's Bank of China ("PBOC") in relation to the transfer of BII's 51% interest in BI Ningbo as required under People's Republic of China Law shall be the responsibility of Purinusa. If Purinusa fails to obtain the approval or is not allowed to become the holder of BI Ningbo shares, Purinusa must appoint another party, which meets the requirement to be the shareholder of BI Ningbo under People's Republic of China Law.

In exchange for the said investment, BII granted loan to Purinusa. This sale transaction was included in the restructuring program of the Sinar Mas Group, which was agreed upon by BII, the Sinar Mas Group and PPA (formerly IBRA). On 5 November 2001, the loan to Purinusa was transferred to PPA.

Under an Undertaking and Indemnity Agreement entered into on 24 October 2003 between BII and Purinusa (the "Undertaking and Indemnity Agreement"), Purinusa has confirmed that the regulatory approvals of the relevant authorities in the People's Republic of China shall be obtained as soon as possible and it shall be responsible for the liabilities and obligations of BI Ningbo as if it were the registered shareholder in place of BII, and has agreed to indemnify BII from any liability arising from it being the registered shareholder of BI Ningbo in accordance with PBOC regulations following the date of the Ningbo Sale and Purchase Agreement. The Undertaking and Indemnity Agreement also provides that in the event that regulatory approval for the transfer is not obtained from the relevant authorities in the People's Republic of China, Purinusa shall not be entitled to rescind the Ningbo Sale and Purchase Agreement or claim a refund of the purchase price that has been paid by Purinusa to BII. In the Undertaking and Indemnity Agreement, Purinusa confirms that in the event it is not allowed to become a shareholder of BI Ningbo, it must appoint another party which meets the requirements of the relevant regulatory authorities to be a shareholder of BI Ningbo. In addition, Indra Widjaja separately provided a letter of statement and undertaking dated 24 October 2003 to BII agreeing to use best efforts to assist Purinusa to fulfill its obligations and undertakings under the Undertaking and Indemnity Agreement.

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28. Commitments and contingencies (continued)

On 7 October 2005, BII received a Letter from Purinusa requesting documents needed for a due diligence process related to a transfer of Bank International Ningbo shares held by Purinusa to an investor. Through Letter No. S.2005.059/Director1 dated 19 October 2005, BII has provided Purinusa with the documents.

On 10 February 2006, BII received a letter from Purinusa stating that in relation to the transfer to BI Ningbo shares held by Purinusa to an investor as required by the regulatory authority, Purinusa has submitted its proposal to the China Banking Regulation Commission (CBRC) for approval. However, according to the letter from CBRC dated 28 June 2006 received by BII, CBRC has not approved such transfer. Accordingly, Purinusa is seeking another investor which will meet the requirements determined by CBRC.

On 15 December 2006, BII and Purinusa signed the First Amendment of Undertaking and Indemnity Agreement. Under this agreement, the entire agreements, indemnities, undertakings and warranties in respect to the transfer of BI Ningbo shares remain valid until such transfer is approved and comes into effect under PBOC.

During the current financial year, there were no further developments in relation to the above transaction.

As in the normal course of business in the banking industry, BII has sought legal actions in order to claim and foreclose collateral from its non-performing debtors. For legal cases where the results are yet to be determined and the amount of probable loss cannot be reasonably estimated, management is unable to recognise any possible losses or provision, which might arise from those legal cases.

29. Financial derivatives

The Group has entered into certain financial derivative transactions such as foreign exchange forward, swap and credit derivative contracts with customers that enable the Group or its customers to transfer, modify or reduce their foreign exchange and credit risks.

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29. Financial derivatives (continued)

The table below analyses the contract or underlying principal amount of derivative financial instruments and the corresponding fair values at balance sheet date.

| <u>Group</u> | Contracts or underlying principal amount \$'000 | Derivative receivables \$'000 | Derivative payables \$'000 |
|----------------------------|---|-------------------------------------|----------------------------------|
| At 31 December 2007 | | | |
| Foreign exchange contracts | | | |
| - Forwards | 27,986 | 56 | 335 |
| - Swaps | 84,734 | 682 | 222 |
| Credit derivatives | 50,560 | 1,474 | - |
| | <u>163,280</u> | <u>2,212</u> | <u>557</u> |
| | | (Note 23) | (Note 17) |
| At 31 December 2006 | | | |
| Foreign exchange contracts | | | |
| - Forwards | 9,828 | 80 | 177 |
| - Swaps | 125,575 | 910 | 1,577 |
| | <u>135,403</u> | <u>990</u> | <u>1,754</u> |
| | | (Note 23) | (Note 17) |

30. Financial risk management

By its nature, the Group's activities are principally related to transacting and the use of financial instruments, including derivatives. Transactions in, and the use of, financial instruments expose the Group to a variety of financial risks, mainly foreign exchange risk, interest rate risk, credit risk, and liquidity risk.

Managing these financial risks forms an integral part of the Group's business. The Group adopts, as is required, the risk management policies of the Group, which encompass a variety of controls and reporting processes. These not only include the parameters for the risks that the Group may undertake for the various financial instruments, but also directions on the types of business that the Group may engage, guidelines for accepting customers for all types of financial instruments and the terms under which customer business is conducted. The Group believes that it has effective processes in place to identify, measure, monitor and ultimately, mitigate these financial risks.

Discussions on the main financial risks that the Group is exposed to and how it manages these risks are set out below.

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30. Financial risk management (continued)

(a) Credit risk

Credit risk is the risk that a counterparty or customer will be unable to pay amounts in full when due. Credit risk is the Group's most significant financial risk. The Group's exposure to credit risk predominantly arises from the operations of its subsidiary, BII.

BII has implemented credit risk management processes, incorporating the establishment of processes and credit policies, including credit approval and monitoring processes, credit limits and regular evaluation, the development of Credit Risk Ratings and Credit Scoring, evaluation of credit procedures and policy to ensure that total risk which may arise from credit provision has been covered, and also applying of the "Four Eyes Principles" consistently. In addition, BII has implemented the process of managing the total credit portfolio consistently and instituting a regular reporting process to senior management and the Board of Commissioners.

The major concentrations of credit risk within BII arise by the location and type of customer/counterparty, in relation to BII's investments, loans and advances, commitments to extend credit and guarantees issued. BII has many varied customers/counterparties in a wide spectrum of industries, which is subject to the counterparty limits established by BII and monitoring by BII in relation to industry exposures within its credit portfolio.

The amounts disclosed elsewhere in the consolidated financial statements, in relation to BII's investments, loans and advances, commitments to extend credit and guarantees issued represent the maximum accounting loss that would be recognised at the balance sheet date if the customers/counterparties failed completely to perform as contracted and any collateral or security proved to be of no value.

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30. Financial risk management (continued)

(b) Currency risk

Exchange rate risk arises from losses caused by the volatility of exchange rates at the time the Group has an open position on its foreign exchange portfolio.

The policy to manage exchange rate risk is based on the regulation of Bank Indonesia regarding limits on net open positions. Bank Indonesia sets a limit on net open positions for all foreign currencies at a maximum of 20% of capital (or at a maximum of 30%, if the Group is taking into account market risk in calculating its capital). The management of net open positions is centralised and under the responsibility of the subsidiary's Treasury Division, which combines the daily net open positions of all of its branches.

The table below sets out the Group's exposure to currency risk as at the balance sheet date. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency.

| <u>Group</u> | <u>Singapore Dollar \$'000</u> | <u>US Dollar \$'000</u> | <u>Indonesia Rupiah \$'000</u> | <u>Other \$'000</u> | <u>Total \$'000</u> |
|--|--|-----------------------------|--|-------------------------|-------------------------|
| 31 December 2007 | | | | | |
| Placements and balances with the central bank and other banks | 9,825 | 185,551 | 588,227 | 26,803 | 810,406 |
| Securities ⁽¹⁾ | - | 510,706 | 1,743,442 | 1,770 | 2,255,918 |
| Loans and advances to non-bank customers | 25,005 | 997,657 | 3,928,026 | 5,244 | 4,955,932 |
| Other assets ⁽²⁾ | - | 76,562 | 353,242 | 3,920 | 433,724 |
| Total assets | 34,830 | 1,770,476 | 6,612,937 | 37,737 | 8,455,980 |
| Deposits and balances of non-bank customers | 34,031 | 1,374,799 | 4,234,697 | 41,486 | 5,685,013 |
| Deposits and balances of other banks | - | 20,574 | 562,881 | - | 583,455 |
| Other liabilities ⁽³⁾ | 699 | 358,508 | 910,780 | (318) | 1,269,669 |
| Total liabilities | 34,730 | 1,753,881 | 5,708,358 | 41,168 | 7,538,137 |
| 31 December 2006 | | | | | |
| Placements and balances with the central bank and other banks | 8,916 | 746,708 | 362,455 | 72,128 | 1,190,207 |
| Securities ⁽¹⁾ | - | 379,347 | 2,607,369 | 24,812 | 3,011,528 |
| Loans and advances to non-bank customers | 24,086 | 774,016 | 3,480,008 | 41,643 | 4,319,753 |
| Other assets ⁽²⁾ | 14,480 | 64,264 | 409,204 | (3,097) | 484,851 |
| Total assets | 47,482 | 1,964,335 | 6,859,036 | 135,486 | 9,006,339 |
| Deposits and balances of non-bank customers | 28,407 | 1,543,138 | 4,662,710 | 67,184 | 6,301,439 |
| Deposits and balances of other banks | - | 10,218 | 452,498 | 23,077 | 485,793 |
| Other liabilities ⁽³⁾ | 833 | 356,036 | 830,846 | 15,537 | 1,203,252 |
| Total liabilities | 29,240 | 1,909,392 | 5,946,054 | 105,798 | 7,990,484 |

(1) Securities include government securities, financial assets at fair value through profit or loss and investment securities.

(2) Other assets include property and equipment, deferred tax assets, intangible assets and other assets.

(3) Other liabilities include loans from immediate holding company, borrowings, current and deferred tax liabilities and provisions and other liabilities.

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30. Financial risk management (continued)

(c) Interest rate risk

Interest rate risk arises from losses caused by adverse movements in the market interest rate against the Group's positions or transactions. The Group's exposure to interest rate risk predominantly arises from the operations of its subsidiary, BII.

To measure interest rate risk, BII analyses the net interest rate margin and interest rate spread.

BII determines its funding rate by monitoring the movements of funding rates guaranteed by the Indonesian government and by analysing competitors' funding rates. Lending interest rate is determined by adding a certain margin on the funding rate determined or the relevant cost of funds.

The table below summarises the effective average interest rates at 31 December 2007 by major currencies for monetary financial instruments of the Group:

| <u>Group</u> | <u>Indonesian Rupiah</u> % | <u>Other currencies</u> % |
|---|-----------------------------------|----------------------------------|
| At 31 December 2007 | | |
| Assets | | |
| Cash and balances with the central bank | 1.96 | 1.50 |
| Securities ⁽¹⁾ | 8.21 – 14.28 | 5.80 – 11.34 |
| Placements and balances with other banks | 9.39 | 5.09 – 5.25 |
| Loans and advances to non-bank customers | 14.59 | 8.18 |
| Liabilities | | |
| Deposits and balances of non-bank customers | 2.25 – 10.26 | 1.34 – 4.69 |
| Deposits and balances of other banks | 4.86 – 9.89 | 0.51 – 8.80 |
| Borrowings | 3.00 – 15.50 | 6.84 |
| At 31 December 2006 | | |
| Assets | | |
| Cash and balances with the central bank | 1.65 – 5.25 | 1.16 |
| Securities ⁽¹⁾ | 11.80 – 14.28 | 7.30 – 9.18 |
| Placements and balances with other banks | 12.85 | 4.79 – 7.17 |
| Loans and advances to non-bank customers | 17.04 | 8.30 |
| Liabilities | | |
| Deposits and balances of non-bank customers | 2.44 – 12.03 | 1.31 – 4.25 |
| Deposits and balances of other banks | 3.84 – 12.50 | 0.64 – 5.67 |
| Borrowings | 3.00 – 15.50 | 6.79 |

(1) Securities include government securities, debt securities classified at fair value through profit or loss and investment debt securities but exclude equity securities.

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30. Financial risk management (continued)

(c) Interest rate risk (continued)

Included in the table below are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Group does not have any interest-rate sensitive derivatives as at the financial year end.

| <u>Group</u> | <u>Within 3 months</u> \$'000 | <u>3 to 12 months</u> \$'000 | <u>Over 1 year</u> \$'000 | <u>Non-interest bearing</u> \$'000 | <u>Total</u> \$'000 |
|--|--------------------------------------|-------------------------------------|----------------------------------|---|------------------------|
| 31 December 2007 | | | | | |
| Placements and balances with the central bank and other banks | 611,958 | 4,613 | - | 193,835 | 810,406 |
| Securities ⁽¹⁾ | 304,617 | 92,563 | 1,858,328 | 410 | 2,255,918 |
| Loans and advances to non-bank customers | 488,319 | 3,743,286 | 723,734 | 593 | 4,955,932 |
| Other assets ⁽²⁾ | 10,118 | - | - | 423,606 | 433,724 |
| Total assets | 1,415,012 | 3,840,462 | 2,582,062 | 618,444 | 8,455,980 |
| Deposits and balances of non-bank customers | 5,439,462 | 243,582 | 1,969 | - | 5,685,013 |
| Deposits and balances of other banks | 490,994 | 92,461 | - | - | 583,455 |
| Borrowings | 30,355 | 81,656 | 850,705 | - | 962,716 |
| Other liabilities ⁽³⁾ | 538 | 15,228 | 115,200 | 175,987 | 306,953 |
| Total liabilities | 5,961,349 | 432,927 | 967,874 | 175,987 | 7,538,137 |
| Net on-balance sheet position | (4,546,337) | 3,407,535 | 1,614,188 | | |
| 31 December 2006 | | | | | |
| Placements and balances with the central bank and other banks | 845,124 | 15,457 | 188,508 | 141,118 | 1,190,207 |
| Securities ⁽¹⁾ | 809,595 | 41,416 | 2,160,066 | 451 | 3,011,528 |
| Loans and advances to non-bank customers | 461,482 | 954,586 | 2,902,721 | 964 | 4,319,753 |
| Other assets ⁽²⁾ | 138,487 | 29,591 | - | 316,773 | 484,851 |
| Total assets | 2,254,688 | 1,041,050 | 5,251,295 | 459,306 | 9,006,339 |
| Deposits and balances non-bank customers | 5,888,045 | 375,950 | 37,444 | - | 6,301,439 |
| Deposits and balances of other banks | 383,211 | 719 | 101,863 | - | 485,793 |
| Borrowings | 38,496 | 86,540 | 627,811 | - | 752,847 |
| Other liabilities ⁽³⁾ | 2,929 | - | - | 447,476 | 450,405 |
| Total liabilities | 6,312,681 | 463,209 | 767,118 | 447,476 | 7,990,484 |
| Net on-balance sheet position | (4,057,993) | 577,841 | 4,484,177 | | |

(1) Securities include government securities, financial assets at fair value through profit or loss and investment securities.

(2) Other assets include property and equipment, deferred tax assets, intangible assets and other assets.

(3) Other liabilities include loans from immediate holding company, current and deferred income tax liabilities and provisions and other liabilities.

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For the financial year ended 31 December 2007

30. Financial risk management (continued)

(d) Liquidity risk

Liquidity risk arises from losses due to insufficiencies of the Group's liquidity level to fulfil its obligations when due and the Group is not able to liquidate its assets nor obtain funds from other sources. The Group's exposure to liquidity risk predominantly arises from the operations of its subsidiary, BII.

BII maintains its liquidity by keeping a level of liquid assets in such amounts which are considered sufficient to anticipate orderly withdrawals of customers' deposits, and controlling any excess of matured liabilities over matured assets in each year. Liquidity risk is being managed by BII's Treasury Division.

The instrument used by BII to monitor its liquidity is based on Bank Indonesia regulation regarding Minimum Reserve Requirement, which requires banks in Indonesia to maintain a daily account balance with Bank Indonesia of at least 5% of third party liabilities in Rupiah and 3% of third party liabilities in foreign currencies. Other instrument used by BII to monitor liquidity is through monitoring and analysis of "Loan to Deposit Ratio".

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining year at balance sheet date to the contractual maturity date.

| <u>Group</u> | Less than <u>1 year</u> \$'000 | Over <u>1 year</u> \$'000 | No contractual <u>maturity</u> \$'000 | <u>Total</u> \$'000 |
|---|--------------------------------------|---------------------------------|--|------------------------|
| 31 December 2007 | | | | |
| Placements and balances with the central bank and other banks | 810,406 | - | - | 810,406 |
| Securities ⁽¹⁾ | 397,181 | 1,858,327 | 410 | 2,255,918 |
| Loans and advances to non-bank customers | 1,777,958 | 3,177,974 | - | 4,955,932 |
| Other assets ⁽²⁾ | 170,958 | 1,656 | 261,110 | 433,724 |
| Total assets | 3,156,503 | 5,037,957 | 261,520 | 8,455,980 |
| Financial liabilities | | | | |
| Deposits and balances of non-bank customers | 5,683,044 | 1,969 | - | 5,685,013 |
| Deposits and balances of other banks | 583,455 | - | - | 583,455 |
| Borrowings | 112,011 | 850,705 | - | 962,716 |
| Other liabilities ⁽³⁾ | 157,499 | 145,933 | 3,521 | 306,953 |
| Total liabilities | 6,536,009 | 998,607 | 3,521 | 7,538,137 |
| Net liquidity gap | (3,379,506) | 4,039,350 | | |

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30. Financial risk management (continued)

(d) Liquidity risk (continued)

| <u>Group</u> | <u>Less than 1 year \$'000</u> | <u>Over 1 year \$'000</u> | <u>No contractual maturity \$'000</u> | <u>Total \$'000</u> |
|---|--|-----------------------------------|---|-------------------------|
| 31 December 2006 | | | | |
| Placements and balances with the central bank and other banks | 1,001,699 | 188,508 | - | 1,190,207 |
| Securities ⁽¹⁾ | 851,011 | 2,160,066 | 451 | 3,011,528 |
| Loans and advances from non-bank customers | 1,414,267 | 2,905,486 | - | 4,319,753 |
| Other assets ⁽²⁾ | 182,595 | 30,828 | 271,428 | 484,851 |
| Total assets | 3,449,572 | 5,284,888 | 271,879 | 9,006,339 |
| Deposits and balances of non-bank customers | 6,263,995 | 37,444 | - | 6,301,439 |
| Deposits and balances of other banks | 383,930 | 101,863 | - | 485,793 |
| Borrowings | 125,036 | 627,811 | - | 752,847 |
| Other liabilities ⁽³⁾ | 336,449 | 100,044 | 13,912 | 450,405 |
| Total liabilities | 7,109,410 | 867,162 | 13,912 | 7,990,484 |
| Net liquidity gap | (3,659,838) | 4,417,726 | | |

(1) Securities include government securities, financial assets at fair value through profit or loss and investment securities.

(2) Other assets include property and equipment, deferred tax assets, intangible assets and other assets.

(3) Other liabilities include loans from immediate holding company, current and deferred income tax liabilities and provisions and other liabilities.

31. Fair values of financial assets and liabilities

Financial instruments comprise financial assets, financial liabilities and also financial derivatives. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. The information presented herein represents estimates of fair values as at the balance sheet date.

Quoted and observable market prices, where available, are used as the measure of fair values. However, for a significant portion of the Group's financial instruments, including loans to customers, such market prices do not exist as there is currently no ready market wherein exchanges between willing parties occur.

Accordingly, various methodologies have been used to estimate what the approximate fair values of such instruments might be. These methodologies involve uncertainties and are significantly affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in the uncertainties and assumptions could significantly affect these estimates and the resulting fair value estimates.

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31. Fair values of financial assets and liabilities (continued)

In addition, fair value information is not provided for non-financial instruments and financial instruments that are excluded from the scope of FRS 32 which requires fair value information to be disclosed. These include property and equipment and intangibles.

Therefore, for a significant portion of the Group's financial instruments, including loans to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amounts that the Group could have realised in a sales transaction at the balance sheet date. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Group as a going concern.

Furthermore, it is the Group's intention to hold most of its financial instruments to maturity, and therefore, it is not probable that the fair value estimates shown will be realised in a current transaction.

The fair value of the financial assets and financial liabilities as at the balance sheet date approximate their carrying values as shown in the balance sheet. The fair values of financial derivatives are disclosed in Note 29 to the financial statements.

The following notes describe the methodologies and principal assumptions used to determine the estimated fair values.

- (a) The carrying values of short-term financial assets, including cash and balances with the central bank, placements and balances with other banks approximates the fair value of these instruments. These financial instruments generally expose the Group to limited credit risk and have no stated maturities, or have an average maturity of less than 30 days and carry interest rates which approximate market rates.
- (b) The fair values of government securities, investment securities and financial derivatives are based on quoted market prices at the balance sheet date. The fair values of investment securities approximate their carrying amounts as at 31 December 2007.
- (c) The fair values of loans and advances to non-bank customers are estimated for groups of similar loans based on type of loan, credit quality and maturity.

For loans that are repriced within relatively short time-frames, the carrying values were assumed to approximate their fair values. For fixed rate loans or loans that reprice after one year, the Group has estimated the fair values taking into account the relevant market interest rates and credit spread, and noted that the fair values are not materially different from the carrying amounts at the balance sheet date.

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31. Fair values of financial assets and liabilities (continued)

- (d) The carrying values of certain financial liabilities approximate fair values. These include deposits and balances of non-bank customers, deposits and balances of other banks. These financial instruments are either short-term in nature and the related amounts approximate fair values, reprice frequently, or are repayable on demand. Therefore, their respective fair values are not likely to be materially sensitive to shifts in market interest rates. The Group considers their carrying amounts as reasonable estimates of their respective fair values.
- (e) For borrowings which are quoted, the fair values were calculated based on quoted market prices and considered to be not materially different from their carrying values. For borrowings where quoted market prices are not available, and reprice within relatively short time-frames, the carrying values were assumed to approximate their fair values. For borrowings where quoted market prices are not available and are subject to fixed rates or reprice after one year, the Group has estimated the fair values, utilising a discounted cash flow model and noted that the fair values are not materially different from their carrying values.
- (f) Fair values have not been ascribed to standby letters of credit, and undrawn credit facilities and underwriting facilities commitments as it is not readily ascertainable. These financial instruments are presently not sold or traded. They generate fees that are in line with market prices for similar arrangements. The Group has assessed that the fair value is unlikely to be significant given that the overall level of fees involved is not material.

32. Related party transactions

The Company is a subsidiary of Temasek Holdings (Private) Limited, which has controlling and other significant interests in a wide range of industries.

For the purposes of these financial statements, parties are considered to be related to the Group if they are subsidiaries or associates of the Temasek group, or if they are directors or key executives of the Company.

The Group engages in a wide range of transactions with companies related to or associated with the Temasek group. These transactions are carried out in the normal course of business on terms similar to those available to other customers. The related party transactions are carried out on terms negotiated between the parties which are intended to reflect competitive terms.

These related party transactions did not have a material effect on the financial statements, as in their absence they would have been required to be, and could have been, replaced with transactions with other parties on similar terms.

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32. Related party transactions (continued)

- (a) In addition to other related party information shown elsewhere in the financial statements, the outstanding related party balances undertaken by the Company's subsidiary, BII, as at the balance sheet date are as follows:

| | <u>Group</u> | |
|---|--------------|---------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Placements and balances with related companies | 12,804 | 129,294 |
| Securities purchased from related companies | 40,188 | 45,863 |
| Investments in shares of stock in related companies | 172 | 1,735 |
| Loans and advances to: | | |
| - related companies | 23,821 | - |
| - employees | 4,339 | 6,809 |
| Other assets purchased from related companies | 2,547 | 63 |
| IT expenses paid to a related company | - | 2,226 |
| | <hr/> | <hr/> |

There are no impairment losses arising from outstanding placements and balances with as well as loans and advances to related companies.

(b) Key management personnel compensation

The key management personnel compensation include fees, salary, bonus, commission and other emoluments (including benefits-in-kind) computed based on the cost incurred by the Group, and where the Group did not incur any costs, the value of the benefit. The key management personnel compensation is as follows:

| | <u>Group</u> | |
|---|--------------|-------------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Salaries and other short-term employee benefits | <hr/> 7,934 | <hr/> 8,624 |

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33. Exposures in Indonesia

As at 31 December 2007, the Group's exposures in Indonesia are as follows:

| | <u>Group</u> | |
|---|------------------|-----------|
| | 2007 | 2006 |
| | \$'000 | \$'000 |
| Placements and balances with the central bank and other banks | 806,992 | 1,187,034 |
| Securities ⁽¹⁾ | 2,255,918 | 3,011,528 |
| Loans and advances to non-bank customers | 4,955,932 | 4,349,344 |
| Other assets ⁽²⁾ | 433,724 | 455,236 |
| Total assets | 8,452,566 | 9,003,142 |
| Deposits and balances of non-bank customers | 5,685,013 | 6,301,439 |
| Deposits and balances of banks | 583,455 | 485,793 |
| Borrowings | 962,716 | 752,847 |
| Other liabilities ⁽³⁾ | 306,452 | 449,943 |
| Total liabilities | 7,537,636 | 7,990,022 |

(1) Securities include government securities, financial assets at fair value through profit or loss and investment securities.

(2) Other assets include property and equipment, deferred tax assets, intangible assets and other assets.

(3) Other liabilities include current and deferred tax liabilities and other liabilities.

The operations of the Company are mainly exposed to the economic conditions in Indonesia. Accordingly, any worsening of economic conditions, including a significant depreciation of the Rupiah or increase in interest rates could adversely affect the ability of the Group's customers (including borrowers and other contractual counterparties) to fulfil their obligations when they mature, and consequently negatively impact the Group's profitability and its capital adequacy.

Economic improvements and sustained recovery are dependent upon several factors such as fiscal and monetary actions being undertaken by the Government and others; actions that are beyond the control of the Group.

The consolidated financial statements include the effects of the economic conditions to the extent they can be determined and estimated. It is not possible to determine the future effects of the economic conditions on the Group's liquidity, earnings and realisation of their earning assets, including the effects from their customers, creditors, shareholders and other stakeholders. The ultimate effect of these uncertainties on the stated amounts of assets and liabilities at the balance sheet date cannot presently be determined.

The Group's directors are of the opinion that the allowance for losses on financial assets is adequate as at the balance sheet date.

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34. Comparative information

The financial statements for the year ended 31 December 2006 were audited by another firm of certified public accountants. Where necessary, certain comparative figures were adjusted to conform to current year presentation. In addition, in BII's financial statements for the year ended 31 December 2007, certain comparative figures have been adjusted by the auditor of BII.

| | | 2006 \$'000 | 2006 \$'000 |
|--|------|-----------------|------------------------|
| | Note | As reclassified | As previously reported |
| Loans and advances to non-bank customers | 22 | 4,319,753 | 4,349,344 |
| Other assets | 23 | 213,423 | 183,832 |

35. Events occurring after the balance sheet date

On 26 March 2008, the immediate holding company, Fullerton Financial Holdings Pte. Ltd., announced that it has entered into an agreement with a third party to sell its entire interest in the Company.

36. New accounting standards and FRS interpretations

The Group has not applied the following accounting standards (including its consequential amendments) and interpretations that have been issued as of the balance sheet date but are not yet effective:

- FRS 23 *Borrowing Costs*
- FRS 107 *Financial Instruments: Disclosures and the amendment to FRS 1 Presentation of Financial Statements: Capital Disclosures*
- FRS 108 *Operating Segments*
- INT FRS 111 *FRS 102 Group and Treasury Share Transactions*
- INT FRS 112 *Service Concession Arrangements*

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36. New accounting standards and FRS interpretations (continued)

FRS 107 and the amendment to FRS 1, which become mandatory for the Group's financial statements for the year ending 31 December 2008, will require extensive additional disclosures with respect to the Group's financial instruments and share capital. Management is currently assessing the impact of FRS 107 and the amendment to FRS 1 on the format and extent of the disclosures presented in the financial statements. This standard does not have any impact on the Group's financial result or position.

Other than FRS 107 and the amendment to FRS 1, the initial application of these standards (and its consequential amendments) and interpretations is not expected to have any material impact on the Group's financial statements. The Group has not considered the impact of accounting standards issued after the balance sheet date.

37. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of Sorak Financial Holdings Pte. Ltd. on 7 April 2008.