

**UTAMA BANKING GROUP BERHAD**

(240931-X) (Incorporated in Malaysia)

Registered Office

Level 6, Wisma Mahmud

Jalan Sungai Sarawak

93100 Kuching, Sarawak

Tel: 082-238 888

Fax: 082-333 828

Website: [www.cmsb.com.my/ubg](http://www.cmsb.com.my/ubg)

U T A M A

**UTAMA BANKING GROUP**

**ANNUAL REPORT '05**

## Five Year Group Financial Highlights

	2005*	2004	2003	2002	2001
<b>RESULTS (RM' million)</b>					
Pre-tax profit	<b>54.5</b>	64.6	(20.6)	123.0	20.3
Net Profit / (loss)	<b>6.0</b>	44.5	(25.8)	97.5	19.1
<b>BALANCE SHEET (RM' million)</b>					
Total assets	<b>1,120</b>	1,250	1,869	1,999	10,054
Shareholders' Funds	<b>981</b>	999	953	974	1,001
<b>RATIOS</b>					
Earnings per share					
- Basic (sen)	<b>0.9</b>	6.5	(3.8)	14.3	2.8
- Diluted (sen)	<b>0.9</b>	6.5	(3.8)	14.3	2.8
NET TANGIBLE ASSETS / (LIABILITIES) PER SHARE (RM)	<b>(0.19)</b>	(0.17)	(0.21)	1.43	1.47
NET ASSETS PER SHARE (RM)	<b>1.44</b>	1.46	1.40	1.43	1.47

\* The Group adopted the revised guidelines on Financial Reporting for Licensed Institutions (BNM/GP8) that becomes effective 1 January 2005 without making any retrospective application of the accounting policies to prior periods. Therefore, the comparative figures have not been restated or adjusted.

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# Corporate Information

## Board of Directors

YBhg. Dato' Paduka Nik Hashim bin Nik Yusoff  
*Chairman, Independent Non-Executive Director*

YBhg. Dato' Haji Mohamad Taha bin Ariffin  
*Senior Independent Non-Executive Director*

YBhg. Dato Sri Sulaiman Abdul Rahman Taib  
*Non-Executive Director*

Encik Vaseehar Hassan bin Abdul Razack  
*Independent Non-Executive Director*

YBhg. Datu Dr Haji Hatta bin Solhi  
*Independent Non-Executive Director*

Mr. Kevin How Kow  
*Independent Non-Executive Director*

## Company Secretary

Ms. Monica Oh Chin Chin  
Ms. Denise Koo Swee Pheng

## Audit & Examination Committee of Directors

YBhg. Dato' Haji Mohamad Taha bin Ariffin  
*Chairman, Senior Independent Non-Executive Director*

YBhg. Dato' Paduka Nik Hashim bin Nik Yusoff  
*Independent Non-Executive Director*

Encik Vaseehar Hassan bin Abdul Razack  
*Non-Executive Director*

Mr. Kevin How Kow  
*Independent Non-Executive Director*

## Registered Office

Level 6, Wisma Mahmud,  
Jalan Sungai Sarawak.  
93100 Kuching, Sarawak  
Tel: 082-238 888  
Fax: 082-333 828  
Website : [www.cmsb.com.my/ubg](http://www.cmsb.com.my/ubg)

## Correspondence Address

Level 33, Suite A, Menara Maxis,  
Kuala Lumpur City Centre, 50088 Kuala Lumpur  
Tel: 03-2078 9133  
Fax: 03-2072 5511

## Registrar

Securities Services (Holdings) Sdn Bhd  
Level 7, Menara Milenium, Jalan Damanlela,  
Pusat Bandar Damansara, Damansara Heights  
50490 Kuala Lumpur  
Tel : 03-2084 9000 Fax : 03-2094 9940

## Listing

Main Board of Bursa Malaysia Securities Berhad

## Auditors

PricewaterhouseCoopers  
Chartered Accountants  
11th Floor, Wisma Sime Darby  
Jalan Raja Laut, 50350 Kuala Lumpur

## Investor Relations

To convey queries and concerns regarding  
Utama Banking Group Berhad, please contact:

YBhg. Dato' Haji Mohamad Taha bin Ariffin  
*Senior Independent Non-Executive Director*

Tel: 03-2078 9133  
Fax: 03-2072 5511

# Board of Directors



## Profile of Directors

### **Dato' Paduka Nik Hashim bin Nik Yusoff**

*(Malaysian, aged 68, Chairman, Independent Non-Executive Director)*

Dato' Paduka Nik Hashim bin Nik Yusoff was appointed to the Board of Utama Banking Group Berhad ("UBG") on 13 March 1996. He graduated from Melbourne University, Australia with a Bachelor of Arts (Honours) degree in Economics in 1964 and holds a Masters degree in Public Administration from Harvard University (1970). He has held senior executive managerial positions in various financial institutions including a finance company and a merchant bank. He was appointed the Managing Director of MUI Bank Berhad in 1991. Following the acquisition of MUI Bank Berhad by the Hong Leong Group in 1994, he was appointed as Advisor and continued to be on the Board of Hong Leong Bank Berhad until December 1995.

Dato' Paduka Nik Hashim is a Member of the Audit & Examination Committee of Directors and Nomination & Remuneration Committee. He is also the Chairman of the Executive Committee, a committee which was established by the Board on 24 April 2002. Current directorships in public companies include Rashid Hussain Berhad ("RHB"), UBG Enterprise Bhd, CMS Trust Management Berhad, Genting Berhad and Malayan United Industries Berhad.

Dato' Paduka Nik Hashim has attended all the five meetings held for the financial year. He has no family relationship with any Director and/or major shareholder of UBG. He has no conflict of interest with UBG and has never been charged for any offence.

*From Left to Right*

Dato' Paduka Nik Hashim bin Nik Yusoff

Dato' Sri Sulaiman Abdul Rahman Taib

Encik Vaseehar Hassan bin Abdul Razack

Dato' Haji Mohamad Taha bin Ariffin

Datu Dr Haji Hatta bin Solhi

Mr. Kevin How Kow



### **Dato Sri Sulaiman Abdul Rahman Taib**

*(Malaysian, aged 37, Non-Executive Director)*

Dato Sri Sulaiman Abdul Rahman Taib was appointed to the Board of UBG on 23 March 1999. He holds a Bachelor of Science degree in Business Administration from the University of San Francisco, USA.

Dato Sri Sulaiman is Group Chairman of Cahya Mata Sarawak Berhad ("CMS"), having been appointed in May 2002. Prior to this, he was appointed as Group Deputy Chairman in January 2002, and had been Acting Group Chief Executive Officer during 2001. He joined the Board of CMS as Group Executive Director on 23 January 1995.

Dato Sri Sulaiman is also currently the Non Independent and Non Executive Chairman of RHB. His other directorships in public companies include RHB Capital Berhad, K & N Kenanga Holdings

Berhad, CMS I-Systems Berhad, CMS Global (BVI) Ltd, CMS Works International Ltd and Malaysian Industry-Government Group for High Technology.

Dato Sri Sulaiman is a Member of the Nomination & Remuneration Committee and Executive Committee.

Dato Sri Sulaiman has attended three out of five meetings held for the financial year. He has no family relationship with any Director of UBG. He is the brother of Haji Mahmud Abu Bekir Taib, a major shareholder of CMS and is a nominee of CMS, an indirect major shareholder of UBG. He has never been charged for any offence.

## Profile of Directors

### **Encik Vaseehar Hassan bin Abdul Razack**

*(Malaysian, aged 55, Non-Executive Director)*

Encik Vaseehar Hassan bin Abdul Razack was appointed to the Board of UBG on 3 July 1995. He holds a Bachelor of Commerce degree in Accounting from Loyola University, India, a Masters in Business Administration from University of Aston in Birmingham, United Kingdom as well as a Specialised Masters Degree in Consulting and Coaching for Change (“CCC”) by HEC (France). He is also a Member of the International Society for the Psychoanalytic Study of Organization, USA. He is currently pursuing a Doctoral Research at the Vrije Universiteit, Amsterdam.

Encik Vaseehar Hassan has 25 years experience in the financial sector. He currently holds the positions of Chief Executive and Director of Dallah Al Baraka (Malaysia) Holdings Sdn Bhd, a subsidiary of a Saudi conglomerate, which has investments in various sectors such as banking and finance, real estate, media, services, trading and manufacturing. Other directorships in public companies include RHB, RHB Capital Berhad, RHB Sakura Merchant Bankers Berhad, RHB Bank Berhad, RHB Insurance Berhad, RHB Islamic Bank Berhad (Chairman), CMS Trust Management Berhad and Ingress Corporation Berhad.

Encik Vaseehar Hassan is as a Member of the Audit & Examination Committee of Directors and Executive Committee.

Encik Vaseehar Hassan has attended four out of five meetings held for the financial year. He has no family relationship with any Director and is a nominee of Kenyalang Utama Sdn Bhd and Dallah Albaraka Securities Holding Ltd, which have a combined equity interest of 15.9% in UBG. He has never been charged for any offence.

### **Dato’ Haji Mohamad Taha bin Ariffin**

*(Malaysian, aged 62, Senior Independent Non-Executive Director)*

Dato’ Haji Mohamad Taha bin Ariffin was appointed to the Board of UBG on 24 April 1997. A lawyer by training, Dato’ Taha has served in the Sarawak Civil Service for 24 years and was the Deputy State Secretary of Sarawak from 1992 to 1997. He holds a Bachelor of Laws degree (LLB) from Leeds University, United Kingdom and was called to the Bar (Inner Temple, London) in 1973. He has attended the Programme for Management Development at the renowned Harvard Business School. He is the Honorary Secretary-General of Regional Islamic Council for South East Asia and the Pacific and a prominent figure in Malaysia’s sporting, cultural and literary arena.

Other directorships in public companies include CMS Trust Management Berhad (Chairman), Hock Seng Lee Berhad (Chairman) and Sarawak Enterprise Corporation Berhad.

Dato’ Taha is the Chairman of the Audit & Examination Committee of Directors and Nomination & Remuneration Committee.

Dato’ Taha has attended three out of five meetings held for the financial year. He has no family relationship with any Director and/or major shareholder of UBG. He has no conflict of interest with UBG and has never been charged for any offence.

**Datu Dr. Haji Hatta bin Solhi**

*(Malaysian, aged 61, Independent Non-Executive Director)*

Datu Dr Haji Hatta bin Solhi was appointed to the Board of UBG on 8 January 1999. He holds a B.A. (Hons) from Carleton University, Canada, a Masters Degree in Rural Social Development from Reading University, United Kingdom and a PH.D in Political Science (Development Studies) from University of Hawaii. He has served in the Sarawak Civil Service for 30 years in various positions, including as Director of Malaysian Centre for Development Studies, Sarawak Branch, Director of State Planning Unit, Deputy Chairman/Director of Yayasan Sarawak and as Deputy State Secretary of Sarawak. He is also a director and the non-executive Chairman of Zecon Engineering Berhad, a public company.

Datu Dr. Haji Hatta was appointed as a Member of the Nomination and Remuneration Committee on 23 February 2006.

Datu Dr Haji Hatta has attended four out of five meetings held for the financial year. He has no family relationship with any Director and is a nominee of Yayasan Sarawak which holds 3.29% equity interest in UBG. He has no conflict of interest with UBG and has never been charged for any offence.

**Mr. Kevin How Kow**

*(Malaysian, aged 57, Independent Non-Executive Director)*

Mr. Kevin How Kow was appointed to the Board of UBG on 5 March 2004. Kevin is a Fellow of The Institute of Chartered Accountants in England & Wales and the Institute of Certified Public Accountants of Singapore and a Member of the Malaysian Institute of Accountants and the Malaysian Institute of Certified Public Accountants.

Mr. Kevin How was a partner of Ernst & Young, Malaysia from 1984 and had served as the partner-in-charge of its offices in Sabah and Sarawak and later from 1996 onwards as the partner-in-charge of its practice in Sabah and Labuan until his retirement on 31 December 2003. Other directorships of public companies include Cahya Mata Sarawak Berhad, CMS I-Systems Berhad, K & N Kenanga Holdings Berhad, K&N Kenanga Berhad, Sabah Development Bank Berhad and Saham Sabah Berhad.

Mr. Kevin How is a member of the Audit and Examination Committee of Directors.

Mr. Kevin How has attended four out of five meetings for the financial year. He has no family relationship with any director and/or major shareholder of UBG. He has no conflict of interest with UBG and has never been charged for any offence.

## Chairman's Statement



On behalf of the Board of Directors, I am pleased to present the Annual Report and Accounts of Utama Banking Group Berhad ("UBG") for the financial year ended 31 December 2005.

### **OVERVIEW OF THE MALAYSIAN ECONOMY**

The Malaysian economy grew by 5.3% in 2005 amidst high oil prices, rising global interest rates and other uncertainties arising from external environment. The growth was driven mainly by domestic private sector investment and private consumption, supported by Government's prudent macroeconomic management in providing stable financial conditions.

To maintain a stable financial environment for growth, Bank Negara Malaysia (BNM) made several significant changes in some areas under their purview during the year. One of these was the end to the pegged exchange rate regime. On 21 July 2005, Malaysia shifted from a fixed exchange rate regime of USD1:RM3.80 to a managed float against a basket of currencies to realign the ringgit to the currencies of Malaysia's major trading partners. This move also saw the unwinding of speculative portfolio positions built-up over the first half of 2005 in anticipation of revaluation of the Chinese yuan and ringgit; thereby, checking any risk of excessive credit growth and sharp increases in asset prices that may result from this additional liquidity.

The concerns over the uncertainties caused by volatile high oil prices, domestic inflation and global developments affected the Malaysian equity market negatively during the year. As a result, the performance of the Kuala Lumpur Composite Index (KLCI) in 2005 lagged that of other major and regional indices.

Despite uncertainties and policy changes during the year under review, the banking sector remained resilient and posed a strong performance overall with improved asset quality, steady loan growth and improved profitability.

## REVIEW OF FINANCIAL PERFORMANCE

### Overview

During the financial year ended 31 December 2006, Utama Banking Group Berhad (“UBG Group”) has adopted the revised guidelines on Financial Reporting for Licensed Institutions (BNM/GP8) which is to ensure uniformity in accounting policies with those adopted by its associate, Rashid Hussain Berhad and its subsidiaries (“RHB Group”). The revised BNM/GP8 is applicable to all RHB Group banking subsidiaries effective from 1 January 2005.

For the financial year ended 31 December 2005, UBG reported a consolidated profit before tax of RM 54.5 million with its associate, RHB Group contributing RM62.8 million to the profit before taxation which helped offset the unrealised losses of RM14.5 million arising from fair valuation of the Group’s investment in RHB warrants in accordance with the accounting policies adopted above.

As at 31 December 2005, the shareholders’ funds of UBG Group stood at RM980.7 million, RM17.9 million lower than RM998.5 million reported in 2004. The decline in shareholders’ funds was mainly due to share of associate’s adjustments for losses arising from the adoption of revised BNM/GP8 amounting to RM16.7 million, the unrealised loss on fair valuation of the RHB ICULS amounting to RM7.1 million accounted for in the reserves and partially offset by UBG Group’s net profit of RM6.0 million. In the previous financial year, the RHB ICULS were classified under “Investment in Associate” and stated at cost less any impairment losses.

### RHB and subsidiaries (“RHB Group”)

Since its change in the financial year end from 30 June to 31 December, this is the first financial year that RHB Group reported its performance for a 12 months period ended 31 December 2005.

Amid a resilient banking system, strong private sector and household consumption, RHB reported a consolidated profit before Irredeemable Non-Cumulative Preference Shares (“INCPS”) dividends, taxation and zakat of RM564.1 million for the year ended 31 December 2005.

The improved results were mainly due to the performance of its subsidiary, RHB Capital Berhad (“RHB Capital”). For the financial year under review, RHB Capital and its subsidiaries (RHB Capital Group) turned in a consolidated profit before INCPS dividends, taxation and zakat amounting to RM689.1 million, while net profit for the year was recorded at RM315.8 million.

The RHB Capital Group’s satisfactory financial performance in financial year 2005 was attributed to improving net interest income, a steady growth in its loan portfolio and improved asset quality. The RHB Capital Group’s gross loans, advances and financing posted a growth of 8% during the year, rising from RM47.2 billion as at the end of 2004 to RM51.0 billion at end 2005.

The RHB Group’s prudent lending practice has helped safeguard its asset quality. Effective from the financial quarter ended 30 September 2005, the period of default for non-performing loans (“NPL”) was changed from six months to three months, in-line with the banking industry’s best practices. Despite the more stringent NPL classification, the Group’s net NPL ratio declined to 5.1% compared to 6.0% at the end of 2004, which was based on a six-month classification.

Income from the Islamic Banking business amounted to RM147.7 million in 2005 and with the launch of RHB Islamic Bank on 16 March 2005; it will remain one of the key areas of growth, on the back of increasing demand for Islamic financial services.

#### **OUTLOOK FOR 2006**

The Malaysian economy is expected to grow at approximately 6% in 2006 and will continue to be driven by private domestic demand and strengthening exports, particularly with the global semiconductor upcycle and higher commodity prices. External demand is expected to strengthen following a projected global economic growth of 4.3% for 2006, stemming from recovery in the electronics sector and uptrend in investment in several major economies.

The Government and BNM are expected to continue to maintain fiscal and monetary policies that will support economic growth and provide conducive investment conditions.

With a positive outlook on the Malaysian economy, the financial services sector is expected to continue to play an important role in the country's economic growth in providing financial assistance for business enterprises to fund their investment and trade activities, credit support to private household consumption, and developing new product and services to promote domestic investments particularly for the household sector and Small and Medium Enterprises (SMEs).

At the same time, the industry players in the financial services sector will face many challenges in 2006. In an environment of ample liquidity, more sophisticated consumers, emphasis on improving operating efficiency and greater financial liberalization such as allowing locally incorporated foreign banks to establish branches, will further intensify competition amongst financial service providers.

In view of the above positive outlook and greater competition in the financial services sector, our UBG Board will continue to review and assess the options to maximise its investments in RHB Group as well as continue in its effort to seek out business opportunities and partners to enhance its future earnings in other growth sectors.

#### **ACKNOWLEDGEMENT**

On 9 February 2006, Y Bhg. Tan Sri Dato Sri Temenggong Tai Sing Chii has resigned as a director of the Company. On behalf of the Board, I would like to express our thanks and sincere appreciation to him for his contribution and efforts during his long tenure of service.

**Dato' Paduka Nik Hashim bin Nik Yusoff**

*Chairman*

# Corporate Governance Report

The Board of Directors is committed to ensure that the principles and best practices as set out in the Malaysian Code on Corporate Governance (“the Code”) are applied in the management of the Group to protect and enhance the shareholders’ value.

The Board of Directors is pleased to report that the Group has made every effort to comply with the best practices contained in the Code throughout the year ended 31 December 2005 as set out below.

## Board of Directors

The Board of Directors is responsible for the overall business direction of the Company and the Group. It oversees the conduct of the business and affairs of the Company including identifying principal risks, ensuring that systems are in place to manage these risks, reviewing the Company’s systems of internal control and financial reporting.

The Board meets at least once in every three months. During the year 2005, a total of five Board meetings were held. The attendances of the directors at the Board Meetings were as follows:

Name of Director	Total Meetings attended	Percentage of attendance (%)
Dato’ Paduka Nik Hashim bin Nik Yusoff	5/5	100
Tan Sri Dato Sri Temenggong Tai Sing Chii*	2/5	40
Dato Sri Sulaiman Abdul Rahman Taib	3/5	60
Dato’ Haji Mohamad Taha bin Ariffin	3/5	60
Datu Dr Hj Hatta bin Solhi	4/5	80
Vaseehar Hassan bin Abdul Razack	4/5	80
Kevin How Kow	4/5	80

\* Resigned on 9 February 2006.

All the Directors have complied with the minimum 50% attendance required at Board meetings during the financial year ended

31 December 2005 as stipulated by Bursa Malaysia Securities Berhad (Bursa Securities) Listing Requirements except for Tan Sri Dato Sri Temenggong Tai Sing Chii who consequently tendered his resignation on 9 February 2006.

## Board Balance

The Board comprises six (6) members, the Chairman who is an independent non-executive director, three independent non-executive directors and two non-independent non-executive directors. The Board members are professionals and entrepreneurs with diverse skills and experience in various sectors including banking and finance, as well as, having held senior positions in the private and public sectors. The biography of each Director is as stated on page 2 to 5 of this Annual Report.

No individual or group of individuals dominates the Board’s decision making. All non-executive directors are independent of management and have no relationship that could materially interfere with the exercise of their independent judgement.

The following Directors are representatives of the major shareholders in UBG:-

Name of Director	Representing	% of Shareholding in UBG
Dato Sri Sulaiman Abdul Rahman Taib	Concordance Holdings Sdn Bhd [wholly-owned subsidiary of Cahya Mata Sarawak Bhd (CMSB)]	51.83
Vaseehar Hassan bin Abdul Razack	Kenyalang Utama Sdn Bhd & Dallah Albaraka Securities Holding Ltd.	15.90

## Supply of Information

All Directors are provided with an agenda and a set of Board papers prior to Board meetings. This is issued in sufficient time to enable the Directors to obtain further explanations, where necessary, in order to be properly briefed before the meeting.

There is a schedule of matters reserved specifically for the Board’s decision, including approval of corporate plans and budgets, acquisitions and disposals of assets that are material to the Group, major investments, changes to management and control structure

within the Group, including key policies and procedures and authority limits.

The Board has the absolute discretion to seek external independent professional advice on any matter, be it operational or on policy matters, as may be deemed necessary, at the Company's expense to enable them to make well-informed decisions and discharge their duties as Directors.

All Directors have access to the advice and services of the Company Secretaries.

### Board Committees

The following Committees have been established to assist the Board in the execution of its responsibilities. The Committees listed below report to the Board on all matters considered and their recommendations thereon. The Committees have written Terms of Reference, which have been approved by the Board, that govern the duties and responsibilities of its members.

#### 1) **Audit & Examination Committee of Directors (AECD)**

The AECD reviews issues of accounting policy and presentation for external financial reporting, ensures an objective and professional relationship is maintained with external auditors, and monitors to ensure that inappropriate conflict of interest are avoided. The Committee has full access to the services and advice of external auditors, who in turn have access at all times to the Chairman of the Committee.

(The AECD report is detailed out on page 13 of this Annual Report).

In accordance with para 15.21 of Chapter 15 of Bursa Securities' Listing Requirements, the members of the AECD conduct and submit a self assessment review on the performance of the committee to the Nomination & Remuneration Committee once in every three years. A review of the AECD was conducted in 2004 and the next review is due in 2007.

#### 2) **Executive Committee (EXCO)**

The EXCO was established by a resolution of the Board on 24 April 2002 to formulate the future business plans and activities of the Company. Its responsibility is to ensure that the Company operates within the Board approved Budget and carries out such other responsibilities as delegated by the Board.

The EXCO meets regularly to evaluate the implementation of the business plans, review the inherent risk exposures and formulate strategies to manage or address risks which are identified. This committee held four (4) meetings during the year ended 31 December 2005.

#### Chairman:

Dato' Paduka Nik Hashim bin Nik Yusoff  
*Independent Non-Executive Director*

#### Members:

Dato Sri Sulaiman Abdul Rahman Taib  
*Non-Independent Non-Executive Director*

Vaseehar Hassan bin Abdul Razack  
*Non-Independent Non-Executive Director*

#### 3) **Nomination & Remuneration Committee (NRC)**

The NRC was established as a joint committee by a resolution of the Board on 21 May 2001 and comprises non-executive Directors, a majority of whom are independent Directors.

The scope of activities of the NRC include:-

- Nomination and screening of Board member candidates and where appropriate, group senior management candidates.
- Review the skills mix and experience and other qualities required for the Board to function completely and efficiently.
- Evaluation of the performance of the Board, its Committees and Members.
- Termination of membership of individual directors in accordance with policy, for cause or other appropriate reasons.
- Coordination of Board Agenda and Meeting Schedules.
- Assignment of Committee Membership.
- Training and Orientation of Directors.
- Compensation strategy, policies and programs.
- Compensation levels of Directors, Managing Director and Senior Management group.
- Compensation and employee benefit plans and administration of ESOS and other executive and director compensation arrangements.

In discharging their duties, the Committee has access to professional advisers, both within the Company and externally.

#### Chairman:

Dato' Haji Mohamad Taha bin Ariffin  
*Senior Independent Non-Executive Director*

#### Members:

Dato' Paduka Nik Hashim bin Nik Yusoff  
*Independent Non-Executive Director*

Datu Dr Hj Hatta bin Solhi (appointed 23 February 2006)  
*Independent Non-Executive Director*

Dato Sri Sulaiman Abdul Rahman Taib  
*Non-Independent Non-Executive Director*

Tan Sri Dato Sri Temenggong Tai Sing Chii  
Senior Independent Non-Executive Director  
(resigned 9 February 2006)

Following the resignation of Tan Sri Dato Sri Temenggong Tai Sing Chii, Dato' Haji Mohamad Taha bin Ariffin was appointed the Senior Independent Non-Executive Director of the Company.

### Appointments to the Board

The appointment of members to the Board was guided by formal processes and procedures. The NRC has been given the authority through its Terms of Reference to screen and, thereafter to recommend potential candidates for appointment as members of the Board to the Board of Directors.

### Directors' Training and Education

The directors are committed to equipping themselves with the appropriate knowledge and skills through formal and informal training as well as to keep abreast with recent developments in laws, regulations, and industry to discharge their duties in an effective manner. All members of the Board have attended the Mandatory Accreditation Programme as required under the Bursa Securities' Listing Requirements and fulfilled their Continuing Education Programme ("CEP") requirements.

For the financial year ended 31 December 2005, all the directors have participated in various training programmes, conferences, seminars and briefings to broaden their knowledge and perspectives. The areas covered included new financial reporting standards, corporate governance, corporate social responsibility, branding, investor relations and strategic negotiations.

Some of the training Programmes, Conferences, Seminars and Briefings attended by the members of the Board in 2005 are as follows:

#### Banking and Related Industries

1. 3rd International Islamic Banking and Finance Conference - Islamic Finance: The Challenges Ahead *organized by Monash University*
2. Islamic Financial Services Forum: The European Challenge *organized by Islamic Financial Services Board*

#### Corporate Governance

1. Forum with Dato' Mohd Razif Abdul Kadir, Assistant Governor, Bank Negara Malaysia on Corporate Governance: The Role of the Board Directors *organized by Institute Bank-Bank Malaysia*
2. Directors Programme Enhancing Corporate Governance in Mergers and Acquisitions *organized by PNB Investment Institute Sdn Bhd*

3. From Good Governance to Great Branding *organized by Rating Agency Malaysia Berhad*
4. From Good Governance to Good Results *organized by Rating Agency Malaysia Berhad*

#### Financial Reporting

1. Ernst & Young Technical Seminar - FRS Update *organised by Ernst & Young*
2. Financial Reporting Standards Awareness Briefing *by PricewaterhouseCoopers*
3. Financial Reporting Standards Forum *organized by Bursa Malaysia Berhad and Malaysian Accounting Standards Board*

#### Others

1. AFTA: Meeting the Competition *organized by Bursatra Sdn Bhd*
2. Strategic Negotiation for Senior Executives *organised by Harvard Club of Malaysia*
3. 2nd Annual Asia Water Forum *organized by Marcus Evans Conferences*
4. Australian Biotechnology Summit 2005 *sponsored by the State Government of Sarawak*
5. Conference on Edible Oil 2005 Outlook *organized by Bursa Malaysia Berhad*
6. Sarawak Business Conference – Potential of Agriculture Sectors *organised by Sarawak Institute of Management*
7. Ten Steps from Strategy to Action *organized by Rating Agency Malaysia Berhad*
8. Replacing Bottom line with the Triple bottom line - Understanding the role of corporate social responsibility in protecting your long term profits *by Rating Agency Malaysia Berhad*

Dato' Haji Mohamad Taha bin Ariffin is pursuing a Doctorate of Business Administration in Research from University of South Australia.

#### Re-election

In accordance with the Articles of Association of the Company, all Directors shall retire from office at the first Annual General Meeting (AGM), and at the AGM in every subsequent year thereafter, one-third of the Directors for the time being, or the number nearest to one third, shall retire from office. All Directors shall retire from office at least once in three (3) years.

The Directors to retire every year are those who have been longest in office since their appointment or last election and a retiring Director can offer himself for re-election. Directors over seventy years of age are required to submit themselves for re-appointment annually in accordance with Section 129(6) of the Companies Act 1965.

The following Directors had retired at the AGM held on 13 June 2005:-

- |      |   |   |  |
|------|---|---|--|
| i)   | Dato Sri Sulaiman Abdul Rahman Taib       | } | retired pursuant to Articles 98 of the Company's Articles of Association |
| ii)  | Dato' Haji Mohamad Taha Ariffin           | } |  |
| iii) | Tan Sri Dato Sri Temenggong Tai Sing Chii | } | retired pursuant to Section 129(6) of the Companies Act 1965             |

#### Directors' Remuneration

The fees of the Directors are determined at the Company's AGM, provided always that:-

- 1) Fees payable to non-executive Directors shall be a fixed sum and not by a commission on or percentage of profits or turnover;
- 2) Salaries payable to executive Directors may not include a commission on or percentage of turnover;
- 3) Fees payable to Directors shall not be increased except pursuant to a resolution passed at a general meeting where notice of the proposed increase has been given in the notice convening the meeting; and
- 4) Any fee paid to an alternate Director shall be agreed upon between himself and the Director nominating him and shall be paid out of the remuneration of the latter.

Article 97(2) of the Articles of Association also provides that if any of the Company's Directors is required to perform or render any special duties or services outside his/her ordinary duties as a Director, the Board of Directors may pay the said Director special remuneration, in addition to his/her Director's fees.

All the Directors of UBG were paid Directors' fees with the exception of Dato Sri Sulaiman Abdul Rahman Taib who is also the Group Chairman of CMSB.

(The details of directors' remuneration are disclosed on page 42 of this Annual Report).

#### Relationship with Shareholders

The Board acknowledged that its role is to represent and protect the interest of the shareholders and that the Board is accountable to the shareholders for the performance and activities of the Group. There are two corporate substantial shareholders and both the shareholders are represented on the Board.

The formal channels of communication by which the Board accounts to shareholders for the overall performance of the Company's business activity are by way of timely public announcements via Bursa Malaysia and the Company's Annual Report.

Any queries or concerns regarding the Utama Banking Group Berhad may be conveyed to the following person:

Dato' Haji Mohamad Taha bin Ariffin  
Senior Independent Non-Executive Director  
Tel No: 03 2078 9133 Fax: 03 2072 5511

#### Annual General Meeting (AGM)

The AGM remains the principal forum for dialogue with shareholders. At the AGM, the Board presents the progress and performance of the Group and encourages shareholders to participate in the question and answer session. The Directors are available to respond to shareholders' questions during the meeting as well as informally before and after the meeting.

Each item of special business included in the notice of the meeting will be accompanied by full explanation of the effects of a proposed resolution. Separate resolutions are proposed for substantially separate issues at the meeting and the Chairman declares the number of proxy votes received both for and against each separate resolution.

#### Accountability And Audit

##### Financial Reporting

In presenting the annual audited financial statements and quarterly announcement of results to shareholders, the Directors take responsibility to present a balanced and understandable assessment of the Group's position and prospects. The AECD assists by reviewing the information to be disclosed, to ensure the Group has complied with appropriate accounting standards as well as other regulatory requirements and the adequacy of information disclosure for a fair and full presentation of the financial affairs of the Group.

The Directors' Report and the Statement by Directors in relation to the Financial Statements are set out on pages 18 and 53 of this Annual Report.

##### Internal Control

The Statement of Internal Control is set out on page 15 of this Annual Report.

##### Relationship with Auditors

During the financial year 2005, the external auditors, Messrs PricewaterhouseCoopers (PwC) had attended the AECD meeting to present the Group's Audit Plan for the Year 2005.

PwC was also invited to attend the AECD meeting to present the annual audited accounts and to discuss the Board Report on significant matters that came to light in the course of audit as well as the Directors' Statement for the year ended 31 December 2005.

The Board and the external auditors adopt an independent and transparent relationship at all times.

# Audit & Examination Committee of Directors (AECD) Report



## Membership and Attendance

- During the financial year ended 31 December 2005, the Committee comprised the following four non-executive directors, three of whom are independent Directors:-
  - Dato' Haji Mohamad Taha bin Ariffin  
*Chairman, Senior Independent Non-Executive Director*
  - Dato' Paduka Nik Hashim bin Nik Yusoff  
*Member, Independent Non-Executive Director*
  - Kevin How Kow  
*Member, Independent Non-Executive Director*
  - Vaseehar Hassan bin Abdul Razack  
*Member, Non-Independent Non-Executive Director*
- A total of 5 meetings were held for the financial year ended 31 December 2005. The details of attendance of each member of Committee are as follows:-

Name of Member	Total Attendance
Dato' Haji Mohamad Taha bin Ariffin	5/5
Dato' Paduka Nik Hashim bin Nik Yusoff	5/5
Kevin How Kow	5/5
Vaseehar Hassan bin Abdul Razack	3/5

## TERMS OF REFERENCE

### Composition

- The Committee shall comprise not less than 3 members, a majority of whom must be independent Directors. The members of the Committee shall elect a Chairman from among their number who shall be an independent Director.
- The Board shall ensure that the composition and functions of the Committee shall comply with the Bursa Securities' Listing Requirements as well as other regulatory requirements.

## Meetings

- The Committee shall meet at least once in 3 months and on such further occasions as may be thought fit.
- Upon the request of the External Auditors, the Chairman of the Committee shall convene a meeting of the Committee to consider any matters the External Auditors believe should be brought to the attention of the Directors or Shareholders.
- To form a quorum in respect of a meeting of the Committee, the majority of members present must be independent Directors.

## Minutes

- The Company Secretary shall be in attendance at any meeting of the Committee and prepare and circulate minutes of the meeting to Committee members and to the Chief Internal Auditor, where such a position exists.

## Duties

- To review with the External Auditors, the audit plan and their evaluation of the effectiveness of the systems and standards of internal control.
- To review with the External Auditors, their Audit Report, Management letter and Management responses, and any matters arising from the Audit.
- To review the assistance given by the Company's officers to the External Auditors and the Group Internal Auditors, where such functions exist.
- To review the adequacy of the scope, functions and resources of the internal audit functions, and that it has the necessary authority to carry out its work.
- To review the internal audit plan, internal audit programme, processes, the results of the internal audit programme, processes or investigation undertaken and Management responses, and whether or not appropriate action is taken on the recommendations of the internal auditors (where an internal audit function is established).

- To review the Quarterly Financial Statements and the Annual Audited Accounts, prior to the approval by the Board of Directors. The review should focus primarily on compliance with accounting standards and other legal and regulatory requirement, any significant and unusual events, any changes in or implementation of major accounting policy, any significant adjustment arising from the audit and the going concern assumptions.
- To review any related party transactions and conflict of interest situation that may arise within the Company or the Group.
- To recommend the nomination of a suitable accounting firm for appointment as the Company's External Auditors.
- To review the External Auditors remuneration and to recommend to the Board for approval.
- To review the services of the External Auditors and to evaluate whether there is reason (supported by grounds) to believe that the External Auditors is not suitable for re-appointment.
- To review and assess the performance of the Group Internal Auditors.
- To approve the appointment and dismissal of the Chief Internal Auditor.

#### Authorities

- The Committee shall have the authority to investigate any matter within its terms of reference.
- The Committee shall have full and unrestricted access to any information pertaining to the Company or the Group.
- The Committee shall have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if such functions exist).
- The Committee shall have the authority to obtain independent professional or other advices.
- The Committee shall have the authority to convene meetings with the external auditors, excluding the attendance of the executive members of the committee, whenever deemed necessary.

- The Committee shall have the authority to invite other Board members as well as the Management members to attend the meeting of the Committee.
- Where the Committee is of the view that a matter reported by it to the Board of Directors has not been satisfactorily resolved resulting in a breach of the Bursa Securities' Listing Requirements as well as other legal and regulatory requirements, the Committee shall have the authority to promptly report such matter to Bursa Securities and the appropriate authorities.

#### Activities

During the year under review, the following were the activities of the AECD:-

- Reviewed the Group's Audit Plan for the year 2005 together with the External Auditors, Messrs PricewaterhouseCoopers. The Group Audit Plan gives an overview of the scope of audit for the financial year ended 31 December 2005, audit approach, proposed timetable, areas of focus, risks and responses.
- Reviewed the quarterly financial statements and annual audited accounts and ensured that the financial reporting and disclosure requirements are in compliance with accounting standards and the requirement of the relevant regulatory authorities, prior to such quarterly results and audited accounts being presented to the Board for approval.
- Discussed with the External Auditors, significant matters that came to light during the course of audit for the financial year ended 31 December 2005.

#### Internal Audit Department Function

The AECD has reviewed and concluded that there was no need to establish or outsource the internal audit function of the Company given that its principal activity is that of an investment holding company, the transactions are generally not unusual or material in nature, and monthly management reports are being distributed to members of the Board of Directors for their review. In the absence of an Internal Audit Department, the AECD assumes the role of discharging the function. In discharging the internal audit function, the Committee has been given full access to all the relevant information and resources.

# Statement of Internal Control

## Introduction

The Malaysian Code of Corporate Governance requires listed companies to maintain a sound system of internal controls to safeguard shareholders' investments and the Group's assets. The Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") require directors of the listed companies to include a statement in their annual reports on the state of their internal controls. The Bursa Securities' Statement on Internal Control: Guidance for Directors of Public Listed Companies ('Guidance') provides guidance for compliance with these requirements. Set out below is the Board's Internal Control Statement, which is prepared in accordance with the Guidance.

## Responsibility

The Board of Directors ("the Board") recognises the importance of sound internal controls and risk management practices to good corporate governance. The Board affirms its overall responsibility for the Group's system of internal control and risk management, and for reviewing the adequacy and integrity of those systems. In establishing and reviewing the adequacy and integrity of the systems, the Board has regarded the materiality of relevant risks, the likelihood of loss being incurred and the costs of control. These systems are designed to manage and not eliminate the risk to which the Group is exposed to in meeting its business objective. The system can only provide reasonable and not absolute assurance against material misstatement, fraud or loss.

## Risk Management

For the year under review the Group's principal activity is that of an investment holding. The Group has maintained an on-going process for identifying, evaluating and managing the significant risks faced by the Group approved by its Board. This process is regularly reviewed by the Board.

## Key Elements of the Internal Control System

The Board of Directors has identified the key areas of risks and has in place the following key elements of the Group's internal control systems as described below to manage these risks. The key elements of the Group's internal control systems are described below:

- Clearly defined delegation of responsibilities to Committees of the Board and the management, including authorization levels for operational and investment activities. These are reviewed periodically for their relevance and effectiveness;
- Clearly documented internal policies procedures that are reviewed periodically and revised to integrate changes to reflect changing legal, regulatory, operational and business environment;
- Regular and comprehensive information is provided to the Board, covering financial performance, cash flows and key performance indicators;
- Preparation of detail budget for the coming year which is approved by the Board;
- Monthly monitoring of results against budget, with major variances being followed up and management action taken, where necessary;
- Appropriate staff training, development, motivation and incentives established to improve staff competency and productivity.

Notwithstanding the absence of internal audit function as disclosed in the AECD report on page 14, the Board has not noted any internal control weaknesses during the period, or which have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's annual report.

For the purpose of the internal control statement, the Group's interest in RHB has not been dealt with as part of the Group. The Group's interests are served through representation on the Boards of RHB and its subsidiaries who seek assurance that significant risks are being managed.

## Statement of Directors' Responsibility

The Directors are required by the Companies Act, 1965 ("the Act") to prepare financial statements for each financial year which gives a true and fair view of the state of affairs, and the profit and loss of the Group and the Company for the financial year. As required by the Act and the Listing Requirements of Bursa Securities, the financial statements have been prepared in accordance with the Malaysian Accounting Standards Board's approved accounting standards, Bank Negara Malaysia's guidelines and the provisions of the Act.

The Directors consider that in preparing the financial statements for the year ended 31 December 2005 set out on pages 22 to 52, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates. The Directors have responsibility for ensuring that the Group and the Company keep accounting records which disclose with reasonable accuracy the financial position of the Group and the Company and which enable them to comply with the Act. The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.