



UTAMA BANKING GROUP

ANNUAL REPORT 2006

Five Year Group Financial Highlights

	2006*	2005*	2004	2003	2002
RESULTS (RM' million)					
Pre-tax profit	466.9	445.1	64.6	(20.6)	123.0
Net Profit/(loss)	(5.2)	6.0	44.5	(25.8)	97.5
BALANCE SHEET (RM' million)					
Total assets	102,101	88,809	1,250	1,869	1,999
Shareholders' Funds	988	988	999	953	974
RATIOS					
(Loss)/Earnings per share					
- Basic (sen)	(0.8)	0.9	6.5	(3.8)	14.3
- Diluted (sen)	(0.8)	0.9	6.5	(3.8)	14.3
Net tangible assets/(liabilities) per share (RM)	0.21	0.19	(0.17)	(0.21)	1.43
Net assets per share (RM)	1.45	1.45	1.46	1.40	1.43

* RHB is deemed a subsidiary of UBG following the adoption of FRS 127 with effect from 1 January 2006 after taking into on consideration the exercisable potential voting rights arising from the RHB ICULS that the Company holds. The comparative figures for 2005 have also been restated accordingly.

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

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

Mr. Kevin How Kow
Independent Non-Executive Director

Tuan Haji Mahmud Abu Bekir Taib
Non-Independent Non-Executive Director

YBhg. Dato Sri Liang Kim Bang
Independent Non-Executive Director

YBhg. Dato' Richard Alexander John Curtis
Non-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

YBhg. Dato' Vaseehar Hassan bin Abdul Razack
Non-Independent 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

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

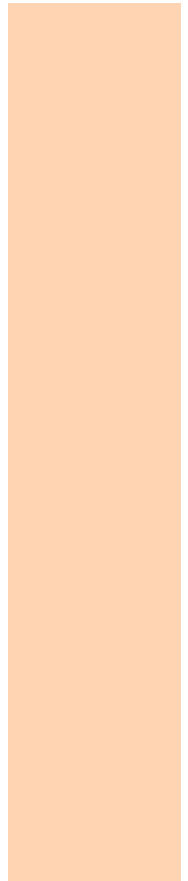
To convey queries and concerns regarding
Utama Banking Group Berhad, please contact:

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

Ms. Monica Oh Chin Chin
Company Secretary

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

Board of Directors



From Left to Right

1. Dato' Paduka Nik Hashim bin Nik Yusoff
2. Dato' Haji Mohamad Taha bin Ariffin
3. Dato' Vaseehar Hassan bin Abdul Razack
4. Datu Dr Haji Hatta bin Solhi

5. Mr. Kevin How Kow
6. Dato Sri Liang Kim Bang
7. Haji Mahmud Abu Bekir Taib
8. Dato' Richard Alexander John Curtis

Profile of Directors

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. He is also currently the Non-Independent Non-Executive Chairman of Rashid Hussain Berhad ("RHB"). His current directorships in public companies include UBG Enterprise Bhd, CMS Trust Management Berhad, Genting Berhad and Malayan United Industries Berhad.

Dato' Paduka Nik Hashim has attended six out of the eight 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.

Dato' Paduka Nik Hashim bin Nik Yusoff
(Malaysian, aged 68, Chairman,
Independent Non-Executive Director)

Dato' Haji Mohamad Taha bin Ariffin was appointed to the Board of UBG on 24 April 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.

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 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. His current directorships in public companies include CMS Trust Management Berhad

(Chairman) and Hock Seng Lee Berhad (Chairman). He is a Vice President of The Malaysian Branch of the Royal Asiatic Society and is on the panel of the International Court of Arbitration for Sport.

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

Dato' Taha has attended four out of eight 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 never been charged for any offence.

Dato' Haji Mohamad Taha bin Ariffin
(Malaysian, aged 63, Senior Independent
Non-Executive Director)

Dato' 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, Masters in Business Administration and Specialised Masters Degree in Consulting and Coaching. He is currently pursuing a Doctoral Research at the Vrije Universiteit, Amsterdam.

Dato' Vaseehar Hassan has more than 26 years of experience in the financial sector. He currently holds the positions of Chief Executive and Director of the Malaysian subsidiary of Dallah AlBaraka Group of Saudi Arabia. His current directorships in public companies include RHB, RHB Capital Berhad, RHB Investment Bank Berhad (formerly known as "RHB Sakura Merchant Bankers Berhad"), RHB Bank

Berhad, RHB Insurance Berhad, RHB Islamic Bank Berhad (Chairman), CMS Trust Management Berhad and Ingress Corporation Berhad. He is also a Member of the International Advisory Panel of the World Islamic Economic Forum.

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

Dato' Vaseehar Hassan has attended all eight meetings held for the financial year. He has no family relationship with any Director and is a nominee of Kenyalang Utama Sdn Bhd which has an equity interest of 15.9% in UBG. He has never been charged for any offence.

Dato' Vaseehar Hassan bin Abdul Razack
(Malaysian, aged 56, Non-Independent
Non-Executive Director)

Profile of Directors

Datu Dr Hatta bin Solhi

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

Datu Dr 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 in Zecon Engineering Berhad.

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

Datu Dr Hatta has attended seven out of eight 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 58, Independent Non-Executive Director)

Mr. Kevin How Kow was appointed to the Board of UBG on 5 March 2004. Mr. Kevin How 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, Kenanga Investment Bank Berhad (formerly known as "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 seven out of eight meetings since his appointment on the Board of UBG. 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.

Dato Sri Liang Kim Bang

(Malaysian, aged 70, Independent Non-Executive Director)

Dato Sri Liang Kim Bang was appointed to the Board of UBG on 3 August 2007. He studied at the University of Malaya, Singapore (1957 - 1961), graduating with B.A. and B.A. (Hons) degrees and at University of Cambridge (Trinity College), England (1962 - 1963) in Public Administration. He joined the Sarawak Civil Service in 1961, served in various capacities and retired in 1994. He was Sarawak's State Financial Secretary from 1984 to 1994.

His current directorships in public companies include CMS, RHB, MISC Berhad, PPB Group Berhad, PPB Oil Palms Berhad and CMS Trust Management Berhad.

Dato Sri Liang has attended all two meetings held for the financial year since his appointment. 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.

Haji Mahmud who is the Group Deputy Chairman of CMS, was appointed to the Board of Utama Banking Group Berhad (“UBG”) on 3 August 2007, as a nominee of CMS. Having pursued his tertiary education in USA and Canada, Haji Mahmud has extensive experience in the stock-broking and corporate sectors. He was the founding member of Sarawak Securities Sdn Bhd, Sarawak’s first stock-broking company which is now merged with Kenanga Investment Bank Berhad (formerly known as “K&N Kenanga Berhad”).

Haji Mahmud has attended one out of two meetings held for the financial year since his appointment. He is a director and former major shareholder of Majaharta Sdn Bhd, a former indirect major shareholder of UBG. He is a major shareholder of CMS which holds 100% direct equity interest in Concordance Holdings Sdn Bhd which in turn holds 51.83% direct equity interest in UBG. He has no conflict of interest with UBG and has never been charged for any offence.

Haji Mahmud Abu Bekir Taib
(Malaysian, aged 43, Non-Independent
Non-Executive Director)

Dato’ Richard Curtis was appointed to the Board of UBG on 11 September 2006 as a nominee director of CMS. He graduated with a Bachelor of Laws (LL.B) (Honours) from the University of Bristol, UK and is a Sloan Fellow of the London Business School, UK.

the Boards of Metropolitan TV Sdn Bhd and Natseven TV Sdn Bhd, subsidiaries of Media Prima Berhad, an integrated media company which operate 8TV and NTV7 respectively. He is also a Trustee of Yayasan Raja Muda Selangor.

Dato’ Richard Alexander John Curtis
(British, aged 55, Non-Independent
Non-Executive Director)

Dato’ Richard began his career in legal practice (1974 - 1979) as a solicitor with Norton Rose in London and then with the Jardine Matheson Group in Hong Kong (1979 - 1983) after which he joined the Jardine Offshore Group (1983 - 1986) in postings to Singapore and Indonesia to oversee the Group’s offshore oil operations. Dato’ Richard also pursued his own businesses (1988 - 1997) in retail, consultancy and construction. He was the Chief Executive Officer of The Melium Group from 1997 - 2004, a leading Malaysian company involved in the import and retail of luxury brands, lifestyle products and operation of a chain of F&B outlets. Currently, Dato’ Richard sits on

Dato’ Richard was appointed a Member of the Executive Committee on 22 November 2006. Other directorships of public companies include CMS, CMS Trust Management Berhad and K&N Kenanga Holdings Berhad.

Dato’ Richard has attended all board meetings held for the financial year since his appointment. 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 2006.

In my statement to shareholders in last year's annual report, I assured the shareholders that the Board will continue to review and assess all options available to maximise UBG's investments in Rashid Hussain Berhad (“RHB”) Group.

In the second half of 2006 until the beginning of 2007, UBG had received several competing offers from various interested parties to acquire the securities that it holds in RHB. The interest shown by various buyers confirmed the Board's belief in the value of UBG's investments in RHB. The bids were all very competitive and the negotiation processes were very intense and in some instances had led to several revisions in the bids. In deciding on the various bids, the Board of UBG had to take into account of not only the consideration price, but various other factors such as the underlying objectives of the interested parties, the regulatory, legal, transaction and execution risks. We are also very much aware of the time it takes to complete the transaction in order to ensure that at the end of the day, the successful bidder will be able to address RHB's impending debt and business continuity issues.

It now gives me great pleasure to take this opportunity to report to you that, after considering and deliberating on the various competing offers from various interested parties, the Board of Directors has decided on 8 March 2007 to accept the Employees Provident Fund ("EPF") Board's revised offer to acquire all ordinary shares and Irredeemable Convertible Unsecured Loan Stock A and B ("RHB ICULS") in RHB and call warrants exchangeable for RHB Capital Berhad shares owned by UBG for a total cash consideration of RM2.253 billion ("Revised Offer"). The offer and acceptance is subject to the relevant regulatory and shareholders' approvals.

Following the receipt of the approval of the Minister of Finance via Bank Negara Malaysia on 29 March 2007, the Company and EPF Board have executed the conditional Sale and Purchase Agreement on 3 April 2007 ("Proposed Disposal"). Following this significant development, the Board of UBG has announced a proposal to distribute RM1,365,519,892 of the total proceeds raised from the Proposed Disposal to the shareholders of UBG on the basis of RM2.00 for every one (1) existing share in UBG held at the entitlement date to be determined, as a reward for their loyalty and support to the UBG Group over the years. In proposing the amount of distribution of the proceeds from the Proposed Disposal to shareholders, the Board has to maintain an optimal balance between returning capital to shareholders and retaining sufficient cash reserves in the Company to address the future requirements of the Company, including the acquisition of new core business being identified and for the working capital needs of the UBG Group. Approvals from the relevant authorities are being sought for the Proposed Disposal and Capital Repayment. An extraordinary general meeting will be convened on 11 May 2007 to seek your approval for the Proposed Disposal and Proposed Capital Repayment.

On 12 April 2007, the Company announced its success in winning the arbitration award in relation to its dispute with Malaysian Industrial Development Finance Berhad ("MIDF") over the sale of its 85.1% equity interest in Utama Merchant Bank Berhad to MIDF. I am also pleased to report that a sum of RM32.6 million (including interest less applicable charges) has since been released to our bank which has an assignment over the arbitration proceeds as security for the Company's existing borrowings.

DIVIDENDS

The Company will not be declaring dividends for the financial year ended 31 December 2006. Instead, as announced, the Company proposes to distribute part of the proceeds from the Proposed Disposal by way of Capital Repayment.

REVIEW OF FINANCIAL PERFORMANCE

Company

For the financial year under review, the Company reported a profit before tax of RM34.6 million compared to a loss before tax of RM8.4 million reported in the previous year. The turnaround in the Company's results is mainly attributed to an unrealised gain on revaluation of the derivatives that it holds in RHB of RM38.0 million compared to an unrealised loss of RM14.7 million reported in 2005.

As at 31 December 2006, the Company's reserves increased by three folds to RM934.8 million from RM307.8 million in 2005 mainly due to higher unrealised gain on fair valuation of its investment in RHB Irredeemable Convertible Loan Stocks ('ICULS') that are accounted for in the Reserves. The Company's shareholders' funds increased by 62% to RM1.6 billion as at 31 December 2006 from RM990.6 million as at 31 December 2005. This in turn has led to a higher net tangible assets per share of RM2.37 for the current year under review compared to RM1.45 in the previous year.

Group

For the financial year ended 31 December 2006, although UBG's effective interest in RHB is 32.55%, RHB is deemed as a subsidiary of the Company in view of the potential voting rights arising from the RHB ICULS that the Company held. After taking into consideration the potential voting rights arising from the conversion of the RHB ICULS, the Company's shareholdings in RHB would increase to more than 51%. Therefore, financial statements of RHB and its subsidiaries have been consolidated with the UBG's financial statements for the financial year ended 31 December 2006 in accordance with the revised Financial Reporting Standards (FRS) 127 "Consolidated and Separate Financial Statements" that came into effect on 1 January 2006.

For the financial year ended 31 December 2006, UBG reported a consolidated profit after Irredeemable Non-cumulative Convertible Preference Share ("INCPS") dividends before taxation and zakat of RM466.9 million compared to RM445.1 million reported in 2005. The improved performance of the Group is attributed to higher improved net interest income and income from Islamic Banking business partially offset by higher operating expenses, allowances for losses on loans and financing as well as impairment loss.

As at 31 December 2006, the shareholders' funds of UBG Group stood at RM988.4 million, marginally higher than RM987.8 million reported in 2005. The marginal increase in shareholders' funds was mainly due to the unrealised gain on fair valuation of the securities available for sale ("AFS") which was partly offset by the net loss of RM5.2 million attributable to the Group.

OUTLOOK FOR 2007

The shareholders can look forward to a promising financial year in 2007 upon completion of the Proposed Disposal. The Company is expected to realize a net gain of some RM1.2 billion based on its audited financial statements for the financial year ended 31 December 2006 and as a shareholder, one can stand to realise RM2.00 for every one share held at the entitlement date to be determined after obtaining all the relevant approvals.

With the Proposed Disposal, the Company will cease to have significant business or operations. Accordingly, upon completion of the Proposed Disposal, UBG may become an affected listed issuer under PN17. In addition, upon completion of the Proposed Disposal and the Proposed Capital Repayment, UBG will trigger the "Cash Criterion" stipulated under Paragraph 8.14B (2) of the Listing Requirements of Bursa Securities as its assets on a consolidated basis will consist of 70% of cash and Bursa Securities will make a determination as to whether UBG should be considered as a "Cash Company", according to Practice Note No. 16/2005 of the Listing Requirements of Bursa Securities.

The Company would have to submit a proposal to regularise its condition to the relevant authorities within eight (8) months from the date it announces its status as is an affected listed issuer under PN17. To address the above, the Board is now actively identifying suitable assets to be injected into the Company for purposes of addressing the future business of the UBG Group. An appropriate announcement will be made on the said matter in due course.

DIRECTORATE

On 13 September 2006, YBhg. Dato Sri Sulaiman Abdul Rahman Taib 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 valuable contribution and dedicated service to the Company during his tenure of office.

I am pleased to welcome the appointments of Tuan Haji Mahmud Abu Bekir Taib, YBhg. Dato Sri Liang Kim Bang and YBhg. Dato' Richard Curtis to the Board.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I wish to express my gratitude to our shareholders for their continued support and confidence in the Company.

I wish to thank my fellow directors and staff for their contribution and efforts.

I also wish to thank the various authorities for their guidance, co-operation and assistance.

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 shareholder's 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 2006 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 2006, a total of eight Board meetings were held. The attendances of the directors at the Board Meetings were as follows:

	Total Meetings attended	Percentage of attendance (%)
Dato' Paduka Nik Hashim bin Nik Yusoff	6/8	75
Dato Sri Sulaiman Abdul Rahman Taib ¹	3/7	43
Dato' Haji Mohamad Taha bin Ariffin	4/8	50
Datu Dr Hj Hatta bin Solhi	7/8	88
Dato' Vaseehar Hassan bin Abdul Razack	8/8	100
Kevin How Kow	7/8	88
Haji Mahmud Abu Bekir Taib ²	1/2	50
Dato Sri Liang Kim Bang ²	2/2	100
Dato' Richard Alexander John Curtis ³	1/1	100

¹ Resigned on 13 September 2006

² Appointed on 3 August 2006

³ Appointed on 11 September 2006

All the Directors have complied with the minimum 50% attendance required at Board meetings during the financial year ended 31 December 2006 as stipulated by Bursa Malaysia Securities Berhad ("Bursa Securities") Listing Requirements except for Dato Sri Sulaiman Abdul Rahman Taib who resigned on 13 September 2006.

Board Balance

The Board has increased its members from six (6) to eight (8) members during the financial year under review. The Board now comprises the Chairman who is an independent non-executive director, four independent non-executive directors and three 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 pages 3 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
Haji Mahmud Abu Bekir Taib } Dato' Richard Alexander } John Curtis }	Concordance Holdings Sdn Bhd } [wholly-owned subsidiary of } Cahya Mata Sarawak Bhd } (CMSB)]	51.83
Dato' Vaseehar Hassan } bin Abdul Razack }	Kenyalang Utama Sdn Bhd }	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 of 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 (AEC)

The AEC 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 AEC report is detailed out on pages 13 and 14 of this Annual Report).

Corporate Governance 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 two (2) meetings during the year ended 31 December 2006. The EXCO met less frequently for the year in review compared to 2005 because matters were referred directly to the Board given the higher frequency of Board meetings in 2006.

Chairman:

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

Members:

Dato Sri Sulaiman Abdul Rahman Taib (resigned 13 September 2006)
Non-Independent Non-Executive Director

Dato' Vaseehar Hassan bin Abdul Razack
Non-Independent Non-Executive Director

Dato' Richard Alexander John Curtis (appointed on 22 November 2006)
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 (resigned 13 September 2006)
Non-Independent Non-Executive Director

The Board of Directors has reviewed the composition and effectiveness of its Nomination and Remuneration Committee following the resignation of Dato Sri Sulaiman Abdul Rahman Taib, and has decided that the composition of 3 members comprising of all independent non-executive directors is adequate.

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 2006, all the directors have participated in various training programmes, conferences, seminars and briefings to broaden their knowledge and perspectives.

Some of the training Programmes, Conferences, Seminars and Briefings attended by the members of the Board in 2006 include:

Corporate Governance

- Compensation, Nomination & Audit Committees: Preparing for the challenges ahead conducted by Charles River Centre

Corporate Governance Report

- Boardroom Briefing for Directors/CEOs organized by Smart Business Consulting
- Remuneration/succession planning/competency of directors (evaluation) organized by Smart Business Consulting
- Successful Succession Planning and Talent Management organized by another PLC.

Others

- Tax budget seminar on 19 September 2006 organised by Ernst & Young
- Global Leadership Forum "Meet the Future Face to Face" organized by F3 Strategies
- Training on Information Security conducted by Deloitte KassimChan
- Off-Balance Sheet Items, Offshore Accounts & Derivatives and Company Valuation, Restructuring & Funding organized by International Business Consulting Sdn Bhd

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 22 June 2006:-

- | | | |
|------|--|--|
| (i) | Dato' Vaseehar Hassan bin Abdul Razack | } retired pursuant to Articles 98 of the Company's Articles of Association |
| (ii) | Datu Dr Hj Hatta bin Solhi | } |

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 YBhg. Dato' Richard Alexander John Curtis who is also the Group Managing Director of CMSB and whose fees are payable to CMSB.

The aggregate remuneration paid to Directors of the Company comprising remuneration received from the Company and the subsidiaries of the Company for the financial year ended 31 December 2006, analysed into bands of RM50,000 are as follows:

	Number of directors*	
	Current Directors	Directors who have resigned
RM nil – RM50,000	5	1
RM50,001 – RM100,000	1	–
RM100,001 – RM150,000	–	–
RM150,001 – RM200,000	–	–
RM200,001 – RM250,000	–	1
RM250,001 – RM300,000	–	–
RM300,001 – RM350,000	–	–
RM350,001 – RM400,000	–	–
RM400,001 – RM450,000	–	–
RM450,001 – RM500,000	1	–
RM500,001 – RM850,000	1	–

* non-executive directors

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

Corporate Governance Report

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 to 21 and 110 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 2006, the external auditors, Messrs PricewaterhouseCoopers (PwC) had attended the AECD meeting to present the Group's Audit Plan for the Year 2006.

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 2006.

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

Material Contracts As at 31 December 2006

There were no material contracts entered into by Utama Banking Group Berhad and its subsidiaries involving Directors, and major shareholders during the financial year ended 31 December 2006.

Audit & Examination Committee of Directors (AECD) Report

Membership and Attendance

- During the financial year ended 31 December 2006, the Committee comprised the following four non-executive directors, three of whom are independent Directors:-
 - Dato' Haji Mohamad Taha bin Ariffin
Chairman, Independent Non-Executive Director
 - Dato' Paduka Nik Hashim bin Nik Yusoff
Member, Independent Non-Executive Director
 - Kevin How Kow
Member, Independent Non-Executive Director
 - Dato' 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 2006. The details of attendance of each member of Committee are as follows:-

Name of Member	Total Attendance
Dato' Haji Mohamad Taha bin Ariffin	4/5
Dato' Paduka Nik Hashim bin Nik Yusoff	4/5
Kevin How Kow	4/5
Dato' Vaseehar Hassan bin Abdul Razack	5/5

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 the Exchange and the appropriate authorities.

Audit & Examination Committee of Directors (AECD) Report

Activities

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

- Reviewed the Group's Audit Plan for the year 2006 together with the External Auditors, Messrs PricewaterhouseCoopers. The Group Audit Plan gives an overview of the scope of audit for the year ending 31 December 2006, 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 2006.

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

For the purpose of this internal control statement, the Group's interests in RHB and its subsidiaries ("RHB Group") have not been dealt with herein. The Group's interests in RHB Group are served through representation on the Board of RHB and its subsidiaries who seek assurance that significant risks are being managed.

At the Company's level, 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 Company's system of internal controls 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 risks to which the Company is exposed to in meeting its business objective. The systems can only provide reasonable and not absolute assurance against material misstatement, fraud or loss.

Risk Management

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

In the third quarter of 2006, the Board also engaged legal, regulatory and financial advisors to assist in the assessment of the valuation and risks related to its core investment in RHB. This is to enable the Board to make critical strategic decisions in relation to its investment in RHB.

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 Company'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 detailed 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 pages 13 and 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.

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 Malaysia, 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 2006 set out on pages 22 to 109, 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.