

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD  
(Incorporated in Malaysia)

**OCBC BANK (MALAYSIA) BERHAD**  
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS**

**31 DECEMBER 2005**

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD  
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS – 31 DECEMBER 2005

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005**

The directors have pleasure in submitting their report and the audited financial statements of the Bank and of the Group for the financial year ended 31 December 2005.

**PRINCIPAL ACTIVITIES**

The principal activities of the Bank and of the Group are banking and related financial services which also include Islamic banking business. The principal activities of the subsidiary companies during the financial year are lease financing and the provision of nominees services.

There have been no significant changes in these activities during the financial year.

<b>FINANCIAL RESULTS</b>	<b>GROUP</b>	<b>BANK</b>
	2005	2005
	RM'000	RM'000
Profit before taxation and zakat	584,470	584,212
Taxation	(169,441)	(169,383)
Zakat	(383)	(383)
Net profit attributable to shareholders	414,646	414,446
Retained profits brought forward	331,720	412,843
Dividends paid of 117.5 sen per share less tax at 28%	(243,225)	(243,225)
Dividends paid on preference shares	(1,928)	(1,928)
Retained profits carried forward	501,213	582,136

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

### **DIVIDENDS**

Dividends paid by the Bank since the end of the previous financial year consist of:-

- i. a final gross dividend of 72.5 sen per share less tax on 7 April 2005 in respect of the previous financial year amounting to RM150.1 million on the fully issued and paid-up ordinary shares of the Bank;
- ii. an interim dividend of 45 sen per share less tax on 7 September 2005 in respect of the current financial year amounting to RM93.2 million on the fully issued and paid-up ordinary shares of the Bank; and
- iii. a dividend of 4.51% per annum (on total paid up amount) on 20 September 2005 amounting to RM1.9 million on the fully issued and paid-up non-cumulative non-convertible perpetual preference shares of the Bank.

The directors now recommend a net cash dividend of 4.51% amounting to RM 8.95 million to the preference shareholders and a final gross dividend of 112 sen per share less tax in respect of the current financial year amounting to RM231.8 million on the fully issued and paid-up ordinary shares of the Bank which is subject to approval of members at the forthcoming Annual General Meeting of the Bank.

### **SHARE CAPITAL**

On 20 May 2005, the Bank increased its authorised share capital from RM1,000,000,000 to RM1,005,000,000 through the creation of non-cumulative non-convertible perpetual preference shares of RM1 each. On 12 August 2005, the Bank issued 4,000,000 non-cumulative non-convertible perpetual preference shares of RM1 each at an issued price of RM100 each for cash for purpose to strengthen the Bank's capital base and to achieve a more efficient mix of Tier 1 capital. Main features of the preference shares are disclosed in Note 16 in the financial statements.

### **RESERVES AND PROVISIONS**

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements and notes to the financial statements.

### **BAD AND DOUBTFUL DEBTS AND FINANCING**

Before the financial statements of the Bank and of the Group were made out, the directors took reasonable steps to ascertain that proper action had been taken in relation to the writing off of bad debts and financing and the making of allowance for doubtful debts and financing, and satisfied themselves that all known bad debts and financing had been written off and that adequate allowance had been made for bad and doubtful debts and financing.

At the date of this report, the directors are not aware of any circumstances which would render the amount written off for bad debts and financing, or the amount of the allowance for doubtful debts and financing, in the financial statements of the Bank and of the Group inadequate to any substantial extent.

### **CURRENT ASSETS**

Before the financial statements of the Bank and of the Group were made out, the directors took reasonable steps to ensure that any current assets, other than debts and financing, which were unlikely to realise in the ordinary course of business, their value as shown in the accounting records of the Bank and of the Group had been written down to an amount which they might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Bank and of the Group misleading.

### **VALUATION METHODS**

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Bank and of the Group misleading or inappropriate.

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

### **CONTINGENT AND OTHER LIABILITIES**

At the date of this report there does not exist:-

- a) any charge on the assets of the Bank or of the Group which has arisen since the end of the financial year which secures the liabilities of any other person, or
- b) any contingent liability in respect of the Bank or of the Group which has arisen since the end of the financial year other than in the ordinary course of banking business.

No contingent or other liability of the Bank and of the Group has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Bank and of the Group to meet their obligations as and when they fall due.

### **CHANGE OF CIRCUMSTANCES**

At the date of this report, the directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Bank and of the Group that would render any amount stated in the financial statements misleading.

### **ITEMS OF AN UNUSUAL NATURE**

The results of the operations of the Bank and of the Group for the financial year were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature, except for the change in accounting policies as explained in Section A of the Group's significant accounting policies and Note 38 of the financial statements.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Bank and of the Group for the financial year in which this report is made.

### **FINANCIAL PERFORMANCE**

The Bank pre-tax profit of RM584 million surpassed the half a billion Ringgit mark and was a record high. The stronger performance of 51% increase or RM197 million over last year RM387 million was attributed to better operating profits of 14% to RM559 million and net recoveries of RM26 million against provisions of RM102 million last year.

The increase in operating profit was attributed to higher net interest income of 14% to RM627 million and higher non interest income of 26% to RM257 million. Higher net interest income was contributed by RM2.4 billion or 9% growth in average interest earning assets to RM28 billion and improved net interest margin of 16 bps. Higher non-interest income of 26% or RM53 million to RM257 million came from higher fees and commissions of RM13 million, foreign exchange profit of RM11 million and unrealised gain on valuation of financial instruments of RM23 million. Overhead expenses expanded in line with the increase in business volumes by 25% to RM370 million.

With a net recovery of RM26 million against a provision of RM102 million last year and lower NPLs by RM241 million or 15% to RM1.4 billion, the bank's net NPL ratio fell to 3.63% from 5.87%. An increase of 10% in loan base also contributed to the decline.

Outstanding loans grew by 10% or RM2 billion, from RM19.8 billion to RM21.8 billion. Loan growth was recorded in consumer business RM1.2 billion (of which housing loans RM0.6 billion) with the remaining RM0.8 billion from business banking. Consequently, total assets grew by 12% to RM30.8 billion.

The Risk Weighted Capital Ratio (RWCR) of the bank remained healthy at 12.40% as at 31 December 2005.

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## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

### **ACTIVITIES & ACHIEVEMENTS**

OCBC Bank (Malaysia) Berhad ("the Bank") has been operating in Malaysia for more than seven decades and remains among the top three foreign banks in the country by assets. With a network of 25 branches located across both the Peninsula and East Malaysia, it has a customer base of more than 400,000 individual and corporate customers.

The Bank, which is staffed by 2,533 employees (as at 31 December 2005), offers a range of specialist financial services that includes consumer, corporate, investment, premier and transaction banking, and global treasury services to meet the needs of its customers across communities.

During the second quarter of the year, the Bank shifted its headquarters and main branch from the previous premises to the newly-constructed Menara OCBC along Jalan Tun Perak, Kuala Lumpur. Prime Minister Dato' Seri Abdullah Ahmad Badawi officiated at the grand opening ceremony on 3 June 2005, which was attended by 500 guests comprising customers, business partners and staff, and members of Malaysia's regulatory authorities.

At the start of the year, the Bank outsourced selected technology and processing services to its sister company, e2 Power Sdn Bhd, which began central processing operations as an MSC-status (Multimedia Super Corridor-status) company in Cyberjaya in January. The Centre was declared officially open by Minister of Science, Technology and Innovation, Dato' Sri Dr Jamaludin Jarjis, and provides services to the Bank for areas such as data and call centres, trade operations, accounts services, credit processing and systems application development.

Accolades for the year included being named Malaysia's Best Corporate/Institutional Internet Bank by *Global Finance*, and also received Rating Agency Malaysia Berhad's (RAM) Special League Achievement award. In addition, the Bank was bestowed, for the second consecutive year, the Asian Banking Award for Operational Efficiency – this time for its Project MinT-M (Managing in Time – Malaysia). Other awards included Superbrands Malaysia 2005, Best International Brand Awards 2004/2005 and Sahabat SMI Award 2005 from the SMI Association of Malaysia.

In business banking, the Bank continued to do well and ranked among the top four banks overall for highest small and medium enterprises (SME) loans growth. It also witnessed strong growth in total income involving large corporates, catalyzed, in part, by strong initiatives in new customer acquisition and focus on investment banking, trade and treasury. For SMEs, the Bank introduced seven new lending programmes and secured lending products, steering the SME business unit's revenue to an 18% growth rate.

During the course of the year, the division also initiated finance-related workshops at 14 different locations to provide insights into how entrepreneurs and large corporates might further expand their businesses. The Bank continued to work closely and actively with strategic alliance partners of trade associations and exhibitors such as the Branding Association of Malaysia, SMI Association of Malaysia and many more, to further reach out to the business community.

The Bank's online business banking innovations through *Velocity@ocbc*, particularly in corporate cash management services, were given due recognition when the Bank was named Malaysia's best corporate internet bank by *Global Finance* in the magazine's annual "World's Best Internet Banks" competition. Among other ongoing promotional initiatives during the year, the Bank showcased *Velocity@ocbc* at Bank Negara Malaysia's inaugural *Payment Systems Forum and Exhibition*.

During the year, the Bank's investment banking division made strides in several new areas and concluded a total of 16 private debt securities and loan syndication transactions. It continued to differentiate itself from the competition through innovative funding structures and provision of tailored solutions to a diverse range of clients that culminated in several landmark transactions.

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

### **ACTIVITIES & ACHIEVEMENTS (continued)**

The Bank was co-lead arranger cum bookrunner for the year's first successfully closed RM syndication in 2005: a RM360 million syndicated term loan for Sunway Holdings Incorporated Berhad. Other deals included the appointments as lead arranger for Pac Lease Sdn Bhd's maiden seven-year RM200 million commercial papers/medium term notes programme and as lead arranger for Mycron Steel CRC Sdn Bhd's RM105 million syndicated tradeline facilities.

The Bank also undertook a series of trend-setting Islamic deals including the first oil palm and first multiple real estate securitization exercises. The deals were structured along the internationally accepted Islamic concept of Sukuk Ijarah: as lead arranger for the Rimbunan Hijau Group's RM278 million Islamic Securitisation exercise (through Midas Plantation Sdn Bhd and RH Capital Sdn Bhd); and as lead arranger for TMW Lion GmbH's RM190 million fund-raising exercise (through Focal Quality Sdn Bhd). These were complemented by the Bank's involvement in two other major Islamic transactions, acting as co-lead arranger for WCT Engineering Berhad's issuance of RM200 million Islamic Securities and a structured Islamic acquisition financing package for Kulim (Malaysia) Berhad.

The year also saw the self-led inaugural issuance of RM400 million non-cumulative non-convertible preference shares for the Bank, which qualified as tier-1 capital.

### **MAJOR BUSINESS PLANS & ACTIVITIES FOR YEAR 2006**

Moving into 2006, the Bank's plans will centre on enhancing its service quality, delivering new, innovative products and increasing its distribution network to better serve the needs of both existing as well as prospective customers.

The Bank's Consumer Financial Services (CFS) division will continue to enlarge its retail customer base with focus on specific customer segments. To support this growth strategy, the Bank plans to expand its product range in wealth management, housing loans and lifestyle products such as credit cards and cash financing-i. The Bank also plans to extend its reach through its growing mobile and direct sales teams, alliances with external distribution parties and its ongoing partnership with Great Eastern Holdings Limited through their extensive agency force.

The Bank will continue to serve and meet the needs of its business banking (BB) customers through innovation of its business model and by developing an enhanced strategy that emphasises efficiency and lower costs, particularly in the small business and community banking segments. And as part of its strategy to reach out to a broader range of customers, the Bank has embarked on a project that caters to the distinct needs of diverse sets of customers in today's competitive environment through segmentation. The inauguration of the Contract Finance unit at the end of 2005, which focuses on Bumiputra denominated industries, exemplifies the efforts undertaken towards this end. In 2006, the Bank will concentrate on the implementation and smooth delivery of the remaining project segments.

With the scenario of rising interest rates, emphasis will be laid on liability products such as structured investments, fixed deposits and current account floats, as well as cash management transactions through GIRO and the implementation of the financial process exchange (FPX). In addition, the Bank will continue to provide extended support to large corporates that are seeking to venture overseas into markets such as Indonesia, China and Vietnam.

The Bank's Treasury division will continue to develop innovative products that serve the interests of its sophisticated clientele. As interest rates start to firm up, and in anticipation of renewed interest in liability products, products such as structured hedging tools (structured swaps, foreign exchange options and structured loans) will be introduced. And, with the success of the Bank's structured investment offerings during 2005, it is poised to channel greater efforts into developing and growing its range of longer term foreign exchange-linked products, commodity-linked structures, Islamic structured products and also exploring the idea of structuring products via unit trusts and bancassurance.

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## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

### **RATINGS BY EXTERNAL AGENCIES**

The Bank is rated by an external agency, Rating Agency Malaysia Berhad. The Bank received AA1 for long term rating (indicates sound credit profiles and without significant problems) and P1 for short term rating (indicates superior capabilities for timely payments of obligations) which was reaffirmed in December 2004 and is still in use at the reporting date. This is reflective of the Bank's resilient asset quality, sound credit risk management, sustainable financial performance and sturdy capitalisation.

### **CORPORATE GOVERNANCE**

#### **Board Composition and Independence**

The Board comprises 8 Directors, of whom 7 are non-executive Directors. The non-executive Directors are: Tan Sri Dato' Nasruddin bin Bahari, Mr David Conner, Mr Lai Teck Poh, Mr Soon Tit Koon, Ms Tan Siok Choo, Colonel (Rtd) David Wong Cheong Fook and Datuk Yong Poh Kon.

The executive Director on the Board is Dato' Yeoh Beow Tit, CEO of the Bank.

The roles of the Chairman and the CEO have always been separated, which is consistent with the principle of the Revised BNM/GP1 to institute an appropriate balance of power and authority. The Chairman's role in the Board includes scheduling meetings to enable the Board to perform its duties responsibly whilst not interfering with the flow of the Bank's operations; preparing meeting agenda in consultation with the CEO; exercising control over quality, quantity and timeliness of the flow of information between Management and the Board; and assisting in ensuring compliance with guidelines on corporate governance. These pertain to only board proceedings and is not a comprehensive list of all the duties and responsibilities of the Chairman.

The Board has 4 Directors deemed independent, namely, Tan Sri Dato' Nasruddin bin Bahari, Ms Tan Siok Choo, Colonel (Rtd) David Wong Cheong Fook and Datuk Yong Poh Kon.

The members of the Board as a group provide core competencies to ensure the effectiveness of the Board. The competencies include banking, accounting, finance, legal, strategic ability, business acumen, management experience and depth, understanding of industry and customer, familiarity with regulatory requirements and knowledge of risk analyses and control. Details of the Directors' professional qualifications and background can be found below under "Further Information on Directors".

As a principle of good corporate governance, all Directors are subject to re-election at regular intervals. The Bank's Articles of Association also provide for the retirement of Directors by rotation and, under Bank Negara Malaysia's guidelines, all appointment and re-appointment of Directors have to be approved by Bank Negara Malaysia.

Some of the Directors are also members of the Board Audit Committee but the Board is satisfied that the Directors have been able to devote adequate time and attention to fulfil their duties as Directors of the Bank, in addition to their Board Audit Committee representation.

Bank Negara Malaysia had vide circular dated 24 October 2005 required the Bank to form the Board committees, namely, Nominating, Remuneration and Risk Management Committee by 31 March 2006. The Bank will form the aforementioned committees by the deadline.

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

### **CORPORATE GOVERNANCE (continued)**

#### **Board Conduct and Responsibilities**

The Board is elected by the shareholders to supervise the management of business and affairs of the Bank. The prime stewardship responsibility of the Board is to ensure the viability of the Bank and to ensure that it is managed in the best interest of the shareholders as a whole while taking into account the interest of the stakeholders.

Broadly, the responsibilities of the Board include but are not limited to the following:

- Reviewing and approving overall business strategy developed and recommended by Management;
- Ensuring that decisions and investments are consistent with long-term strategic goals;
- Ensuring that the Bank is operated to preserve its financial integrity and in accordance with policies approved by the Board;
- Providing oversight in ensuring that the Bank's risk appetite and activities are consistent with the strategic intent, operating environment, effective internal controls, capital sufficiency and regulatory standards;
- Overseeing, through the Audit Committee, the quality and integrity of the accounting and financial reporting systems, disclosure controls and procedures and internal controls; and through the Risk Committee the quality of the risk management processes and systems; and
- Reviewing any transaction for the acquisition or disposal of assets that is material to the Bank.

In 2005, the Board and Board Audit Committee held a total of 6 meetings each. Prior to each meeting, members are provided with timely and complete information to enable members to fulfil their responsibilities. Information provided includes background information and matters to be addressed by the Board, copies of disclosure documents, monthly internal financial statements, risk management reports, budgets, forecasts and reports of variance from budgets and forecasts.

The Board and Board Audit Committee have separate and independent access to the Bank's senior management and to the company secretary. The Directors, in addition, could take independent professional advice from legal firms at the Bank's expense.

The Directors receive appropriate structured training. This includes introductory information, briefings by senior executives on their respective areas and attendance at relevant external courses. The Board as a whole also receives briefings on relevant new laws, risk management updates and changes in accounting standards.

#### **Board performance**

The Board would be looking into the annual performance evaluation process to assess the effectiveness of the Board, Board Committee and each Director's contribution upon formation of the Board Nominating Committee by 31 March 2006.

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

### **CORPORATE GOVERNANCE (continued)**

#### **BOARD COMMITTEE**

##### **Audit Committee**

The Audit Committee comprises Tan Sri Dato' Nasruddin bin Bahari, Ms Tan Siok Choo and Colonel (Rtd) David Wong Cheong Fook, all of whom are independent Directors. The Committee has written terms of reference that describe the responsibilities of its members.

The Audit Committee performs the functions specified in the Companies Act, 1965, the Banking and Financial Institutions Act, 1989 and the Bank Negara Malaysia guidelines.

The Board approved the terms of reference of the Audit Committee. The Committee may meet at any time with the internal auditors and external auditors. It has full access to and co-operation from management, and has the discretion to invite any Directors and executive officers to attend its meetings. It has explicit authority to investigate any matter within its terms of reference.

It meets with the Bank's external auditors and the internal auditors, and reviews the audit plans, the internal audit programme, the results of their examination and findings on their evaluation of the system of internal controls, the scope and results of the internal audit procedures and the response from the Bank's management and the assistance given by the officers of the Bank to the auditors. The Audit Committee reviews the financial statements of the Bank and the auditors' report thereon and submits them to the Board of Directors. The Audit Committee has full access and the cooperation of the management and has been given the resources required for it to discharge its functions. The Audit Committee has full discretion to invite any Director and executive officer to attend its meetings.

In addition to the review of the Financial Statements, the Audit Committee reviews and evaluates with the external auditors and internal auditors, the adequacy of the system of internal and accounting controls, risk management and compliance. The reviews include the scope and results of the audits, the cost effectiveness of the audits, and the independence and objectivity of the external auditors.

The Audit Committee has received the requisite disclosures from the external auditors evidencing the latter's independence. It is satisfied that the financial, professional and business relationships between the Group and external auditors are compatible with maintaining the independence of the external auditors.

##### **Internal Audit Function**

The Audit Committee approved the terms of reference of internal audit. In line with leading practice, Internal Audit's mission statement and charter requires it to provide independent and reasonable, but not absolute, assurance that the Banking's system of risk management, control, and governance process, as designed and implemented by senior management, are adequate and effective. Internal Audit reports on the adequacy of the systems of control to the Audit Committee and management, but does not form any part of those systems of control. Internal Audit is also expected to meet or exceed the Standards for the Professional Practices of Internal Auditing of The Institute of Internal Auditors.

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

### **CORPORATE GOVERNANCE (continued)**

#### **Internal Audit Function (continued)**

Internal Audit has implemented risk-based audit process. Audit work is prioritised and scope according to an assessment of potential exposure to risks. This includes not only financial risks, but operational risks as well. Computerised audit systems have been adopted so that the audit process is now largely automated.

The work undertaken by Internal Audit includes the audit of the system of internal control over its key operations (including overseas branches), review of security and access controls for the key computer systems, review of control process within and around new products and system enhancements, and review of controls over the monitoring of market and credit risks. Internal Audit also actively participates in major new systems developments and special projects, to help evaluate risk exposures and to help ensure that proposed compensating internal controls are adequately evaluated on a timely basis.

#### **Internal Controls**

The Board believes that, in the absence of any evidence to the contrary, the system of internal control maintained by the Bank's management and that was in place throughout the financial year and up to and as of the date of this report, is adequate to meet the needs of the company in its current business environment.

The system of internal control provides reasonable, but not absolute assurance that the company will not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. However, the Board also notes that no system of internal control could provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgement in decision making, human error, losses, fraud or other irregularities.

### **MANAGEMENT INFORMATION**

All Directors review Board reports prior to the Board meeting. Information and materials, duly endorsed by the CEO, Malaysia and the relevant functional heads that are important to the Directors' understanding of the agenda items and related topics are distributed in advance of the meeting. These are issued in sufficient time to enable the Directors to obtain further explanations, where necessary, in order to be briefed properly before the meeting. The Bank will provide information on business, finances and risks to the Directors on a regular basis as well as on an as-required basis. The Board report includes, among others, the following:

1. Minutes of meetings of all Committees of the Board
2. Monthly Performance Report of the Bank
3. Monthly Credit Risk Management Report
4. Monthly Asset Liability & Market Risk Report
5. Quarterly Operational Risk Management Report
6. Quarterly Industry Benchmarking Report (includes, trend analysis, customer satisfaction, product and services quality, and market share)

The Board provides input on bank policies from the Malaysia perspective in line with the prevailing regulatory framework, economic and business environment.

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

**CORPORATE GOVERNANCE (continued)**

**DIRECTORS' ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS IN 2005**

Name of Director	Number of Meetings attended in 2005			
	Board		Audit Committee	
	Held	Attended	Held	Attended
Tan Sri Dato' Nasruddin bin Bahari	6	6	6	6
Mr David Conner	6	6		
Mr Lai Teck Poh	6	5		
Mr Soon Tit Koon	6	6		
Ms Tan Siok Choo	6	6	6	6
Dato' Yeoh Beow Tit	6	6		
Datuk Yong Poh Kon	6	5		
Colonel (Rtd) David Wong Cheong Fook	6	6	6	6

The Bank's Articles of Association provide for Directors to participate in Board and Board Committee meetings by means of conference telephone, video conferencing or audio visual equipment.

**FURTHER INFORMATION ON DIRECTORS**

**Profile of the Board of Directors**

**Tan Sri Dato' Nasruddin Bin Bahari, Chairman**

Tan Sri Dato' Nasruddin Bin Bahari was first appointed to the Board on 23 January 1996. He holds a Bachelor of Arts with Honours from the University of Malaya and a Master of Public Administration from the University of Pittsburgh, USA. Apart from being Chairman of the Bank, he is also Chairman of Affin Money Brokers Sendirian Berhad and Sumber Petroleum Cemerlang ("SPC") Sendirian Bhd. He is also a Director at Lingkaran Transkota Holdings Bhd ("LITRAK"), The Pacific Insurance Bhd, Road Builder (M) Holdings Bhd, OCBC Credit Berhad and Oversea-Chinese Banking Corporation Limited ("OCBCL").

**Dato' Albert Yeoh Beow Tit**

Dato' Albert was appointed Senior Executive Vice President in January 2001. He joined OCBCL on 19 March 1996, initially as Director and CEO of the Bank and subsequently as Head of Retail Banking, OCBCL. Dato' Yeoh returned to head the Malaysian operations as Director and CEO in January 1999, a position he continues to hold. Dato' Yeoh is a seasoned banker with more than 25 years of banking experience. He holds a Bachelor of Economics (double major in Economics and Operations Research) from Monash University Australia, and a Master of Science in Management from the University of Salford, England.

**Mr David Conner**

Mr Conner, who is also the Chief Executive Officer of OCBCL, was first appointed to the Board on 25 September 2002. He has extensive banking experience in the Asia Pacific region, having worked for over 25 years with Citibank, N.A. where he served as Managing Director and Market Manager for Citibank Japan from 1999. He was also Chief Executive Officer of Citibank India from 1996 to 1999 and, prior to that, was Country Corporate Officer for Citibank's Singapore operations. He is presently a Director at OCBCL, Great Eastern Holdings Limited, Bank of Singapore Ltd, Lion Capital Management Limited, Asean Finance Corporation Ltd, KTB Ltd, The Great Eastern Life Assurance Company Limited, The Overseas Assurance Corporation Limited, PT Bank NISP TBK, The Esplanade Company Ltd and OCBC Overseas Investments Pte Ltd. He is also a Council Member of the Association of Banks in Singapore, the International Advisory Council for Asia (Washington University in St. Louis), Advisory Council of Institute of Banking & Finance and the Advisory Board of Lee Kong Chian School of Business. Mr Conner holds a Bachelor of Arts from Washington University and a Master of Business Administration from Columbia University.

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## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

### **CORPORATE GOVERNANCE (continued)**

#### **Profile of the Board of Directors (continued)**

##### **Mr Soon Tit Koon**

Mr Soon was appointed Group Chief Financial Officer, OCBCCL in September 2002 and appointed to the Board on 19 June 2003, with responsibilities for capital management, financial and management accounting, management information systems, legal and compliance, and investor relations. He was formerly the Chief Financial Officer of Wilmar Holdings Private Limited for about three years and was with Citicorp Investment Bank, Singapore, for 17 years. Mr Soon holds a Master of Business Administration from the University of Chicago and a Bachelor of Science with Honours from the University of Singapore.

##### **Mr Lai Teck Poh**

Mr Lai was appointed Executive Vice President, OCBCCL in January 1988 and appointed to the Board on 8 March 2000. Prior to being the Group Internal Audit Head, he was responsible for Corporate Banking, IT, Investment Management and Central Operations as well as overseeing Group Risk Management, OCBCCL, seeing to the management of credit, market and operational risks for the Bank and its financial subsidiaries. Mr Lai has more than 35 years of banking experience, including 20 years at Citibank N.A., Singapore, with overseas assignments in Jakarta, New York and London. He holds a Bachelor of Arts with Honours from the University of Singapore.

##### **Datuk Yong Poh Kon**

Datuk Yong was appointed to the Board on 23 January 1996. Datuk Yong holds a First Class Honours degree in Mechanical Engineering from the University of Adelaide. He is presently the Managing Director of Royal Selangor International Sdn Bhd and President of The Federation of Malaysian Manufacturers ("FMM"). He is also a member of the Advisory Panel of the Malaysia Institute of Economics Research ("MIER") and a Fellow of the Academy of Sciences. He previously served as a member of the Board for the Malaysian Industrial Development Authority ("MIDA"), BNM and the Malaysian Communication & Multimedia Commission.

##### **Ms Tan Siok Choo**

Ms Tan was appointed to the Board on 27 July 2000. Ms Tan holds a Bachelor of Law from the University of Bristol, passed her Bar Finals at College of Law, London and has been admitted as a Barrister-at-law in Lincoln's Inn, London and the Malaysian Bar. She is presently Vice-President and Editor of Noordin Sopiee & Associates Sdn Bhd and a visiting fellow at the Institute of Strategic and International Studies (ISIS) with specific interests in the Malaysian economy, the financial sector and capital markets. She also serves as a Director of United Malacca Rubber Estates Bhd, Meridian Plantations Sdn Bhd, Sinneo Sdn Bhd, Studio Gratika Sdn Bhd and Zitan Corporation Consultant Sdn Bhd. She has extensive experience in the financial services industry, having worked for almost 10 years in stockbroking and banking – as a senior research analyst for Rashid Hussain Securities, senior investment analyst at Morgan Grenfell Asia & Partners' Securities and Head of Corporate Finance at Southern Bank Berhad.

##### **Col (Rtd) David Wong Cheong Fook**

Col (Rtd) David Wong Cheong Fook was first appointed to the Board on 30 March 2004. He is presently Chairman of EM Services Pte Ltd and a Director at OCBCCL, Bank of Singapore Ltd, Ascendas-MGM Funds Management Ltd, Banking Computer Services Pte Ltd, BCS Information Systems Pte Ltd, Pan-United Marine Ltd, Teva Pharmaceutical Investments Singapore Pte Ltd, Jurong International Holdings Pte Ltd and LMA International NV. Col (Rtd) Wong holds a Bachelor of Arts with Honours in Economics and a Master of Arts from the University of Cambridge. He is also a Member of the Institute of Chartered Accountants in England and Wales and the Institute of Certified Public Accountants in Singapore.

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

**DIRECTORS AND THEIR INTEREST IN SHARES AND OPTIONS**

The directors of the Bank in office during this period since the date of the last report are as follows:-

Tan Sri Dato' Nasruddin Bin Bahari (Chairman)

David Conner

Colonel (Rtd) David Wong Cheong Fook

Lai Teck Poh

Soon Tit Koon

Tan Siok Choo

Dato' Yeoh Beow Tit

Datuk Yong Poh Kon

In accordance with articles 106 & 107 of the Bank's Articles of Association, Tan Sri Dato' Nasruddin Bin Bahari, Dato' Yeoh Beow Tit and Mr Soon Tit Koon retire from the board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

According to the register of directors' shareholdings maintained by the Bank in accordance with Section 134 of the Companies Act 1965, the directors' beneficial interests at the end of the financial year in the shares of the Bank and its related corporations were as follows:-

Oversea-Chinese Banking Corporation Limited

Number of ordinary shares of S\$ 0.50 each

Shareholdings registered in the name of directors or in which directors have a direct interest

	<u>As at 1.1.2005</u>	<u>Adjustments for rights issue and sub-division*</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2005</u>
Dato' Yeoh Beow Tit	10,400	60,560	156,240	105,000	122,200
Lai Teck Poh	84,348	118,086	72,500	85,000	189,934
David Conner	142,000	198,800	150,400	0	491,200
Soon Tit Koon	10,000	14,000	0	0	24,000
Col (Rtd) David Wong Cheong Fook	3,000	7,000	2,000	0	12,000
Tan Sri Dato' Nasruddin Bin Bahari	0	2,800	2,000	0	4,800

\* Stock units held at 1 January 2005 were of par value S\$1.00 each, before Oversea-Chinese Banking Corporation Limited's rights issue effected in July 2005 and sub-division of each ordinary stock units into two ordinary stock units of par value S\$0.50 each, effected in August 2005.

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)****DIRECTORS AND THEIR INTEREST IN SHARES AND OPTIONS (continued)**Oversea-Chinese Banking Corporation LimitedNumber of ordinary shares of S\$ 0.50 eachShareholdings in which directors have deemed interest <sup>1/</sup>

	As at 1.1.2005	Adjustments for rights issue and sub-division*	Acquired	Disposed	As at 31.12.2005
Tan Siok Choo	1,471,063	2,059,487	0	0	3,530,550
Lai Teck Poh	15,645	21,901	0	0	37,546
Soon Tit Koon	30,107	76,388	24,456	0	130,951
Dato' Yeoh Beow Tit	11,423	19,242	2,322	10,040	22,947
David Conner	90,949	184,022	40,496	50,400	265,067
<u>Class G Preference Shares</u>					
Lai Teck Poh	42,000	0	0	0	42,000
David Conner	50,000	0	0	0	50,000
Tan Siok Choo	735,532	0	0	0	735,532

<sup>1/</sup> Deemed interest includes shares granted under the OCBC Deferred Share Plan which will vest three years from the grant date and will lapse when the director ceases employment during the vesting period.

The unutilised share options available to the directors under the OCBC Executives' Share Option Scheme are as follows:-

Number of unissued ordinary shares of S\$ 0.50 eachShare Options held by directors in their own name

	David Conner	Lai Teck Poh	Dato' Yeoh Beow Tit	Soon Tit Koon
As at 1.1.2005	930,000	478,895	375,000	250,000
Adjustments for right issue and sub-division*	1,722,000	705,453	525,000	448,000
Offered	300,000	25,000	40,000	70,000
Exercised	100,000	72,500	146,200	0
Lapsed	0	0	0	0
As at 31.12.2005	2,852,000	1,136,848	793,800	768,000
Date options expire	8/4/2012 – 14/3/2015	29/1/2006 – 14/3/2015	9/12/2008 – 14/3/2015	8/4/2012 – 14/3/2015

\* Stock units held at 1 January 2005 were of par value S\$1.00 each before Oversea-Chinese Banking Corporation Limited's rights issue effected in July 2005 and sub-division of each ordinary stock units into two ordinary stock units of par value S\$0.50 each, effected in August 2005.

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD  
(Incorporated in Malaysia)

## DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)

### DIRECTORS AND THEIR INTEREST IN SHARES AND OPTIONS (continued)

OCBC Capital Corporation Limited

Number of preference shares of S\$ 1.00 each

Shareholdings in which directors have deemed interest

	<u>As at 1.1.2005</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2005</u>
Non-cumulative non-convertible guaranteed <u>OCC-A-Preference Shares</u>				
Soon Tit Koon	0	10,000	0	10,000

Other than the above, no other directors in office during the financial year held any interest in shares, options and debentures of the Bank and its related corporations.

### DIRECTORS' BENEFITS

During and at the end of the financial year, no director of the Bank has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by directors as shown in Note 22 to the financial statements, or the fixed salary of full-time employees of the Bank) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any arrangements to which the Bank is a party whereby directors might acquire benefits by means of the acquisition of shares in, or debenture of, the Bank or any other body corporate except for the share options granted to executives of OCBCL pursuant to the OCBC Executives' Share Option Scheme and shares granted under the OCBC Deferred Share Plan which will vest three years from the grant date and will lapse when the director ceases employment during the vesting period.

### ULTIMATE HOLDING COMPANY

The directors regard Oversea-Chinese Banking Corporation Limited, a licensed commercial bank incorporated in Singapore, as the ultimate holding company of the Bank.

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD  
(Incorporated in Malaysia)

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

**AUDITORS**

Our auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

In accordance with a resolution of the Board of Directors dated 15 February 2006.

TAN SRI DATO' NASRUDDIN BIN BAHARI  
DIRECTOR

DATO' YEOH BEOW TIT  
DIRECTOR

Kuala Lumpur

**BALANCE SHEETS AS AT 31 DECEMBER 2005**

	Note	Group		Bank	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>ASSETS</b>					
Cash and short-term funds	2	1,960,947	1,379,166	1,960,947	1,379,166
Securities purchased under resale agreement		49,976	0	49,976	0
Deposits and placements with financial institutions	3	332,476	523,991	332,476	523,991
Held-for-trading securities	4	352,699	579,445	352,699	579,445
Available-for-sale securities	4	5,752,212	4,881,721	5,752,212	4,881,721
Loans, advances and financing	5	20,931,547	19,081,516	20,930,917	19,080,640
Other assets	7	263,969	148,000	260,952	152,851
Statutory deposits with Bank Negara Malaysia	8	785,086	694,086	785,086	694,086
Investment in subsidiary companies	9	0	0	1,611	1,611
Property, plant and equipment	10	247,669	202,724	247,651	202,721
Deferred taxation asset	11	129,243	102,982	129,527	103,208
<b>TOTAL ASSETS</b>		<b>30,805,824</b>	<b>27,593,631</b>	<b>30,804,054</b>	<b>27,599,440</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Deposits from customers	12	19,778,540	16,941,812	19,792,275	16,962,910
Deposits and placements of banks and other financial institutions	13	3,066,763	3,514,906	3,066,763	3,514,906
Obligations on securities sold under repurchase agreements		2,611,796	2,128,354	2,611,796	2,128,354
Bills and acceptances payable		1,340,850	1,533,193	1,340,850	1,533,193
Amount due to Cagamas		921,782	1,010,781	921,782	1,010,781
Subordinated term loan	14	533,709	570,000	533,709	570,000
Other liabilities	15	399,173	274,007	396,114	270,964
Taxation and zakat		37,670	8,464	37,670	8,464
<b>Total Liabilities</b>		<b>28,690,283</b>	<b>25,981,517</b>	<b>28,700,959</b>	<b>25,999,572</b>
Financed by :					
Share capital	16	291,500	287,500	291,500	287,500
Reserves	17	1,824,041	1,324,614	1,811,595	1,312,368
<b>Shareholders' Equity</b>		<b>2,115,541</b>	<b>1,612,114</b>	<b>2,103,095</b>	<b>1,599,868</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>30,805,824</b>	<b>27,593,631</b>	<b>30,804,054</b>	<b>27,599,440</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	28	<b>31,651,355</b>	<b>23,372,056</b>	<b>31,651,355</b>	<b>23,341,877</b>

The accounting policies on pages 24 to 32 and notes on pages 33 to 107 form an integral part of the financial statements.

**INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005**

	Note	Group		Bank	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Interest income	18	1,323,488	1,164,906	1,323,457	1,164,815
Interest expense	19	(695,902)	(613,606)	(696,314)	(614,202)
Net interest income		627,586	551,300	627,143	550,613
Islamic Banking income	40(23)	44,512	29,301	44,512	29,301
		672,098	580,601	671,655	579,914
Non-interest income	20	256,936	203,597	256,936	203,597
Net income		929,034	784,198	928,591	783,511
Staff cost and overhead expenses	21	(370,156)	(294,970)	(369,908)	(294,778)
Operating profits before allowances		558,878	489,228	558,683	488,733
Write back of / (allowance for) losses on loans and financing	23	6,177	(109,188)	6,114	(109,437)
Write back of / (provision for) commitment and contingencies		824	(4,302)	824	(4,302)
Write back of impairment on securities (net)		18,591	14,376	18,591	14,376
Impairment losses on property, plant and equipment		0	(2,745)	0	(2,745)
Profit before taxation and zakat		584,470	387,369	584,212	386,625
Taxation	25	(169,441)	(116,135)	(169,383)	(113,277)
Zakat		(383)	(24)	(383)	(24)
Net profit attributable to shareholders		414,646	271,210	414,446	273,324
Basic earnings per share (sen)	26	143.6	94.3	143.5	95.1
Dividend per ordinary share – 157 sen gross (2004 : 112.5 sen) less income tax (sen)	27	113.0	81.0	113.0	81.0

The accounting policies on pages 24 to 32 and notes on pages 33 to 107 form an integral part of the financial statements.

**STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005**

	Note	Non-distributable				Distributable		Total	
		Share capital	Share premium	Statutory reserve	Capital reserve	Fair value reserve	General reserve		Retained profits
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>Group</b>									
Balance at 1 January 2005									
- As previously stated		287,500	462,500	322,000	56,619	0	36,750	443,350	1,608,719
- Adjustments on adoption of revised BNM/GP8	38	0	0	0	0	51,371	0	(104,649)	(53,278)
- Adjustments on adoption of FRS2	38	0	0	0	10,376	0	0	(6,981)	3,395
As restated		287,500	462,500	322,000	66,995	51,371	36,750	331,720	1,558,836
Net profit attributable to shareholders		0	0	0	0	0	0	414,646	414,646
Revaluation of available-for-sale securities (net)		0	0	0	0	(27,264)	0	0	(27,264)
Deferred tax on revaluation of available-for-sale securities (net)		0	0	0	0	8,539	0	0	8,539
Share-based staff costs		0	0	0	5,937	0	0	0	5,937
Issuance of preference shares		4,000	396,000	0	0	0	0	0	400,000
Dividends paid on ordinary shares in respect of:									
-year ended 31 December 2004	27	0	0	0	0	0	0	(150,075)	(150,075)
-period ended 30 June 2005	27	0	0	0	0	0	0	(93,150)	(93,150)
Dividends paid on preference shares									
-year ended 31 December 2005	27	0	0	0	0	0	0	(1,928)	(1,928)
Balance at 31 December 2005		<u>291,500</u>	<u>858,500</u>	<u>322,000</u>	<u>72,932</u>	<u>32,646</u>	<u>36,750</u>	<u>501,213</u>	<u>2,115,541</u>
Balance at 1 January 2004									
- As previously stated		287,500	462,500	322,000	56,619	0	436,750	201,699	1,767,068
- Adjustment on adoption of FRS 2	38	0	0	0	2,756	0	0	(1,840)	916
As restated		287,500	462,500	322,000	59,375	0	436,750	199,859	1,767,984
Transfer (to)/from		0	0	0	0	0	(400,000)	400,000	0
Share-based staff costs		0	0	0	7,620	0	0	0	7,620
Net profit attributable to shareholders		0	0	0	0	0	0	271,210	271,210
Dividends paid in respect of:									
-year ended 31 December 2003	27	0	0	0	0	0	0	(351,900)	(351,900)
-period ended 30 June 2004	27	0	0	0	0	0	0	(82,800)	(82,800)
Balance at 31 December 2004		<u>287,500</u>	<u>462,500</u>	<u>322,000</u>	<u>66,995</u>	<u>0</u>	<u>36,750</u>	<u>436,369</u>	<u>1,612,114</u>

**STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (CONTINUED)**

	Note	Non-distributable				Distributable		Total	
		Share capital	Share premium	Statutory reserve	Capital reserve	Fair value reserve	General reserve		Retained profits
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>Bank</b>									
Balance at 1 January 2005									
- As previously stated		287,500	462,500	322,000	0	0	0	524,473	1,596,473
- Adjustments on adoption of revised BNM/GP8	38	0	0	0	0	51,371	0	(104,649)	(53,278)
- Adjustments on adoption of FRS2	38	0	0	0	10,376	0	0	(6,981)	3,395
As restated		287,500	462,500	322,000	10,376	51,371	0	412,843	1,546,590
Net profit attributable to shareholders		0	0	0	0	0	0	414,446	414,446
Revaluation of available-for-sale securities (net)		0	0	0	0	(27,264)	0	0	(27,264)
Deferred tax on revaluation of available-for-sale securities (net)		0	0	0	0	8,539	0	0	8,539
Share-based staff costs		0	0	0	5,937	0	0	0	5,937
Issuance of preference shares		4,000	396,000	0	0	0	0	0	400,000
Dividends paid on ordinary shares in respect of:									
-year ended 31 December 2004	27	0	0	0	0	0	0	(150,075)	(150,075)
-period ended 30 June 2005	27	0	0	0	0	0	0	(93,150)	(93,150)
Dividends paid on preference shares									
-year ended 31 December 2005	27	0	0	0	0	0	0	(1,928)	(1,928)
Balance at 31 December 2005		<u>291,500</u>	<u>858,500</u>	<u>322,000</u>	<u>16,313</u>	<u>32,646</u>	<u>0</u>	<u>582,136</u>	<u>2,103,095</u>
Balance at 1 January 2004									
- As previously stated		287,500	462,500	322,000	0	0	400,000	280,708	1,752,708
- Adjustment on adoption of FRS 2	38	0	0	0	2,756	0	0	(1,840)	916
As restated		287,500	462,500	322,000	2,756	0	400,000	278,868	1,753,624
Transfer (to)/from		0	0	0	0	0	(400,000)	400,000	0
Share-based staff costs		0	0	0	7,620	0	0	0	7,620
Net profit attributable to shareholders		0	0	0	0	0	0	273,324	273,324
Dividends paid in respect of:									
-year ended 31 December 2003	27	0	0	0	0	0	0	(351,900)	(351,900)
-period ended 30 June 2004	27	0	0	0	0	0	0	(82,800)	(82,800)
Balance at 31 December 2004		<u>287,500</u>	<u>462,500</u>	<u>322,000</u>	<u>10,376</u>	<u>0</u>	<u>0</u>	<u>517,492</u>	<u>1,599,868</u>

The accounting policies on pages 24 to 32 and notes on pages 33 to 107 form an integral part of the financial statements.

**CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005**

	Note	Group		Bank	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit before taxation and zakat		584,470	387,369	584,212	386,625
Adjustments for:-					
Net profit from held-for-trading securities		(21,722)	(16,470)	(21,722)	(16,470)
Gain / (loss) from sale of available-for-sale securities		161	(6)	161	(6)
Dividends received		(864)	(1,649)	(864)	(1,649)
Depreciation of property, plant and equipment		18,119	20,538	18,117	20,537
Impairment losses on property, plant and equipment		0	2,745	0	2,745
Gain on disposal of property, plant and equipment (net)		(261)	(1,594)	(261)	(1,594)
Allowance for bad and doubtful debts and financing		(6,177)	128,655	(6,114)	128,904
Profit equalisation reserve		4,471	(4,479)	4,471	(4,479)
Write back of impairment losses on securities (net)		(18,591)	(14,376)	(18,591)	(14,376)
Amortisation of premium less accretion of discount		56,721	39,167	56,721	39,167
(Write back) / provision for commitment and contingencies		(824)	4,302	(824)	4,302
Unrealised loss on revaluation (net)		(28,154)	0	(28,154)	0
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>		<b>587,349</b>	<b>544,202</b>	<b>587,152</b>	<b>543,706</b>
(Increase)/Decrease in Operating Assets :					
Loans, advances and financing		(1,998,424)	(2,551,883)	(1,998,733)	(2,552,271)
Other assets and statutory deposits with Bank Negara Malaysia		(118,231)	(165,881)	(110,363)	(173,730)
Held-for-trading securities (net)		247,340	229,683	247,340	229,683
Securities purchased under resale agreement		(49,976)	0	(49,976)	0
Increase/(Decrease) in Operating Liabilities :					
Deposits from customers		2,836,728	1,197,581	2,829,365	1,198,382
Bills and acceptances payable		(192,343)	266,053	(192,343)	266,053
Loans sold to Cagamas		(88,999)	(87,371)	(88,999)	(87,371)
Other liabilities		55,163	47,306	55,147	45,519
Obligations sold under Repurchase agreement		483,442	718,903	483,442	718,903
Deposits of banks and other financial institutions		(448,143)	(49,001)	(448,143)	(49,001)
Subordinated term loan		(23,889)	189,973	(23,889)	189,973
Cash generated from operations		1,290,017	339,565	1,290,000	329,846
Income tax and zakat paid		(117,558)	(112,384)	(117,558)	(102,669)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>1,172,459</b>	<b>227,181</b>	<b>1,172,442</b>	<b>227,177</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of available-for-sale securities (net)		(875,101)	(974,587)	(875,101)	(974,587)
Purchase of property, plant and equipment		(75,986)	(44,342)	(75,969)	(44,338)
Proceeds from sale of property, plant and equipment		13,183	3,231	13,183	3,231
Dividends received		864	1,649	864	1,649
<b>NET CASH UTILISED IN INVESTING ACTIVITIES</b>		<b>(937,040)</b>	<b>(1,014,049)</b>	<b>(937,023)</b>	<b>(1,014,045)</b>

**CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

	Note	Group		Bank	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Dividends paid		(245,153)	(434,700)	(245,153)	(434,700)
Proceeds from issuance of preference shares		400,000	0	400,000	0
<b>NET CASH UTILISED IN FINANCING ACTIVITIES</b>		<u>154,847</u>	<u>(434,700)</u>	<u>154,847</u>	<u>(434,700)</u>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		390,266	(1,221,568)	390,266	(1,221,568)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR</b>		1,903,157	3,124,725	1,903,157	3,124,725
<b>CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR</b>	37	<u>2,293,423</u>	<u>1,903,157</u>	<u>2,293,423</u>	<u>1,903,157</u>

The accounting policies on pages 24 to 32 and notes on pages 33 to 107 form an integral part of the financial statements.

## **SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005**

### **A. Basis of preparation of the financial statements**

The financial statements of the Bank and of the Group have been prepared under the historical cost convention (as modified by valuation of securities and financial derivatives as explained below) and comply with the provisions of the Companies Act, 1965, Bank Negara Malaysia Guidelines (including "Revised Guidelines on Financial Reporting for Licensed Institutions (BNM/GP8)" dated 5 October 2004), Syariah requirements (operation of Islamic Banking) and MASB approved accounting standards in Malaysia. The financial statements incorporate all activities relating to Islamic Banking (IB) which have been undertaken by the Bank in compliance with Syariah principles.

IB refers generally to the acceptance of deposits and granting of financing under the Syariah principles.

The Group and Bank adopted the Revised BNM/GP8 in 2005 and this has resulted in a change in accounting policy for the following financial instruments and is further explained in the respective accounting policy notes below:

- Securities (see policy G);
- Loans, advances and financing (see policy C and E); and
- Derivatives (in respect of hedge accounting, see policy V)

The Revised BNM/GP8 was applied prospectively from 1 January 2005 in the preparation of the financial statements as it is impracticable to restate its comparative especially in relation to the new impairment rules for financial instruments. However, the following have been reclassified to conform with the new classification and presentation:

- (i) dealing and investment securities in the previous year were reclassified to held-for-trading and available-for-sale securities respectively; and
- (ii) interest/ profit-in-suspense were netted off from loans, advances and financing and NPL.

The Bank has early adopted Financial Reporting Standard 2 (FRS 2) "Share-Based Payment" and has applied the recognition and measurement principles of FRS 2 for share options and other share-based payments granted after 22 November 2002 and still not vested as at 31 January 2005. The change in accounting policy was applied retrospectively.

The impact of adopting the revised BNM/GP8 and FRS 2 are disclosed in Note 38 in the financial statements.

### **B. Basis of Consolidation**

The Group financial statements include the audited financial statements of the Bank and all its subsidiary companies made up to the financial year ended 31 December 2005. Subsidiary companies are those companies in which the Group has power to exercise control over the financials and operating policies so as to benefit from their activities.

The results of the subsidiary companies acquired or disposed off during the financial year are included in the Consolidated Income Statement from the date of their acquisition or up to the date of their disposal. Subsidiary companies are consolidated using the acquisition method of accounting.

All significant inter company transactions and balances have been eliminated on consolidation and the consolidated financial statements reflect external transactions only.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

C. Recognition of Interest Income / Financing Income

Interest income / financing income is recognised on an accrual basis using the effective interest method. Interest income / financing income on housing, term loans and term financing is recognised by reference to rest period which is monthly.

Where an account is classified as non-performing, interest income/financing income accrued and recognised as income prior to the date the loans are classified as non-performing is reversed out of income and set-off against the accrued interest receivable account in the balance sheet. Subsequently, interest income and financing income earned on non-performing loans and financing are recognised as income on a cash basis.

In prior years, where an account is classified as non-performing, recognition of interest income / financing income is suspended until it is realised on a cash basis.

This policy on interest income / financing income recognition is in conformity with Bank Negara Malaysia's "Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts and BNM/GP8 dated 5 October 2004.

Income earned on hire purchase, block discount and lease finance is recognised on the 'sum of digits' method so as to produce a constant periodic rate of interest. Unearned interest is deducted in arriving at the net balance of hire purchase, block discount and lease debts.

D. Recognition of Fees and Other Income

Loan processing fees and commissions are recognised as income when all conditions precedent are fulfilled.

Commitment fees and guarantee fees which are material are recognised as income based on time apportionment.

Dividends from subsidiaries are recognised when the shareholders' right to receive payment is established. Dividends from held-for-trading and available-for-sale securities are recognised when received.

E. Allowance for Bad and Doubtful Debts and Financing

Specific allowances are made for non-performing debts and financing which are guided by BNM/GP3 guidelines. Nevertheless, upon classification of loans, advances and financing to non-performing at 3 months in arrears or where there is objective evidence of impairment, the Bank is required to make 100% specific allowance on the unsecured portion. Exception may only be allowed subject to approval as per the Bank's Non-Performing Loan Approval Authority Limits.

The Bank also applied the following discount on collateral for non-performing loans when computing specific allowance:

- (i) fifty percent (50%) of the realisable value of the collateral for non-performing loans which are in arrears for more than five years but less than seven years for consumer and small business segments; and
- (ii) no value to the realisable value of the collateral for all non-performing loans which are in arrears for more than seven years.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

**E Allowance for Bad and Doubtful Debts and Financing (continued)**

Impaired loans and financing are now measured at their estimated recoverable amount. Additional impairment allowance is provided if the recoverable amount is lower than the net book value of the loans/financing. Recoverable amount refers to the present value of estimated future cash flows discounted at original effective interest rate. Net book value is the outstanding amount of loans, advances and financing net of specific allowance calculated based on policy above.

In prior years, specific allowances are made for non-performing debts and financing which have been individually reviewed and specifically identified as substandard, bad or doubtful. The Bank observes a staggered allowance policy of 20% upon classification of loans, advances and financing as non-performing at 3 months and an additional 10% for every month the loans, advances and financing remains non-performing, accumulating to 50% at 6 months and 100% at 11 months. A minimum specific allowance of 20% of the collateral shortfall is made for accounts classified as substandard with no principal or interest in default. The policy is more stringent compared to the minimum requirements of Bank Negara Malaysia's "Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts" where specific allowance is taken at 20% at 6 months unless overall allowance for losses on loans, advances and financing are adequate, increasing to 50% at 9 months and 100% at 12 months.

Specific allowance is written back in circumstances where the loans, advances and financing have been fully settled, where there is cash inflow, additional collaterals being provided, firm contractual agreement to dispose off the collaterals at a price higher than valuation used by the Bank, enhancement in the value of security arising from actual conversion of land use on the property charged and/or where there is concrete evidence to support a reclassification of the loans, advances and financing to a better category, subject to loan review.

A general allowance based on a percentage of the loan and financing portfolio is also made to cover possible losses which are not specifically identified.

An uncollectible loan and financing or portion of a loan and financing classified as bad is written off after taking into consideration the realisable value of collateral, if any, when in the judgement of the management, there is no prospect of recovery.

**F. Repurchase Agreements**

Securities purchased under resale agreements are securities which the Bank had purchased with a commitment to resell at future dates. The commitment to resell the securities is reflected as an asset on the balance sheet.

Conversely, obligations on securities sold under repurchase agreements are securities which the Bank had sold from its portfolio, with a commitment to repurchase at future dates. Such financing transactions and the obligation to repurchase the securities are reflected as a liability on the balance sheet.

**G. Securities**

The Bank classifies its securities portfolios into held-for-trading and available-for-sale securities. Currently no financial assets have been classified as held-to-maturity. Dealing and investment securities disclosed in previous year financial statement were reclassified to conform to the new classification as held-for-trading and available-for-sale securities respectively.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

G. Securities (continued)

i) Held-for-trading Securities

Held-for-trading securities are securities acquired and held with the intention of resale in the short term. These securities are recorded at its initial fair value and subsequently re-measured to their fair value on the Balance Sheet. Fair value is derived from market indicative quotes (e.g. brokers, information service provider, BNM) or valuation techniques. Where mid prices are used, a bid-offer spread adjustment will be made to ensure that all net long positions are marked to bid prices. All realised and unrealised gains and losses arising from revaluing that contract to fair value are included in the income statement. Reclassification of securities in and out of held-for-trading portfolio is disallowed.

In prior years, dealing securities are marketable securities that are acquired and held with the intention of resale in the short term and stated at the lower of cost and market value. Transfers, if any, between dealing and investment securities are made at the lower of cost and market value.

ii) Available-for-sale Securities

Available-for-sale securities (AFS) are securities that are acquired and held for yield or capital growth or to meet minimum liquid assets requirement pursuant to the New Liquidity Framework and are usually held for an indefinite period of time, which may be sold in response to market conditions.

AFS securities are carried at fair value on the balance sheet with cumulative fair value changes reflected under fair value reserve in equity, and recognised in the income statement when the security is disposed of, collected or otherwise sold, or when the security is assessed to be impaired. Fair value is derived from market indicative quotes (e.g. brokers, information service provider, BNM) or valuation techniques. Where mid prices are used, a bid-offer spread adjustment will be made to ensure that all net long positions are marked to bid prices.

AFS securities are reviewed and assessed for objective evidence of impairment at each balance sheet date. If such evidence exists, impairment is calculated as the difference between the asset's carrying amount and the estimated recoverable amount (present value of estimated cash flow discounted at effective interest rate). Carrying amount of securities should be reduced through use of allowance account and is recognised in income statement. The fair value of equity instruments classified under AFS portfolio is estimated using internal valuation technique and provision is made if management consider the impairment to be permanent. Impairment losses recognised in income statements for an equity investment classified as AFS shall not be reversed through income statement. If, in subsequent periods, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment was recognised in income statement, that portion of impairment loss may be reversed in income statement.

In prior years, Malaysian Government securities, Malaysian Government investment certificates, Cagamas bonds, other Government securities, Bank Guaranteed Private Debt Securities and securities specifically exempted by Bank Negara Malaysia held for investment are stated at cost adjusted for amortisation of premium or accretion of discount to maturity date. Other Private Debt Securities are valued at lower of cost and market value. Other investment securities are stated at cost and allowance is made in the event of any permanent diminution in value. Transfers, if any, between investment and dealing securities are made at the lower of cost and market value.

Interest from securities held-for-trading and available-for-sale securities are calculated using the effective interest method and is recognised in the income statement.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

H. Investment in Subsidiary Companies

A subsidiary company is a company in which the Bank controls the composition of its board of directors or more than half of its voting power, or holds more than half of its issued ordinary share capital.

Investments in subsidiary companies are stated at cost less impairment loss, and written down when the directors consider that there is a permanent diminution in the value of such investments.

I. Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where an indication of impairment exists, an analysis is performed to assess whether the carrying amount of the asset is recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

Freehold lands are not depreciated. Leasehold land and building of more than 100 years to expiry, are not amortised. Other leasehold land are amortised over 50 years or the period of the lease, whichever is shorter. Depreciation of other property, plant and equipment is calculated to write off the cost of the property, plant and equipment on a straight line basis over the expected useful life of the assets concerned. The principal annual rates are:-

Buildings on freehold land	2%
Office equipment and furniture	10%
Computer equipment	20% - 33.33%
Motor vehicles	20%

J. Assets Under Lease

Assets under lease which in substance transfer the risks and benefits of ownership of the assets to the Bank are capitalised under property, plant and equipment. The assets and the corresponding lease obligations are recorded at the lower of present value of the minimum lease payments or the fair value of the leased assets at the beginning of the lease terms. Such leased assets are subject to depreciation consistent with that for depreciable assets which are owned.

Leases which do not meet such criteria are classified as operating lease and the related rentals are charged to income statements as incurred.

K. Bills and Acceptances Payable

Bills and acceptances payable represent the Bank's own bills and acceptances rediscounted and outstanding in the market.

L. Amount Due To Cagamas

In the normal course of banking operations, the Bank sells loans to Cagamas Berhad. The Bank is liable in respect of the loans sold directly to Cagamas Berhad under the condition that the Bank undertakes to administer the loans on behalf of Cagamas Berhad and to buy back any loans which are regarded as defective based on prudence. Such financing transactions and the obligation to buy back the loans are reflected as a liability on the balance sheet.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

M. Currency Translations and Conversion

Individual foreign currency assets and liabilities are stated in the balance sheet at spot rates of exchange which closely approximate those ruling at the balance sheet date. Items in the income statement are translated at rates prevailing on transaction dates. Exchange gains and losses are recognised in the income statement in the period they arise.

The principal closing rates used in translation of foreign currency amount were as follows:

	<u>2005</u>	<u>2004</u>
	RM	RM
Foreign currency		
1 US Dollar	3.78	3.80
1 Australian Dollar	2.77	2.96
100 Japanese Yen	3.22	3.70

N. Taxation

i) Current tax

The taxation charged in the income statement which comprises income tax is calculated at the current tax rate based on the estimated chargeable income for the financial period.

ii) Deferred tax

Deferred taxation liability or asset is recognised in full, using the liability method on temporary differences. Temporary differences are differences between the tax bases of assets or liabilities and the carrying amount of the asset or liability as reported in the financial statements. It reflects the manner in which the Bank expects to recover the carrying value of the asset or settle the carrying value of the liability. The principal temporary differences arise from allowance for impairment loss on securities, allowance for loans, advances and financing, depreciation on property, plant and equipment and unrealised gains and losses in financial instruments. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax. Deferred taxation assets are recognized to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilised.

O. Zakat Obligations

Zakat represents business zakat payable by the Bank to comply with the principles of Syariah and as approved by the Syariah Supervisory Council. The Bank only pays zakat on its business and does not pay zakat on behalf of depositors or shareholders. Zakat provision is calculated based on 2.5% of profit subject to zakat.

P. Provisions

Provisions are recognised when all of the following conditions have been met:

- i) the Group has a present or legal constructive obligation as a result of past events
- ii) it is probable that an outflow of resources will be recognised to settle the obligation
- iii) a reliable estimate of the amount can be made

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

Q. Impairment

Property, plant and equipment and other non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to equity.

The recoverable amount is the greater of the asset's net selling price and its value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised. The reversal is recognised in the income statement, unless it reverses an impairment loss on a revalued asset, in which case it is taken to equity.

R. Employee Benefits

i) Short term employee benefit

Wages, salaries, paid annual leave and sick leave, variable cash performance bonus and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.

ii) Defined contribution plans

The Group's contribution to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

iii) Equity compensation benefits

a) Deferred Share Plan

The OCBC Deferred Share Plan ("the Plan") was implemented with effect from 2003. Under the Plan, shares of the ultimate holding company of the Bank are granted to executive directors and officers of the rank of Vice President and above. A trust is set up to administer the shares purchased under the plan. Shares granted under the Plan will vest three years from the grant date and will lapse when the staff ceases employment during the vesting period. The remuneration expense is amortised and recognised in the income statement on a straight-line basis over the vesting period.

b) Share Option Plan

Shares Option Schemes are offered to executives, of the rank of Assistant Manager and above, including executive directors. Options granted are exercisable for a period commencing after the 1<sup>st</sup> anniversary of the respective dates of grant and expiring on the 10<sup>th</sup> anniversary of the respective dates of grant. One-third of the share options granted will vest each financial year after the 1<sup>st</sup> anniversary of the respective dates of grant and fully vested after the 3<sup>rd</sup> anniversary.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

R. Employee Benefits (continued)

c) Share Purchase Plan

The Employee Share Purchase Plan ("ESP Plan") is a savings-based plan whereby all employees are eligible to participate by making monthly contributions to the Plan Account and interest accrued at a preferential rate determined by the Remuneration Committee. The Committee will fix the offering period and subscription price for the new ordinary shares to be issued under the Plan. The ESP Plan balances are included in non-bank customer savings deposits.

The fair value of options is recognised as staff costs in the income statement. The Group uses the binomial model to calculate the fair value of share options granted under the Bank's Option Schemes and subscription rights to ordinary shares of the Bank under the ESP Plan. The value of the options and rights is recognised in the income statement over the vesting period of the share options or the offering period of the ESP plan. At each balance sheet date, the Group revises its estimates of number of options that are expected to become exercisable, and the impact of the change to the original estimates, if any, is recognised in the income statement, and a corresponding adjustment to equity over the remaining vesting period. In prior years' financial statements, costs of share option granted were not recognised in the financial statements.

Further details of the equity compensation benefits are disclosed in Note 17.

S. Cash and Cash Equivalents

Cash and cash equivalents comprised cash and bank balances and short-term deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

T. Profit Equalisation Reserve (PER)

PER is a mechanism to reduce the fluctuations in the profit rates payable to the depositors. It is provided based on the Framework of the Rate of Return issued by Bank Negara Malaysia. The amount of PER is appropriated from and written back to the total gross income. PER is reflected under 'Other Liabilities' of the Bank.

U. Derivatives

Financial derivatives include forward contracts for the purchase and sale of foreign currencies, interest rate and currency swaps, financial futures and option contracts. These instruments allow the Bank and its customers to transfer, modify or reduce their foreign exchange and interest rate risks.

All derivative financial instruments are recognised at inception on the balance sheet (including transaction costs), which are normally zero or negligible at inception, and subsequent changes in fair value as a result of fluctuation in market interest rates or foreign exchange rates are recorded as derivative receivables (favourable) and derivative payables (unfavourable).

Where derivatives are embedded in the host contract (e.g. structured investments), the embedded derivatives are required to be separated and accounted as a derivative if the economic risks and characteristics of the embedded derivatives are not closely related to the economic risks and characteristics of the host contract. Separate accounting is not required if the combined instrument is fair valued with changes in fair value recognised in income statement.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 (continued)**

U. Derivatives (continued)

When the Bank enters into derivatives for trading purposes, realised and unrealised gains and losses are recognised in trading income. Observable market data are used to determine the fair values of derivatives held for trading. Valuations are either based on quoted price or valuation technique (e.g. mark to model). Where mid prices are used, a bid-offer spread adjustment will be made to ensure that all long positions are marked to bid prices and short positions to offer prices.

Please refer to "Section V – Hedging" for derivatives used for hedging purposes.

V. Hedging

The Bank enters into derivative transactions for trading purposes, and the realised and unrealised gains and losses are recognised in trading income. The Bank also enters into derivative transactions for hedging purposes, largely to manage exposures to interest rate and foreign currency, arising from its core banking activities of lending and accepting deposits.

The objective of applying hedge accounting is to reduce volatility in the income statement arising from fair valuation of derivatives. Derivative instruments are recognised at inception on the balance sheet (including transaction costs), which are normally zero or negligible at inception, and subsequent changes in fair value as a result of fluctuation in market interest rates or foreign exchange rates are recorded as derivatives receivable (favourable) and derivatives payable (unfavourable).

The Bank formally assess, both at the inception of the hedge and on an on-going basis, whether the hedging derivatives have been "highly effective" in offsetting changes in the fair value or cash flows of the hedged items. "Hedge ineffectiveness" represents the amount by which the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged item. Such gains and losses are recorded in current period earnings.

For qualifying fair value hedges, the change in the fair value of the derivative and the hedged item relating to the hedged risk are recognised in the income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the carrying value of the asset or liability and is amortised to the income statement as a yield adjustment over the remaining maturity of the asset or liability. Adjustment will be on straight-line method if amortisation using a recalculated effective interest rate is not practicable.

For qualifying cash flow hedges, the effective portion of the change in fair value of the derivatives taken to the hedge reserve in equity. Where the forecasted transaction results in the recognition of an asset or liability, the gains or losses previously deferred in the hedge reserve are transferred from the reserve and included in the initial measurement of the asset or liability. Otherwise, the deferred gains or losses in the reserve are transferred to the income statement in the period in which the hedge forecasted transaction affects the income statement.

In prior years, interest income or interest expense associated with interest rate swaps that qualify as hedges is recognised over the life of the swaps agreement as a component of interest income or interest expense. Gains and losses on interest rate swaps and futures contracts that qualify as hedges are generally deferred over the life of the underlying assets or liabilities. Gain and losses on interest rate swaps and futures contracts that do not qualify as hedges are recognised in the current year using the mark-to-market method.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005****1 GENERAL INFORMATION**

The principal activities of the Bank and of the Group are banking and related financial services which also include Islamic banking business. The principal activities of the subsidiary companies during the financial year are lease financing and the provision of nominees services.

The number of employees at the end of the financial year amounted to 2,533 (2004: 2,448) employees in the Group and 2,531 (2004: 2,446) employees in the Bank (of which 677 employees were seconded to e2 Power Sdn Bhd).

The holding and ultimate holding company of the Bank is Oversea-Chinese Banking Corporation Limited, a licensed commercial bank incorporated in Singapore.

The Bank is a limited liability company, incorporated and domiciled in Malaysia.

The address of the registered office of the Bank is 19<sup>th</sup> Floor, Menara OCBC, 18 Jalan Tun Perak, 50050 Kuala Lumpur.

**2 CASH AND SHORT-TERM FUNDS**

	<b>Group</b>		<b>Bank</b>	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Cash and balances with banks and other financial institutions	166,800	142,228	166,800	142,228
Money at call and deposit placements maturing within one month	1,794,147	1,236,938	1,794,147	1,236,938
	<u>1,960,947</u>	<u>1,379,166</u>	<u>1,960,947</u>	<u>1,379,166</u>

**3 DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS**

Licensed banks	188,976	348,191	188,976	348,191
Bank Negara Malaysia	143,500	67,500	143,500	67,500
Other financial institutions	0	108,300	0	108,300
	<u>332,476</u>	<u>523,991</u>	<u>332,476</u>	<u>523,991</u>

**4 SECURITIES PORTFOLIO**

## i) Held-For-Trading

At fair value

Malaysian Government securities	10,163	75,548	10,163	75,548
Government Investment Certificate	65,029	0	65,029	0
Bank Negara Negotiable notes	32,628	0	32,628	0
Private debt securities	244,879	503,897	244,879	503,897
	<u>352,699</u>	<u>579,445</u>	<u>352,699</u>	<u>579,445</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****4 SECURITIES PORTFOLIO (continued)**

	<b>Group</b>		<b>Bank</b>	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
ii) Available-For-Sale				
<u>At fair value</u>				
Malaysian Government securities	2,963,660	2,212,944	2,963,660	2,212,944
Government Investment Certificate	178,635	275,205	178,635	275,205
Cagamas bonds / notes	787,173	973,045	787,173	973,045
Khazanah bonds	14,901	14,486	14,901	14,486
Danaharta bonds	0	42,478	0	42,478
Private debt securities	728,884	611,619	728,884	611,619
Negotiable instruments of deposit	965,000	780,000	965,000	780,000
Bankers' acceptance and Islamic accepted bills	118,413	26,002	118,413	26,002
Shares	45,635	15,650	45,635	15,650
Debentures	187	186	187	186
	<u>5,802,488</u>	<u>4,951,615</u>	<u>5,802,488</u>	<u>4,951,615</u>
Allowance for impairment losses in investment securities :				
-Unquoted shares in Malaysia	(121)	(121)	(121)	(121)
-Private debt securities	(50,155)	(69,773)	(50,155)	(69,773)
	<u>5,752,212</u>	<u>4,881,721</u>	<u>5,752,212</u>	<u>4,881,721</u>

Included in available-for-sale securities is an amount of RM2,757,337,000 (2004: RM2,307,772,000) being pledged to third parties in sale and repurchase agreements.

Dealing and investment securities disclosed in previous year were reclassified to held-for-trading and available-for-sale securities respectively to conform with current year classification.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)**

**4 SECURITIES PORTFOLIO (continued)**

iii) The movements in allowance for impairment losses for available-for-sale securities are as follows:-

	<b>Group</b>		<b>Bank</b>	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	69,894	111,735	69,894	111,735
Amount transferred from specific allowance	0	1,341	0	1,341
Amount written back	(18,591)	(14,376)	(18,591)	(14,376)
Amount written off	(1,027)	(28,806)	(1,027)	(28,806)
Balance at 31 December	<u>50,276</u>	<u>69,894</u>	<u>50,276</u>	<u>69,894</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****5 LOANS, ADVANCES AND FINANCING**

## i) By type

	<b>Group</b>		<b>Bank</b>	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Overdrafts	3,375,072	3,363,873	3,375,072	3,363,873
Term loans/financing :				
Housing loans/financing	6,069,237	5,406,580	6,069,237	5,406,580
Syndicated term loan/financing	757,341	660,821	757,341	660,821
Hire purchase	332,770	260,716	332,770	260,716
Lease receivables	26,892	26,246	25,669	24,553
Other term loans	6,850,025	6,057,319	6,850,025	6,057,319
Credit/charge cards receivables	374,457	264,136	374,457	264,136
Bills receivable	98,125	42,617	98,125	42,617
Trust receipts	96,948	126,295	96,948	126,295
Claims on customers under acceptance credits	2,026,262	1,690,981	2,026,262	1,690,981
Block discounting	348	366	348	366
Loans to banks	243,432	242,929	243,432	242,929
Revolving credit	1,422,617	1,304,603	1,422,617	1,304,603
Staff loans (None to directors in 2004 and 2005)	106,727	105,173	106,727	105,173
Other loans	221,520	411,049	221,520	411,049
	<u>22,001,773</u>	<u>19,963,704</u>	<u>22,000,550</u>	<u>19,962,011</u>
Unearned interest and income	(181,828)	(119,853)	(181,766)	(119,735)
Gross loans, advances and financing	<u>21,819,945</u>	<u>19,843,851</u>	<u>21,818,784</u>	<u>19,842,276</u>
Allowance for bad and doubtful debts and financing :				
- Specific	(581,528)	(455,465)	(581,012)	(454,781)
- General	(306,870)	(306,870)	(306,855)	(306,855)
Net loans, advances and financing	<u>20,931,547</u>	<u>19,081,516</u>	<u>20,930,917</u>	<u>19,080,640</u>

## ii) By type of customer

	<b>Group</b>		<b>Bank</b>	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Domestic banking institutions	205,708	243,817	205,063	242,929
Domestic non-bank financial institutions				
- Stockbroking companies	0	9,000	0	9,000
- Others	244,053	233,245	244,053	233,245
Domestic business enterprises				
- Small medium enterprises ("SME")	3,490,596	2,988,969	3,490,430	2,988,735
- Non-SME	8,275,631	7,926,272	8,275,281	7,925,819
Government and statutory bodies	1,309,281	1,273,590	1,309,281	1,273,590
Individuals	8,242,555	7,137,038	8,242,555	7,137,038
Other domestic entities	1,765	1,092	1,765	1,092
Foreign entities	50,356	30,828	50,356	30,828
	<u>21,819,945</u>	<u>19,843,851</u>	<u>21,818,784</u>	<u>19,842,276</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****5 LOANS, ADVANCES AND FINANCING (continued)**

## iii) By interest/profit rate sensitivity

	<b>Group</b>		<b>Bank</b>	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Fixed rate				
Housing loans/financing	97,754	70,415	97,754	70,415
Hire purchase receivables	298,188	225,199	298,188	225,199
Other fixed rate loan/financing	1,287,661	1,010,927	1,286,500	1,009,352
Variable rate				
BLR plus	13,397,160	12,204,095	13,397,160	12,204,095
Cost-plus	2,952,938	2,744,657	2,952,938	2,744,657
Other variable rates	3,786,244	3,588,558	3,786,244	3,588,558
	<u>21,819,945</u>	<u>19,843,851</u>	<u>21,818,784</u>	<u>19,842,276</u>

## iv) By sector

	<b>Group</b>		<b>Bank</b>	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Agriculture	1,296,224	1,300,604	1,296,224	1,300,604
Mining and quarrying	16,899	21,033	16,899	21,033
Manufacturing	3,529,197	3,335,573	3,529,197	3,335,424
Electricity, gas and water	61,900	83,447	61,900	83,447
Construction	897,119	909,396	896,770	909,047
Real estate	1,621,544	1,369,766	1,621,544	1,369,766
Purchase of landed property				
of which : i. Residential	6,304,702	5,571,658	6,304,702	5,571,658
ii. Non-residential	955,552	822,738	955,552	822,738
General commerce	2,649,249	2,402,247	2,649,082	2,402,061
Transport, storage and communication	456,102	418,183	456,102	418,183
Finance, insurance and business services	644,812	833,534	644,812	833,534
Purchase of securities	417,412	266,936	417,412	266,936
Purchase of transport vehicles	9,214	10,154	9,214	10,154
Consumption credit	1,207,587	976,009	1,206,942	975,118
Sovereign	1,309,275	1,273,590	1,309,275	1,273,590
Others	443,157	248,983	443,157	248,983
	<u>21,819,945</u>	<u>19,843,851</u>	<u>21,818,784</u>	<u>19,842,276</u>

Interest/ profit-in-suspense disclosed in previous year were netted off from gross loans, advances and financing to conform with current year presentation.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****6 NON-PERFORMING LOANS, ADVANCES AND FINANCING**

i) The movements in the non-performing loans and financing are as follows :

	<b>Group</b>		<b>Bank</b>	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Balance at 1 January				
- As previously stated	1,797,614	1,909,993	1,796,282	1,908,369
- Adjustments on adoption of revised BNM/GP8	(204,141)	(205,213)	(203,468)	(204,525)
As restated	1,593,473	1,704,780	1,592,814	1,703,844
Non-performing during the year (gross)	256,604	501,290	256,599	501,281
Reclassified as performing during the year	(181,770)	(129,099)	(181,770)	(129,099)
Amount converted to investment securities	0	(1,341)	0	(1,341)
Amount recovered	(240,811)	(363,597)	(240,768)	(363,339)
Amount written off	(74,879)	(118,560)	(74,774)	(118,532)
Balance at 31 December	1,352,617	1,593,473	1,352,101	1,592,814
Specific allowance	(581,528)	(455,465)	(581,012)	(454,781)
Net non-performing loans, advances and financing	771,089	1,138,008	771,089	1,138,033
Ratio of net non-performing loans and financing to net loans, advances and financing	3.63%	5.87%	3.63%	5.87%

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****6 NON-PERFORMING LOANS, ADVANCES AND FINANCING (continued)**

ii) The movements in the allowance for bad and doubtful debts and financing are as follows :

	<b>Group</b>		<b>Bank</b>	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<u>General allowance</u>				
Balance at 1 January	306,870	305,758	306,855	305,743
Allowance made during the year	0	1,112	0	1,112
Balance at 31 December	<u>306,870</u>	<u>306,870</u>	<u>306,855</u>	<u>306,855</u>
 (as % of gross loans, advances and financing less specific allowance)	 <u>1.54%</u>	 <u>1.70%</u>	 <u>1.54%</u>	 <u>1.69%</u>
<u>Specific allowance</u>				
Balance at 1 January				
- As previously stated	455,465	448,813	454,781	447,853
- Adjustments on adoption of revised BNM/GP8	179,836	0	179,836	0
As restated	<u>635,301</u>	<u>448,813</u>	<u>634,617</u>	<u>447,853</u>
Allowance made during the year	165,950	267,425	165,945	267,416
Amount transferred to allowance for impairment loss in investment securities	0	(1,341)	0	(1,341)
Amount written back in respect of recoveries	(144,844)	(140,873)	(144,776)	(140,615)
Amount written off	(74,879)	(118,559)	(74,774)	(118,532)
Balance at 31 December	<u>581,528</u>	<u>455,465</u>	<u>581,012</u>	<u>454,781</u>

iii) Non-performing loans, advances and financing by sector

	<b>Group</b>		<b>Bank</b>	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Agriculture	47,637	88,604	47,637	88,604
Manufacturing	308,035	362,556	308,035	362,407
Construction	115,019	143,654	114,670	143,305
Real estate	149,734	223,460	149,734	223,460
Purchase of landed property				
of which : i. Residential	109,997	73,683	109,997	73,683
ii. Non-residential	58,581	72,726	58,581	72,726
General commerce	305,512	336,669	305,345	336,508
Transport, storage and communication	11,198	20,676	11,198	20,676
Finance, insurance and business services	58,313	58,961	58,313	58,961
Purchase of securities	131,346	147,271	131,346	147,271
Purchase of transport vehicles	240	300	240	300
Consumption credit	35,796	37,820	35,796	37,820
Others	21,209	27,093	21,209	27,093
	<u>1,352,617</u>	<u>1,593,473</u>	<u>1,352,101</u>	<u>1,592,814</u>

Interest/ profit-in-suspense disclosed in previous year were netted off from gross non-performing loans to conform with current year presentation.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)**

7 OTHER ASSETS	Group		Bank	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Interest receivable	69,502	54,821	69,502	54,821
Derivative assets	105,390	16,653	105,390	16,653
Amount due from subsidiary	0	0	0	7,867
Other debtors, deposits and prepayments	89,077	76,526	86,060	73,510
	<u>263,969</u>	<u>148,000</u>	<u>260,952</u>	<u>152,851</u>

a) Details of derivative assets and liabilities are as follows:

<u>Group and Bank</u>	2005			2004		
	<u>Contract or underlying principal amount</u>	<u>Fair value</u>		<u>Contract or underlying principal amount</u>	<u>Fair value</u>	
		<u>Assets</u>	<u>Liabilities</u>		<u>Assets</u>	<u>Liabilities</u>
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Financial derivatives</b>						
Trading:						
Foreign exchange derivatives						
-forward	1,405,265	8,806	1,385	2,419,410	2,683	6,489
-swaps	2,068,448	3,628	4,341	6,279,502	8,718	1,954
-currency option	702,748	19,164	17,230	319,608	1,462	1,052
Interest rate derivatives						
-swaps	11,878,656	66,065	46,604	1,628,850	3,678	5,586
-option	902,834	5,949	3,960	161,500	112	26
-swaption	34,600	47	171	0	0	0
Equity derivatives						
-option	28,501	1,731	1,731	0	0	0
	<u>17,021,052</u>	<u>105,390</u>	<u>75,422</u>	<u>10,808,870</u>	<u>16,653</u>	<u>15,107</u>
Hedging:						
Interest rate derivatives						
-swaps	566,926	0	32,807	0	0	0
	<u>17,587,978</u>	<u>105,390</u>	<u>108,229</u>	<u>10,808,870</u>	<u>16,653</u>	<u>15,107</u>

**8 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA**

The non-interest bearing statutory deposits are maintained with Bank Negara Malaysia in compliance with Section 37(1) (c) of the Central Bank of Malaysia Act 1958 (Revised - 1994), the amounts of which are determined as set percentages of total eligible liabilities.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****9 INVESTMENT IN SUBSIDIARY COMPANIES**

	<b>Bank</b>	
	2005	2004
	RM'000	RM'000
Unquoted shares at cost		
- in Malaysia	1,617	1,617
Less : Allowance for diminution in value	(6)	(6)
	<u>1,611</u>	<u>1,611</u>

The subsidiaries of the Bank all of which are incorporated in Malaysia, are as follows:-

Name	Principal activities	Issued and paid up share capital RM'000	Percentage of equity held	
			2005 %	2004 %
OCBC Credit Berhad	Licensed credit company	15,000	← 100% →	
Malaysia Nominees (Tempatan) Sdn Bhd	Nominees services	10	← 100% →	
Malaysia Nominees (Asing) Sdn Bhd	Nominees services	10	← 100% →	

**10 PROPERTY, PLANT AND EQUIPMENT**

<b>Group</b>	Balance at				Balance at
	1 January	Additions	Disposal	Reclassification	
<u>Cost</u>	RM'000	RM'000	RM'000	RM'000	RM'000
Freehold land and buildings	93,941	12,439	(9)	93,070	199,441
Building-in-progress	80,026	13,044	0	(93,070)	0
Leasehold land and buildings :					
- less than 50 years	6,445	0	0	0	6,445
- 50 years or more	14,411	0	0	0	14,411
Office equipment and furniture	60,575	8,974	(7,783)	0	61,766
Computer equipment	114,211	41,036	(41,456)	0	113,791
Motor vehicles	8,594	452	(421)	0	8,625
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	1,738	41	0	0	1,779
	<u>379,941</u>	<u>75,986</u>	<u>(49,669)</u>	<u>0</u>	<u>406,258</u>
	Balance at	Charge for	Reversed	Reclassification	Balance at
	1 January	the year	on disposal	RM'000	31 December
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accumulated depreciation</u>					
Freehold land and buildings	13,733	2,815	0	0	16,548
Leasehold land and buildings :					
- less than 50 years	755	174	0	0	929
- 50 years or more	2,015	275	0	0	2,290
Office equipment and furniture	45,689	3,605	(5,578)	0	43,716
Computer equipment	92,553	10,246	(29,710)	0	73,089
Motor vehicles	7,546	766	(421)	0	7,891
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	1,186	238	0	0	1,424
	<u>163,477</u>	<u>18,119</u>	<u>(35,709)</u>	<u>0</u>	<u>145,887</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****10 PROPERTY, PLANT AND EQUIPMENT (Continued)**

<b>Group (Continued)</b> 2005	Balance at 1 January	Charge for the year	Reversed on disposal	Reclassification	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Impairment losses</u>					
Freehold land and buildings	5,037	0	0	0	5,037
Leasehold land and buildings					
-Less than 50 years	2,639	0	0	0	2,639
-50 years or more	3,319	0	0	0	3,319
Office equipment and furniture	2,745	0	(1,038)	0	1,707
	<u>13,740</u>	<u>0</u>	<u>(1,038)</u>	<u>0</u>	<u>12,702</u>

	Balance at 31 December
	RM'000
<u>Net book value</u>	
Freehold land and buildings	177,856
Building-in-progress	0
Leasehold land and buildings :	
- less than 50 years	2,877
- 50 years or more	8,802
Office equipment and furniture	16,343
Computer equipment	40,702
Motor vehicles	734
<u>Assets under lease:-</u>	
Computer/office equipment and furniture	355
	<u>247,669</u>

<b>Bank</b> 2005	Balance at 1 January	Additions	Disposal	Reclassification	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Cost</u>					
Freehold land and buildings	93,941	12,439	(9)	93,070	199,441
Building-in-progress	80,026	13,044	0	(93,070)	0
Leasehold land and buildings :					
- less than 50 years	6,445	0	0	0	6,445
- 50 years or more	14,411	0	0	0	14,411
Office equipment and furniture	60,575	8,974	(7,783)	0	61,766
Computer equipment	114,122	41,019	(41,456)	0	113,685
Motor vehicles	8,594	452	(421)	0	8,625
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	1,738	41	0	0	1,779
	<u>379,852</u>	<u>75,969</u>	<u>(49,669)</u>	<u>0</u>	<u>406,152</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****10 PROPERTY, PLANT AND EQUIPMENT (Continued)**

<b>Bank (Continued)</b> 2005	Balance at 1 January	Charge for the year	Reversed on disposal	Reclassification	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accumulated depreciation</u>					
Freehold land and buildings	13,733	2,815	0	0	16,548
Leasehold land and buildings :					
- less than 50 years	755	174	0	0	929
- 50 years or more	1,469	275	0	0	1,744
Office equipment and furniture	46,234	3,605	(5,578)	0	44,261
Computer equipment	92,468	10,244	(29,710)	0	73,002
Motor vehicles	7,546	766	(421)	0	7,891
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	1,186	238		0	1,424
	<u>163,391</u>	<u>18,117</u>	<u>(35,709)</u>	<u>0</u>	<u>145,799</u>
	Balance at 1 January	Charge for the year	Reversed on disposal	Reclassification	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Impairment losses</u>					
Freehold land and buildings	5,037	0	0	0	5,037
Leasehold land and buildings					
-Less than 50 years	2,639	0	0	0	2,639
-50 years or more	3,319	0	0	0	3,319
Office equipment and furniture	2,745	0	(1,038)	0	1,707
	<u>13,740</u>	<u>0</u>	<u>(1,038)</u>	<u>0</u>	<u>12,702</u>
					Balance at 31 December
<u>Net book value</u>					
Freehold land and buildings					177,856
Building-in-progress					
Leasehold land and buildings :					
- less than 50 years					2,877
- 50 years or more					9,348
Office equipment and furniture					15,798
Computer equipment					40,683
Motor vehicles					734
<u>Assets under lease:-</u>					
Computer/office equipment and furniture					355
					<u>247,651</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****10 PROPERTY, PLANT AND EQUIPMENT**

<b>Group</b> 2004	Balance at 1 January	Additions	Disposal	Reclassification	Balance at 31 December
<u>Cost</u>	RM'000	RM'000	RM'000	RM'000	RM'000
Freehold land and buildings	99,598	518	(246)	(5,929)	93,941
Building-in-progress	51,425	28,601	0	0	80,026
Leasehold land and buildings :					
- less than 50 years	8,429	0	(1,984)	0	6,445
- 50 years or more	8,482	0	0	5,929	14,411
Office equipment and furniture	58,620	2,056	(51)	(50)	60,575
Computer equipment	152,137	13,040	(51,016)	50	114,211
Motor vehicles	8,717	13	(136)	0	8,594
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	1,624	114	0	0	1,738
	<u>389,032</u>	<u>44,342</u>	<u>(53,433)</u>	<u>0</u>	<u>379,941</u>
	Balance at 1 January	Charge for the year	Reversed on disposal	Reclassification	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accumulated depreciation</u>					
Freehold land and buildings	13,122	1,289	(27)	(651)	13,733
Leasehold land and buildings :					
- less than 50 years	1,093	262	(600)	0	755
- 50 years or more	1,089	275	0	651	2,015
Office equipment and furniture	42,220	3,587	(36)	(82)	45,689
Computer equipment	130,029	13,458	(51,016)	82	92,553
Motor vehicles	6,357	1,305	(116)	0	7,546
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	825	361	0	0	1,186
	<u>194,735</u>	<u>20,537</u>	<u>(51,795)</u>	<u>0</u>	<u>163,477</u>
	Balance at 1 January	Charge for the year	Reversed on disposal	Reclassification	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Impairment losses</u>					
Freehold land and buildings	6,849	0	0	(1,812)	5,037
Leasehold land and buildings					
-Less than 50 years	2,993	0	0	(354)	2,639
-50 years or more	1,153	0	0	2,166	3,319
Office equipment and furniture	0	2,745	0	0	2,745
	<u>10,995</u>	<u>2,745</u>	<u>0</u>	<u>0</u>	<u>13,740</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****10 PROPERTY, PLANT AND EQUIPMENT (Continued)**

<b>Group (Continued)</b> 2004	Balance at 31 December
<u>Net book value</u>	RM'000
Freehold land and buildings	75,171
Building-in-progress	80,026
Leasehold land and buildings :	
- less than 50 years	3,051
- 50 years or more	9,077
Office equipment and furniture	12,142
Computer equipment	21,657
Motor vehicles	1,048
<u>Assets under lease:-</u>	
Computer/office equipment and furniture	552
	<u>202,724</u>

<b>Bank</b> 2004	Balance at 1 January	Additions	Disposal	Reclassification	Balance at 31 December
<u>Cost</u>	RM'000	RM'000	RM'000	RM'000	RM'000
Freehold land and buildings	99,598	518	(246)	(5,929)	93,941
Building-in-progress	51,425	28,601	0	0	80,026
Leasehold land and buildings :					
- less than 50 years	8,429	0	(1,984)	0	6,445
- 50 years or more	8,482	0	0	5,929	14,411
Office equipment and furniture	58,620	2,056	(51)	(50)	60,575
Computer equipment	152,052	13,036	(51,016)	50	114,122
Motor vehicles	8,717	13	(136)	0	8,594
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	1,624	114	0	0	1,738
	<u>388,947</u>	<u>44,338</u>	<u>(53,433)</u>	<u>0</u>	<u>379,852</u>

	Balance at 1 January	Charge for the year	Reversed on disposal	Reclassification	Balance at 31 December
<u>Accumulated depreciation</u>	RM'000	RM'000	RM'000	RM'000	RM'000
Freehold land and buildings	13,122	1,289	(27)	(651)	13,733
Leasehold land and buildings :					
- less than 50 years	1,093	262	(600)	0	755
- 50 years or more	543	275	0	651	1,469
Office equipment and furniture	42,766	3,586	(36)	(82)	46,234
Computer equipment	129,944	13,458	(51,016)	82	92,468
Motor vehicles	6,357	1,305	(116)	0	7,546
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	825	361	0	0	1,186
	<u>194,650</u>	<u>20,536</u>	<u>(51,795)</u>	<u>0</u>	<u>163,391</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****10 PROPERTY, PLANT AND EQUIPMENT (Continued)**

<b>Bank (Continued)</b> 2004	Balance at 1 January	Charge for the year	Reversed on disposal	Reclassification	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Impairment losses</u>					
Freehold land and buildings	6,849	0	0	(1,812)	5,037
Leasehold land and buildings					
-Less than 50 years	2,993	0	0	(354)	2,639
-50 years or more	1,153	0	0	2,166	3,319
Office equipment and furniture	0	2,745	0	0	2,745
	<u>10,995</u>	<u>2,745</u>	<u>0</u>	<u>0</u>	<u>13,740</u>
					Balance at 31 December
<u>Net book value</u>					RM'000
Freehold land and buildings					75,171
Building-in-progress					80,026
Leasehold land and buildings :					
- less than 50 years					3,051
- 50 years or more					9,623
Office equipment and furniture					11,596
Computer equipment					21,654
Motor vehicles					1,048
<u>Assets under lease:-</u>					
Computer/office equipment and furniture					552
					<u>202,721</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****11 DEFERRED TAXATION**

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

	<b>Group</b>		<b>Bank</b>	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Deferred tax assets (before offsetting)	147,039	110,080	147,039	110,080
Deferred tax liabilities (before offsetting)	(17,796)	(7,098)	(17,512)	(6,872)
Deferred tax assets after offsetting	<u>129,243</u>	<u>102,982</u>	<u>129,527</u>	<u>103,208</u>

The movements in deferred tax assets and liabilities during the financial year comprise the following:-

	Balance at 1 January 2005	(Debit) / credit to reserves	Credit / (charged) to income statement (Note 25)	Balance at 31 December 2005
	RM'000	RM'000	RM'000	RM'000
<b>Group</b>				
Allowance for impairment loss in available-for-sale securities	18,725	0	(4,583)	14,142
Temporary differences arising from leasing business	138	0	(142)	(4)
Excess of capital allowance over depreciation	(2,606)	0	(2,613)	(5,219)
General allowance on loans, advances and financing	85,927	0	0	85,927
Unrealised gains / losses on revaluation of financial instruments	0	(1,035)	(8,180)	(9,215)
Impairment on loans, advances and financing	0	50,354	(13,160)	37,194
Other temporary differences	798	0	5,620	6,418
Total	<u>102,982</u>	<u>49,319</u>	<u>(23,058)</u>	<u>129,243</u>
<b>Bank</b>				
Allowance for impairment loss in available-for-sale securities	18,725	0	(4,583)	14,142
Temporary differences arising from leasing business	372	0	(85)	287
Excess of capital allowance over depreciation	(2,606)	0	(2,612)	(5,218)
General allowance on loans, advances and financing	85,919	0	0	85,919
Unrealised gains / losses on revaluation of financial instruments	0	(1,035)	(8,180)	(9,215)
Impairment on loans, advances and financing	0	50,354	(13,160)	37,194
Other temporary differences	798	0	5,620	6,418
Total	<u>103,208</u>	<u>49,319</u>	<u>(23,000)</u>	<u>129,527</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****11 DEFERRED TAXATION (continued)**

<b>Group</b>	Balance at 1 January 2004	(Debit) / Credit to reserves	Credit / (charged) to income statement (Note 25)	Balance at 31 December 2004
	RM'000	RM'000	RM'000	RM'000
Allowance for diminution in value of available-for-sale securities	31,286	0	(12,561)	18,725
Temporary differences arising from leasing business	(1,378)	0	1,516	138
Excess of capital allowance over depreciation	(4,593)	0	1,987	(2,606)
General allowance on loans, advances and financing	85,612	0	315	85,927
Other temporary differences	(1,099)	1,999	(102)	798
<b>Total</b>	<b>109,828</b>	<b>1,999</b>	<b>(8,845)</b>	<b>102,982</b>
<b>Bank</b>				
Allowance for diminution in value of available-for-sale securities	31,286	0	(12,561)	18,725
Temporary differences arising from leasing business	(1,509)	0	1,881	372
Excess of capital allowance over depreciation	(4,593)	0	1,987	(2,606)
General allowance on loans, advances and financing	85,608	0	311	85,919
Other temporary differences	(1,099)	1,999	(102)	798
<b>Total</b>	<b>109,693</b>	<b>1,999</b>	<b>(8,484)</b>	<b>103,208</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****12 DEPOSITS FROM CUSTOMERS**

## i) By type of deposit

	<b>Group</b>		<b>Bank</b>	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Demand deposits	2,674,234	2,334,706	2,675,119	2,335,372
Savings deposits	1,682,772	1,577,662	1,682,772	1,577,662
Fixed deposits	10,843,856	11,804,056	10,856,706	11,824,488
Negotiable instruments of deposits	3,155,587	900,156	3,155,587	900,156
Islamic short term Mudharabah investment	337,923	183,203	337,923	183,203
Structured investments	1,066,919	118,500	1,066,919	118,500
Others	17,249	23,529	17,249	23,529
	<u>19,778,540</u>	<u>16,941,812</u>	<u>19,792,275</u>	<u>16,962,910</u>

## ii) By type of customer

Government and statutory bodies	5,174	15,447	5,174	15,447
Business enterprises	5,039,053	6,445,703	5,039,053	6,445,703
Individuals	10,997,495	9,687,340	10,997,495	9,687,340
Others	3,736,818	793,322	3,750,553	814,420
	<u>19,778,540</u>	<u>16,941,812</u>	<u>19,792,275</u>	<u>16,962,910</u>

**13 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<b>Group</b>		<b>Bank</b>	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Licensed banks	2,954,940	3,158,182	2,954,940	3,158,182
Licensed finance companies	0	120,000	0	120,000
Licensed merchant banks	0	50,000	0	50,000
Bank Negara Malaysia	0	32,741	0	32,741
Other financial institutions	111,823	153,983	111,823	153,983
	<u>3,066,763</u>	<u>3,514,906</u>	<u>3,066,763</u>	<u>3,514,906</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****14 SUBORDINATED TERM LOAN**

		<b>Group</b>		<b>Bank</b>	
		2005	2004	2005	2004
		RM'000	RM'000	RM'000	RM'000
USD 100 million	2003/2013 (a)	355,779	380,000	355,779	380,000
USD 50 million	2004/2014 (b)	177,930	190,000	177,930	190,000
		<u>533,709</u>	<u>570,000</u>	<u>533,709</u>	<u>570,000</u>

- a) On 28 May 2003, the Bank issued a subordinated term loan that represents a USD100 million 10-year unsecured term loan at fixed rate of 5.55% per annum obtained from Oversea-Chinese Banking Corporation Limited, Labuan Branch. The subordinated term loan is repayable in full by 5 equal and consecutive annual instalments commencing from the 6<sup>th</sup> anniversary year from the date of disbursement.
- b) On 29 March 2004, the Bank issued another subordinated term loan of USD50 million 10-year unsecured term loan at fixed rate of 5.71% per annum obtained from Oversea-Chinese Banking Corporation Limited, Labuan Branch. The subordinated term loan is repayable in full by 5 equal and consecutive annual instalments commencing from the 6<sup>th</sup> anniversary year from the date of disbursement.

Prepayment of all the subordinated term loans above in whole or in part is allowed but is subject to the mutual agreement of the Bank and the lender as well as with the prior approval of Bank Negara Malaysia. These subordinated term loans qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of the Bank.

The maturity structures of the subordinated term loan are as follows:

		<b>Group</b>		<b>Bank</b>	
		2005	2004	2005	2004
		RM'000	RM'000	RM'000	RM'000
Three years to five years		284,645	76,000	284,645	76,000
More than five years		249,064	494,000	249,064	494,000
		<u>533,709</u>	<u>570,000</u>	<u>533,709</u>	<u>570,000</u>

**15 OTHER LIABILITIES**

Accruals for personnel costs *	33,271	19,589	33,207	19,587
Obligations under finance lease	644	888	644	888
Provision for commitment and contingencies (a)	2,339	7,494	2,339	7,494
Interest payable	133,398	122,095	133,398	122,095
Other accruals and charges	116,821	108,834	113,826	105,793
Derivatives liabilities [Note 7 (a)]	108,229	15,107	108,229	15,107
Profit equalisation reserve [Note 40 (9)]	4,471	0	4,471	0
	<u>399,173</u>	<u>274,007</u>	<u>396,114</u>	<u>270,964</u>

\*Includes accrual for salary, employee benefits and EPF

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****15 OTHER LIABILITIES (continued)**

a) Movements in provision for commitment and contingencies are as follows:

	<b>Group</b>		<b>Bank</b>	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Balance at 1 January	7,494	3,192	7,494	3,192
Amount provided during the year (net)	(824)	4,331	(824)	4,331
Amount written back during the year	0	(29)	0	(29)
Reclassification to other accruals and charges	(4,331)	0	(4,331)	0
Balance at 31 December	<u>2,339</u>	<u>7,494</u>	<u>2,339</u>	<u>7,494</u>

This refers to a provision made for the Bank's commitment and contingencies which was incurred in the normal course of business.

**16 SHARE CAPITAL**

	<b>Group</b>		<b>Bank</b>	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Authorised:				
At 1 January:				
1,000,000,000 (2004 : 1,000,000,000) ordinary shares of RM1 each	1,000,000	1,000,000	1,000,000	1,000,000
Increased during the year:				
5,000,000 (2004 : nil) non-cumulative non-convertible perpetual preference shares of RM1 each	5,000	0	5,000	0
At 31 December	<u>1,005,000</u>	<u>1,000,000</u>	<u>1,005,000</u>	<u>1,000,000</u>
Issued and fully paid:				
At 1 January:				
287,500,000 (2004 : 287,500,000) ordinary shares of RM1 each	287,500	287,500	287,500	287,500
Issued and paid during the year:				
4,000,000 (2004 : nil) non-cumulative non-convertible perpetual preference shares of RM1 each	4,000	0	4,000	0
At 31 December	<u>291,500</u>	<u>287,500</u>	<u>291,500</u>	<u>287,500</u>

On 20 May 2005, the Bank increased its authorised share capital from RM1,000,000,000 to RM1,005,000,000 through the creation of non-cumulative non-convertible perpetual preference shares of RM1 each. On 12 August 2005, the Bank issued 4,000,000 non-cumulative non-convertible perpetual preference shares of RM1 each at an issued price of RM100 each for cash. The main features of the non-cumulative, non-convertible perpetual preference shares are as follows:

- the preference share carry a net cash dividend of 4.51% per annum of the liquidation preference payable semi-annually in arrear on 20 March and 20 September each year when, as and if declared by the Board of Directors of the Bank;
- the preference shares shall not confer any right or claim as regards participation in the profits of the Bank;
- in the event of the winding up of the Bank or a reduction by repayment of capital, the preference shares shall rank junior to depositors and all other creditors (including holders of subordinated debt), pari passu with all parity obligations and senior to the holders of the Bank's ordinary shares; and
- The preference shares are perpetual securities with no fixed final date of redemption. The preference shares may be redeemed at the option of the Bank (but not the preference shareholders) on the date falling ten years after the issue date; and on each dividend date thereafter (after the date falling ten years after issue date).

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****17 RESERVES**

The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and is not distributable as cash dividends. General reserve is accumulated from the transfer of profits and is distributable as cash dividends. Capital reserve is the portion of profits capitalised prior to the local incorporation (pre-acquisition profits) arising from consolidation. During the year, the Bank has adopted FRS 2 "Share-Based Payment". Under FRS 2, the fair value for all goods and services received in equity-settled share-based payment transactions shall be recognised as expenses and a corresponding increase in equity, in this case capital reserve. The Standard was applied retrospectively and the impact of the adoption of FRS 2 in the financial statements has been disclosed in Note 38. Fair value reserve captures fair value adjustment on financial assets which are classified as available-for-sale under the Revised BNM/GP8 and its corresponding effect on deferred tax. The reserve is non-distributable and cumulative fair value adjustments will be reversed to the income statement upon disposal of the assets.

Equity compensation benefits

Included in equity compensation benefits are:

- (i) OCBC Deferred Share Plan ("the Plan") was implemented with effect from 2003. Under the Plan, shares of the ultimate holding company of the Bank are granted to executive directors and officers of the rank of Vice President and above. Shares granted under the Plan will vest three years from the grant date and will lapse when the staff ceases employment during the vesting period.

A trust is set up to administer the shares purchased under the Plan. The remuneration expense is amortised and recognised in the income statement on a straight-line basis over the vesting period.

- (ii) Shares Option Schemes, for shares of the ultimate holding company of the Bank, are offered to executives, of the rank of Assistant Manager and above, including executive directors. Options granted are exercisable for a period commencing after the 1st anniversary of the respective dates of grant and expiring on the 10th anniversary of the respective dates of grant. One-third of the share options granted will vest each financial year after the 1st anniversary of the respective dates of grant and fully vested after the 3rd anniversary.

1) Share option schemes

A summary of the movements in the number of options and weighted average exercise prices are as follows:

	2005		2004	
	Number of share options	Weighted average subscription price S\$	Number of shares options	Weighted average subscription price S\$
At 1 January	9,427,755	11.408	17,195,773	12.340
Adjustments for rights issue and sub-division	9,855,973	0	0	0
Granted	691,854	5.767	879,200	10.017
Exercised	(2,922,216)	4.369	(6,994,072)	7.975
Lapsed	(118,014)	4.906	(1,653,146)	11.956
At 31 December	<u>16,935,352</u>		<u>9,427,755</u>	
Exercisable options at end of financial year	<u>13,322,585</u>	3.341	<u>6,325,088</u>	9.882
Weighted average share price for options exercised (S\$)		6.023		12.995

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****17 RESERVES (continued)**

Details of the options outstanding as at 31 December 2005 are as follows:

Grant year	Grant date	Exercise period	Subscription price (S\$) <sup>(1)</sup>	2005	
				Outstanding	Exercisable
1996	25/05/1999	25/05/1999 to 29/01/2006	3.396	100,828	100,828
1997	25/05/1999	30/01/2000 to 29/01/2007	3.168	275,112	275,112
1998	25/05/1999	22/01/2001 to 21/01/2008	2.675	166,680	166,680
1999	25/05/1999	10/12/2001 to 09/12/2008	3.139	480,918	480,918
2000	06/03/2000	06/12/2002 to 05/12/2009	4.542	1,954,580	1,954,580
2001	05/03/2001	05/12/2003 to 04/12/2010	5.367	3,626,742	3,626,742
2002	08/04/2002	09/04/2003 to 08/04/2012	5.742	4,453,200	4,453,200
2003	27/03/2003	28/03/2004 to 26/03/2013	4.067	3,548,632	1,797,648
2004	15/03/2004	16/03/2005 to 14/03/2014	5.142	1,642,806	466,877
2005	14/03/2005	15/03/2006 to 13/03/2015	5.767	685,854	0
				<b>16,935,352</b>	<b>13,322,585</b>

(1) Subscription prices are adjusted for the impact of rights issue and sub-division of shares of \$1 each to \$0.50 each.

**2) Share option expenses**

The fair value of share options granted during the financial year ended 31 December 2005 determined using the binomial valuation model was S\$679,000 (2004 : S\$3,108,000). The table below shows the significant inputs into the model that are used to determine the fair value of the share options granted in 2005:

	2005 Option
Subscription price (S\$)	13.84
Average share price from grant date to acceptance date (S\$)	13.85
Expected volatility based on last 250 days as of acceptance date (%)	17.37
Risk-free rate based on SGS 10-year bond yield at acceptance date (%)	3.17
Expected dividend yield (%)	2.74
Exercise multiple (times)	1.69
Option life (years)	10

**(iii) Share Purchase Plan**

The OCBC Employee Share Purchase Plan ("ESP Plan") for shares of the ultimate holding company of the Bank was approved on 30 April 2004. All employees of the Group who have attained the age of 21 years and been employees for a period of not less than six months are eligible to participate in the ESP Plan. The purpose of the ESP Plan is to provide employees with an opportunity to increase their personal equity interest in the Bank by subscribing for ordinary shares to be issued by the ultimate holding company of the Bank.

In June 2004, the Bank launched its first offering of subscription of ordinary shares to eligible employees under this share ownership scheme which allows the participants to subscribe for ordinary shares after the first anniversary of the two-year offering period commencing 1 July 2004 to 30 June 2006.

A summary of the movements in the number of subscription rights of the ESP Plan are as follows:

	2005		2004	
	Number of subscription rights	Weighted average subscription price S\$	Number of subscription rights	Subscription price S\$
At 1 January	269,600	12.120	0	0
Subscriptions on commencement of Plan	0	0	269,897	12.120
Adjustment for Rights Issue and Sub-division	347,652	0	0	0
Lapsed	(34,006)	9.551	(297)	12.120
Exercised	(103,599)	5.050	0	0
At 31 December	<b>479,647</b>		<b>269,600</b>	

The Bank has sufficient tax credits under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of its entire retained profits as at 31 December 2005.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****18 INTEREST INCOME**

	<b>Group</b>		<b>Bank</b>	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Loans and advances				
- Interest income other than recoveries from NPL	1,027,169	834,231	1,027,169	834,189
- Recoveries from NPL	22,020	74,985	21,989	74,936
Money at call and deposit placements with financial institutions	34,723	89,272	34,723	89,272
Held-for-trading securities	24,887	18,912	24,887	18,912
Available-for-sale securities	265,511	174,084	265,511	174,084
Others	5,899	12,473	5,899	12,473
	<u>1,380,209</u>	<u>1,203,957</u>	<u>1,380,178</u>	<u>1,203,866</u>
Amortisation of premium less accretion of discount	(56,721)	(39,051)	(56,721)	(39,051)
	<u>1,323,488</u>	<u>1,164,906</u>	<u>1,323,457</u>	<u>1,164,815</u>

**19 INTEREST EXPENSE**

	<b>Group</b>		<b>Bank</b>	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Deposits and placements of banks and other financial institutions	110,546	65,777	110,546	65,777
Deposits from other customers	442,803	408,396	443,150	408,948
Loans sold to Cagamas	41,722	45,390	41,722	45,390
Subordinated term loan	32,313	29,819	32,313	29,819
Others	68,518	64,224	68,583	64,268
	<u>695,902</u>	<u>613,606</u>	<u>696,314</u>	<u>614,202</u>

**20 NON-INTEREST INCOME**

Fee income:-				
Commission	88,045	87,662	88,045	87,662
Service charges and fees	60,450	48,889	60,450	48,889
Guarantee fees	773	1,671	773	1,671
Other fee income	10,905	8,734	10,905	8,734
	<u>160,173</u>	<u>146,956</u>	<u>160,173</u>	<u>146,956</u>
Income from securities:-				
Net profit from sale of held-for-trading securities	21,722	16,282	21,722	16,282
Net (loss)/gain from sale of available-for-sale securities	(161)	6	(161)	6
Unrealised losses on revaluation of held- for-trading securities (net)	(694)	0	(694)	0
Gross dividends from Malaysia :- Available-for-sale securities	864	1,649	864	1,649
	<u>181,904</u>	<u>164,893</u>	<u>181,904</u>	<u>164,893</u>
Other income:-				
Unrealised gains from foreign currency translations (net)	43,439	35,594	43,439	35,594
Gain arising from dealing in foreign currency (net)	5,286	1,546	5,286	1,546
Rental income	2,417	428	2,417	428
Gain on disposal of property, plant and equipment	524	1,594	524	1,594
Unrealised gains on revaluation of derivatives (net)	23,151	0	23,151	0
Others	215	(458)	215	(458)
	<u>75,032</u>	<u>38,704</u>	<u>75,032</u>	<u>38,704</u>
	<u>256,936</u>	<u>203,597</u>	<u>256,936</u>	<u>203,597</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****21 STAFF COST AND OVERHEAD EXPENSES**

	<b>Group</b>		<b>Bank</b>	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Personnel costs (i)	164,268	171,483	164,075	171,330
Establishment costs (ii)	29,584	55,335	29,565	55,334
Marketing expenses (iii)	22,686	21,028	22,686	21,026
Administration and general expenses (iv)	153,618	47,124	153,582	47,088
	<u>370,156</u>	<u>294,970</u>	<u>369,908</u>	<u>294,778</u>

The above expenditure includes the following statutory disclosures:-

Directors' remuneration (Note 22)	1,691	2,213	1,659	2,181
Rental of premises	4,135	7,298	4,125	7,298
Auditors' remuneration	304	204	288	186
Depreciation of property, plant and equipment	18,119	20,537	18,117	20,536
Loss on disposal of property, plant and equipment	263	14	263	14

**i) Personnel costs**

Wages, salaries and bonus	119,236	119,292	119,121	119,192
Defined contribution plan (EPF)	18,031	18,201	18,011	18,184
Equity compensation benefit	6,174	7,595	6,174	7,595
Employee benefits	443	698	432	698
Other personnel costs	20,384	25,697	20,337	25,661
	<u>164,268</u>	<u>171,483</u>	<u>164,075</u>	<u>171,330</u>

Defined contribution plan

The Group contribute to the Employees Provident Fund, the national defined contribution plan. Once the contributions have been paid, the Group has no further payment obligation.

**ii) Establishment cost**

	<b>Group</b>		<b>Bank</b>	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Rental of premises	4,135	7,298	4,125	7,298
Depreciation of property, plant and equipment	18,119	20,537	18,117	20,536
Repair and maintenance	4,050	12,448	4,044	12,448
Others	3,280	15,052	3,279	15,052
	<u>29,584</u>	<u>55,335</u>	<u>29,565</u>	<u>55,334</u>

**iii) Marketing expenses**

	<b>Group</b>		<b>Bank</b>	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Transport and travelling	4,328	5,124	4,328	5,124
Advertisement and business promotion	17,197	14,805	17,197	14,805
Others	1,161	1,099	1,161	1,097
	<u>22,686</u>	<u>21,028</u>	<u>22,686</u>	<u>21,026</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****21 STAFF COST AND OVERHEAD EXPENSES (continued)****iv) Administration and general expenses**

	<b>Group</b>		<b>Bank</b>	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Printing and stationery	6,594	8,495	6,594	8,495
Postage and courier	5,401	3,626	5,401	3,626
Telephone, telex and fax	5,640	5,553	5,638	5,551
Legal and consultancy fees	4,771	10,935	4,737	10,899
Transaction processing fees*	109,348	0	109,348	0
Other administrative and general expenses	21,864	18,515	21,864	18,517
	<b>153,618</b>	<b>47,124</b>	<b>153,582</b>	<b>47,088</b>

\*Transaction processing fees were incurred for transactions being processed by e2 Power Sdn Bhd with effect from 17 January 2005.

**22 DIRECTORS' REMUNERATION**

The directors of the Bank in office during the financial year as follows:

Executive Director

Dato' Yeoh Beow Tit

Non-executive Directors

Tan Sri Dato' Nasruddin Bin Bahari

David Conner

Datuk Yong Poh Kon

Lai Teck Poh

Tan Siok Choo

Soon Tit Koon

Colonel (R) David Wong Cheong Fook

Forms of remuneration in aggregate for all directors charged to the income statement for the financial year as follows :

	<b>Group</b>		<b>Bank</b>	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Executive Director (CEO) :				
- Salary	1,097	1,621	1,097	1,621
- Bonuses	225	240	225	240
- Benefits-in-kind (BIK)	27	32	27	32
- Defined contribution retirement plan (EPF)	211	273	211	273
- Equity compensation benefits	64	29	64	29
- Other employee benefits	9	111	9	111
Non-Executive Directors :				
- Fees	369	217	337	185
- Other remuneration	0	135	0	135
- Benefits-in-kind	26	26	26	26
Total	<b>2,028</b>	<b>2,684</b>	<b>1,996</b>	<b>2,652</b>
Total (excluding BIK, EPF, equity compensation and other employee benefits)	<b>1,691</b>	<b>2,213</b>	<b>1,659</b>	<b>2,181</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****22 DIRECTORS' REMUNERATION (continued)**

The number of directors whose total remunerations for the financial year within the following bands are disclosed as follows:

	<b>Group</b>		<b>Bank</b>	
	2005 Number of directors	2004 Number of directors	2005 Number of directors	2004 Number of directors
<u>Executive</u>				
More than RM1,300,000 but less than RM1,350,000	1	1	1	1
<u>Non-executive</u>				
Less than RM50,000	4	4	3	3
More than RM200,000 but less than RM250,000	1	1	1	1

**23 ALLOWANCE FOR LOSSES ON LOANS AND FINANCING**

	<b>Group</b>		<b>Bank</b>	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Allowance for bad and doubtful debts and financing:-				
Specific allowance				
- Made in the financial year	165,950	267,425	165,945	267,416
- Written back	(144,844)	(140,873)	(144,776)	(140,615)
General allowance				
- Made/(written back) in the financial year	0	1,112	0	1,112
Other allowance	658	898	658	898
Bad debts and financing				
- Written off	255	93	255	93
- Recovered	(25,803)	(19,467)	(25,803)	(19,467)
	<u>(3,784)</u>	<u>109,188</u>	<u>(3,721)</u>	<u>109,437</u>
- Amount recovered from Danaharta	(2,393)	0	(2,393)	0
	<u>(6,177)</u>	<u>109,188</u>	<u>(6,114)</u>	<u>109,437</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****24 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

The related parties of the Bank are as disclosed in note 9 and other companies in the Oversea-Chinese Banking Corporation Limited Group.

	Holding Company	Subsidiary Companies	Other Related Companies
	RM '000	RM '000	RM '000
2005			
Income :			
Interest on deposits and placements	5,505	0	0
Rental income	0	0	2,055
	<u>5,505</u>	<u>0</u>	<u>2,055</u>
Expenditure :			
Interest on fixed deposit	0	347	1,415
Interest on deposits and placements	80,053	0	0
Interest on subordinated term loans	32,313	0	0
Interest on lease financing	0	65	0
Interest on repurchase agreement	0	0	1,284
Management fee	0	0	1,160
Rental expense	0	0	623
Transaction processing fees	0	0	109,348
	<u>112,366</u>	<u>412</u>	<u>113,830</u>
Reimbursement from various expenses	<u>0</u>	<u>0</u>	<u>56,925</u>
Amount due from :			
Current account	23,517	0	0
Deposits and placements	143,157	0	0
Interest receivable	71	0	0
	<u>166,745</u>	<u>0</u>	<u>0</u>
Amount due to :			
Current account and fixed deposit	8,271	13,725	102,981
Deposits and placements	2,769,795	0	0
Repurchase agreement	0	0	42,468
Subordinated term loans	533,709	0	0
Lease financing	0	645	0
Interest payable	13,489	0	0
Transaction processing fee payable	0	0	627
	<u>3,325,264</u>	<u>14,370</u>	<u>146,076</u>
Commitments:			
Foreign exchange derivatives	173,612	0	1,025
Interest rate derivatives	821,098	0	0
Equity derivatives	14,251	0	0
	<u>1,008,961</u>	<u>0</u>	<u>1,025</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****24 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

	Holding Company	Subsidiary Companies	Other Related Companies
2004	RM '000	RM '000	RM '000
Income :			
Interest on advances	261	0	0
Interest on deposits and placements	3,977	0	0
	<u>4,238</u>	<u>0</u>	<u>0</u>
Expenditure :			
Interest on fixed deposit	0	552	909
Interest on deposits and placements	33,297	0	0
Interest on advances	3,623	0	0
Interest on lease financing	0	86	0
Interest on repurchase agreement	0	0	308
Interest on subordinated term loan	29,819	0	0
	<u>66,739</u>	<u>638</u>	<u>1,217</u>
Amount due from :			
Current account	15,633	0	0
Deposits and placements	131,023	0	0
Advances	0	7,867	0
Interest receivables	56	0	0
	<u>146,712</u>	<u>7,867</u>	<u>0</u>
Amount due to :			
Current account and fixed deposit	8,402	21,088	78,459
Deposits and placements	2,394,194	0	0
Repurchase agreement	0	0	14,769
Advances	6,026	0	0
Subordinated term loans	570,000	0	0
Lease financing	0	888	0
Interest payable	9,114	0	0
	<u>2,987,736</u>	<u>21,976</u>	<u>93,228</u>
Commitments:			
Foreign exchange derivatives	115,675	0	2,290
Interest rate derivatives	905,350	0	0
	<u>1,021,025</u>	<u>0</u>	<u>2,290</u>

Interest rates on all related party transactions are at normal commercial rates.

Transactions with other related parties are aggregated because these transactions are similar in nature and no single transaction with these parties is significant enough to warrant separate disclosure.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****25 TAXATION**

The numerical reconciliation between the average effective tax rate and the applicable tax rate are as follows :

	<b>Group</b>		<b>Bank</b>	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax – current year	146,383	106,792	146,383	106,792
Deferred taxation :				
- relating to originating and reversal of temporary differences (Note 11)	23,058	6,846	23,000	6,485
Under-provision in previous years	0	2,497	0	0
	<u>169,441</u>	<u>116,135</u>	<u>169,383</u>	<u>113,277</u>

  

	<b>Group</b>		<b>Bank</b>	
	2005	2004	2005	2004
	%	%	%	%
Malaysian tax rate of 28% (2004: 28%)	28.0	28.0	28.0	28.0
Tax effects of:				
Expenses not deductible for tax purposes	1.0	1.8	1.0	1.8
Income not subject to tax	0	(0.5)	0	(0.5)
Under-provision in prior years	0	0.6	0	0
Average effective tax rate	<u>29.0</u>	<u>29.9</u>	<u>29.0</u>	<u>29.3</u>

**26 BASIC EARNINGS PER SHARE**

The earnings per ordinary share of the Group and the Bank have been calculated based on the net profit attributable to shareholders less preference shares dividends of RM412,718,000 and RM412,518,000 respectively (2004: RM271,210,000 and RM273,324,000) and on the 287,500,000 (2004: 287,500,000) ordinary shares of RM1.00 each in issue during the financial year.

**27 DIVIDENDS**

	<b>Group</b>		<b>Bank</b>	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
In respect of previous financial year:				
Final dividend of 72.5 sen (2004: 170 sen)				
less income tax at 28%	150,075	351,900	150,075	351,900
In respect of current financial year :				
Interim dividend of 45 sen (2004: 40 sen)				
less income tax at 28%	93,150	82,800	93,150	82,800
Dividends paid on preference shares	<u>1,928</u>	<u>0</u>	<u>1,928</u>	<u>0</u>

A final gross dividend of 112 sen per share less tax amounting to RM 231.8 million on the fully issued and paid up ordinary shares of the Bank in respect of the financial year ended 31 December 2005 will be proposed for shareholders' approval at the forthcoming Annual General Meeting. The financial statements for the current financial year do not reflect these proposed dividends. Such dividend will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2006 when approved by the shareholders.

The net cash dividend of 4.51% (on the issue price) amounting to RM 8.95 million to the preference shareholders in respect of the financial year ended 31 December 2005 will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2006 when declared by Board of Directors and approved by Bank Negara Malaysia.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****28 COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Group and the Bank make various commitments and incurs certain contingent liabilities with legal recourse to their customers. Apart from the provision for commitments and contingencies already made in the financial statements (Note 15), no material losses are anticipated as a result of these transactions.

	31 December 2005			31 December 2004		
	Principal	Credit	Risk	Principal	Credit	Risk
	Amount	Equivalent	Weighted	Amount	Equivalent	Weighted
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Group</b>						
Direct credit substitutes	256,899	256,899	236,759	280,841	280,841	260,701
Transaction-related contingent items	616,806	308,403	301,168	468,060	234,030	226,832
Short-term self-liquidating trade-related contingencies	332,554	66,511	66,511	294,616	58,923	58,719
Obligations under underwriting agreement	45,000	0	0	157,000	78,500	78,500
Irrevocable commitments to extend credit:-						
- maturity exceeding one year	6,740,714	3,370,357	3,370,357	5,921,834	2,960,917	2,960,917
- maturity not exceeding one year	6,205,817	0	0	5,410,656	0	0
Foreign exchange related contracts						
-less than one year	4,042,049	78,649	30,190	8,905,977	122,956	34,924
-one year to less than five years	0	0	0	112,543	6,336	3,168
Interest rate contracts						
-less than one year	5,577,951	13,821	3,103	145,250	692	138
-one year to less than five years	7,556,089	258,977	92,571	928,300	24,610	8,730
-five years and above	248,976	18,718	8,279	716,800	55,253	27,476
Equity related contracts	28,500	9,230	9,230	0	0	0
Miscellaneous	0	0	0	30,179	0	0
<b>Total</b>	<b>31,651,355</b>	<b>4,381,565</b>	<b>4,118,168</b>	<b>23,372,056</b>	<b>3,823,058</b>	<b>3,660,105</b>
<b>Bank</b>						
Direct credit substitutes	256,899	256,899	236,759	280,841	280,841	260,701
Transaction-related contingent items	616,806	308,403	301,168	468,060	234,030	226,832
Short-term self-liquidating trade-related contingencies	332,554	66,511	66,511	294,616	58,923	58,719
Obligations under underwriting agreement	45,000	0	0	157,000	78,500	78,500
Irrevocable commitments to extend credit:-						
- maturity exceeding one year	6,740,714	3,370,357	3,370,357	5,921,834	2,960,917	2,960,917
- maturity not exceeding one year	6,205,817	0	0	5,410,656	0	0
Foreign exchange related contracts						
-less than one year	4,042,049	78,649	30,190	8,905,977	122,956	34,924
-one year to less than five years	0	0	0	112,543	6,336	3,168
Interest rate contracts						
-less than one year	5,577,951	13,821	3,103	145,250	692	138
-one year to less than five years	7,556,089	258,977	92,571	928,300	24,610	8,730
-five years and above	248,976	18,718	8,279	716,800	55,253	27,476
Equity related contracts	28,500	9,230	9,230	0	0	0
<b>Total</b>	<b>31,651,355</b>	<b>4,381,565</b>	<b>4,118,168</b>	<b>23,341,877</b>	<b>3,823,058</b>	<b>3,660,105</b>

\*The credit equivalent amount is arrived at using the credit conversion factor as per Bank Negara Malaysia guidelines.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****28 COMMITMENTS AND CONTINGENCIES (continued)**Contingent liability

As at 31 December 2004, miscellaneous commitments and contingencies include a contingent liability of approximately RM30.18 million which represents the potential additional tax payable by OCBC Credit Berhad for years of assessment 1994 to 1999 arising from a decision of the Special Commissioners on the apportionment of expenses between leasing and non-leasing transactions. No provision has been made for years of assessment 1994 to 1999 as the Group does not agree with the treatment adopted by the Inland Revenue Board (IRB). The Group has successfully obtained a standover on the amount assessed.

In view of the Court of Appeal decision on the Daya Leasing Sdn Bhd case, the IRB has notified OCBC Credit Berhad on 27 May 2005 on the withdrawal of the total standover amounting RM30.18 million. The Group had subsequently reversed the contingent liability and recognised this amount as a tax liability in the financial statements.

**29 LEASE COMMITMENTS**

The Bank has lease commitments in respect of rented premises and equipment on hire, all of which are classified as operating leases. A summary of the non-cancellable long-term commitments are as follows :-

	<u>Group</u>		<u>Bank</u>	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Less than one year	2,689	2,518	2,689	2,518
One to five years	3,212	3,073	3,212	3,073
	<u>5,901</u>	<u>5,591</u>	<u>5,901</u>	<u>5,591</u>

**30 CAPITAL COMMITMENTS**

Capital expenditure in respect of property, plant and equipment:-

- authorised and contracted for	26,488	10,689	26,488	10,689
- authorised but not contracted for	13,293	106	13,293	106
	<u>39,781</u>	<u>10,795</u>	<u>39,781</u>	<u>10,795</u>

**31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES****Credit Risk Management**

Credit risk is the risk of loss due to borrower or counterparty default on payment. Such risk arises from lending, underwriting, trading and other activities undertaken by the Bank. Oversight of the credit risk is the responsibility of the Credit Risk Management function within the Bank, which includes credit approval, credit reviews, non-performing asset management and credit policy development.

A delegated credit approval authority limit structure, approved by the Board of Directors, is in place, whereby all credit extension is jointly approved by authorised officers from line management as well as credit risk management. This "co-grantor" approach encompasses target market definition and risk acceptance criteria, credit risk grading, product programs and detailed financial analysis of the customer.

Credit exposures of various risk dimensions including non-performing loans (NPLs) are reported to the Board of Directors. These include exposures by industry, risk grade, business segment, loan maturity, secured/unsecured position and product. Prudential limits are placed on exposures to cross-border transfer risk and single customer groups.

Corporate and large NPLs are centrally managed by the Special Asset Management Unit at Head Office whilst retail and consumer NPLs are overseen by the Collections at Head Office.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)

### 31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### Market Risk Management

Market risk is defined as the uncertainty in the future values of the bank's exposures in financial instruments resulting from movements in market factors such as interest rates, equity prices, and foreign exchange rates.

The Asset & Liability Management Committee ("ALCO") is the principal senior management committee that supports the Board and the CEO in discharging their market risk management responsibilities. The ALCO includes senior representatives from both the business, risk and support units, and is responsible for developing the bank's overall market risk management framework. This framework comprises key market risk principles and policies, and a comprehensive set of controls and monitoring processes to govern and manage the Bank's market risk.

The ALCO is supported at the working level by the Asset Liability and Market Risk Management Department ("ALMR"). The ALMR is responsible for formulating policies and procedures pertaining to market risk as well as putting in place an effective system of monitoring, reporting and control mechanisms.

#### **Market Risk Management Framework**

The key elements in the market risk management framework are policies and procedures, risk limits and risk measures.

**Policies & Procedures** – Approved by the Board and the CEO, the policies and procedures provide guidance on the oversight and management of the Bank's market risk. Controls and clear communications are in place to ensure that all business activities conform to the Bank's risk management policies.

**Risk Limits** – All trading risk positions are monitored on a daily basis against the authorised limits by support units independent of the businesses. Limits are approved at various business activity levels, with clearly defined exception escalation procedures for each level. All exceptions are to be promptly reported to the relevant senior management for appropriate ratification. Only authorised trading activities may be undertaken by the various business units.

**Risk Measures** – All trading risk positions are controlled by a set of risk limits and triggers. Complexity of the risk limits or triggers depend on the nature of the exposures, the more complex activities i.e. Option trading requires specific option Greek limits. A sample of the major risk measures are;

1. Value at Risk Limits
  - Measured against risk types (namely interest rate risk, foreign exchange risk, equity risk, volatility risk and credit spread risk), as well as at the aggregate level.
  - The Bank adopts the historical simulation approach to measuring VAR, applied against a 1-day holding period at a 99% confidence level.
2. Present Value of a Basis Point ("PV01")
  - the bank's main market risk is to interest rate movements, PV01 measures the change in value of interest rate sensitive exposures resulting from a 0.01% increase in interest rates.
3. Greek Limits
  - For management of the derivative trading portfolio the bank measure and manages the derivative greeks (namely; Delta, Gamma and Vega) to control derivative risk exposure.
4. Notional Limits
  - Some portfolio are managed by simple notional limits, i.e. foreign exchange positions, certain exchange traded futures positions.
  - Alternatively the bank also imposes additional notional limits to further enhance controls on top of PV01 and Greek limits.
5. Profitability Measures
  - For all trading portfolio the bank imposed monthly and yearly stop loss limits as well as management action triggers.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)

### 31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### **Asset and Liability Management (ALM)**

The ALCO is the senior management forum that is responsible for overseeing the Bank's liquidity and balance sheet risks. The ALCO is supported by the ALMR in executing its ALM functions.

#### **Asset and Liability Management Framework**

The Bank's Asset Liability Management framework consists of 2 components:

1. Interest Rate Risk Management
2. Liquidity Risk Management

#### **Interest Rate Risk**

The main market risk faced by the Bank is the interest rate risks arising from the re-pricing mismatches of assets and liabilities arising from its banking business. These are monitored through Reprice Gap PV01 limits tenor limits. The re-pricing gap reports allow for the analysis of the re-pricing profile for the Bank's assets and liabilities and the PV01 reports identify the parts of the yield curve where the Bank is most vulnerable to changes in interest rates.

Reprice gap is reported for the bank's major currency exposures, which is currently MYR and USD denominated assets and liabilities.

#### **Liquidity Risk**

The objective of liquidity management is to ensure that the Bank has sufficient funds to meet its contractual and regulatory financial obligations at all times. The Bank's liquidity policy is to ensure that all contractual and behavioural commitments can be met by readily available sources of funding. In addition, a level of liquid assets is maintained in relation to cash flows to provide further sources of funding in the event of a crisis. The Bank frequently accesses the wholesale financial markets to ensure the availability of funds.

The liquidity management process includes projecting cash flows by major currencies; monitoring liquidity ratios (e.g. Loans Deposit Ratio) and depositor concentration to ensure an appropriate funding mix and avoid undue reliance on large individual depositors; and maintaining a contingency funding plan.

Pursuant to BNM regulations, the bank complies with the BNM Liquidity Framework requirement which is a cash flow based compliance requirement.

#### **Currency Risk**

In the course of providing services to corporate and retail customers, the Bank actively exposes itself to foreign exchange risk. Foreign exchange risk is primarily transactional, arising from FX spot, FX swaps and FX forward contracts arising from customer deals. The FX risk are managed centrally by Treasury Division with various risk limits in place which amongst others ensure net open positions, forwards positions and loss limits are adhered to.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)**

**31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Financial derivatives**

Financial derivatives are off-balance sheet financial instruments, which include forward contracts for the purchase and sale of foreign currencies, interest rate swaps and currency swaps, financial futures and option contracts. These instruments allow the Bank and its customers to transfer, modify or reduce their foreign exchange and interest rate risks. The following outlines the nature and terms of the most common types of derivatives used:

**Foreign exchange derivatives** are exchange rate related contracts, mainly forward foreign exchange contracts, currency swaps and currency options.

Forward foreign exchange contracts are agreements to exchange a specified amount of one currency for another on a future date at an agreed rate.

Currency swaps are agreements that involve the exchange or notional exchange of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date.

Currency options are contracts that give the purchaser the right, but not the obligation, to buy or sell an underlying currency at a certain price on or before an agreed future date. As the seller (option writer) has a duty to buy or sell at the agreed price should the purchaser exercise his right, he generally receives a premium payable at the start of the option period. Some currency options purchased from customers are usually embedded in deposits for an enhanced yield return.

**Interest rate derivatives** are interest rate related contracts undertaken by the Bank, which include interest rate swaps, forward rate agreement ("FRA"), caps, floors, collars, futures and swaptions.

An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rates defined in the contract.

In a forward rate agreement, two parties agree to fix the interest rate on a specified notional principal amount for a defined period commencing at a specified date in the future. The buyer of a FRA is the party wishing to protect itself against a future rise in the relevant interest rate. The seller is the party wishing to protect itself against a future fall in the relevant interest rate.

Caps, floors and collars are different types of interest rate options transactions designed to hedge interest rate exposures. A cap is a contract whereby the seller agrees to pay to the purchaser, in return for an upfront premium or a series of annuity payments, the difference between a reference rate and an agreed strike rate when the reference rate exceeds the strike rate. A floor is a contract whereby the seller agrees to pay to the purchaser, in return for an upfront premium, the difference between a reference rate and an agreed strike rate should the strike rate exceed the reference rate. A collar is the simultaneous purchase of an out-of-the-money cap and sale of an out-of-the-money floor. The seller of the collar agrees to limit the buyer's floating interest rate to a band limited by a specified cap rate and floor rate.

A futures contract is an agreement to buy or sell a standard quantity of a specific financial instrument at a pre-determined future date and at a price agreed between the parties on an organised exchange.

Swaptions are over-the-counter options on swap contracts, which give the buyer the right, but not the obligation, to enter into an interest rate swap as either the payer or receiver of the fixed side of the swap. A receiver swaption gives the purchaser the right to receive a specified fixed rate, the strike rate, in a swap and to pay the floating rate for a stated time period. A payer swaption gives the buyer the right to pay a specific fixed interest rate in a swap, and to receive the floating rate for a stated time period.

**Equity derivatives** comprise of options of foreign equity indices. The options are embedded in Structured Investment Products. These products allow investors to participate in upward movement equity indices, while maintaining 100% principal protection.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****32 INTEREST / PROFIT RATE RISK**

The tables below summarises the Group's and the Bank's exposure to interest rate risk. Included in the tables are the Group's and the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The off-balance sheet gap represents the net notional amounts of all interest rate sensitive derivative financial instruments. Sensitivity to interest rates arises from mismatches in interest rate characteristics of assets and their corresponding liability funding. These mismatches are managed within policy guidelines for mismatch positions.

**32 Interest/Profit Rate Risk  
Group**

As at 31 December 2005	Non Trading Book						Non-interest sensitive RM'000	Trading Book RM'000	Total RM'000	Average interest rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000					
<b>Assets</b>										
Cash and short term funds	1,891,486	0	0	0	0	69,461	0	1,960,947	3.55	
Securities purchased under resale agreement	49,976	0	0	0	0	0	0	49,976	2.92	
Deposits and placements with financial institutions	0	143,500	188,976	0	0	0	0	332,476	3.55	
Held-for-trading securities	0	0	0	0	0	0	352,699	352,699	5.81	
Available-for-sale securities	781,675	327,863	747,011	3,201,694	698,065	(4,096) <sup>^</sup>	0	5,752,212	4.93	
Loans, advances and financing										
- performing	15,233,969	1,165,013	1,248,215	808,434	95,345	1,618,950 <sup>*</sup>	0	20,169,926	5.69	
- non-performing	0	0	0	0	0	761,621 <sup>#</sup>	0	761,621	0	
Other assets	0	0	0	0	0	158,578	105,391	263,969	0	
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	785,086	0	785,086	0	
Property, plant and equipment	0	0	0	0	0	247,669	0	247,669	0	
Deferred taxation asset	0	0	0	0	0	129,243	0	129,243	0	
<b>Total assets</b>	<b>17,957,106</b>	<b>1,636,376</b>	<b>2,184,202</b>	<b>4,010,128</b>	<b>793,410</b>	<b>3,766,512</b>	<b>458,090</b>	<b>30,805,824</b>		
<b>Liabilities</b>										
Deposits from customers	8,537,906	3,071,793	4,687,263	927,416	0	2,554,162	0	19,778,540	2.65	
Deposits and placements of banks and other financial institutions	1,302,372	1,550,478	199,160	7,392	7,361	0	0	3,066,763	3.77	
Obligations on securities sold under repurchase agreements	2,564,168	47,628	0	0	0	0	0	2,611,796	2.77	
Bills and acceptances payable	0	0	0	0	0	1,340,850	0	1,340,850	0	
Amount due to Cagamas	6,312	166,709	56,974	371,554	320,233	0	0	921,782	4.33	
Subordinated term loan	0	0	0	177,903	355,806	0	0	533,709	5.68	
Other liabilities	0	0	0	0	0	323,750	75,423	399,173	0	
Taxation and zakat	0	0	0	0	0	37,670	0	37,670	0	
<b>Total liabilities</b>	<b>12,410,758</b>	<b>4,836,608</b>	<b>4,943,397</b>	<b>1,484,265</b>	<b>683,400</b>	<b>4,256,432</b>	<b>75,423</b>	<b>28,690,283</b>		
On-balance sheet interest sensitivity gap	5,546,348	(3,200,232)	(2,759,195)	2,525,863	110,010	(489,920)	382,667	2,115,541		
Off-balance sheet interest sensitivity gap	0	0	566,926	(566,926)	0	0	0	0		
<b>Total interest sensitivity gap</b>	<b>5,546,348</b>	<b>(3,200,232)</b>	<b>(2,192,269)</b>	<b>1,958,937</b>	<b>110,010</b>	<b>(489,920)</b>	<b>382,667</b>	<b>2,115,541</b>		

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****32 Interest/Profit Rate Risk (continued)****Bank**

As at 31 December 2005	Non Trading Book						Trading Book RM'000	Total RM'000	Average interest rate %
	Up to 1 Month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000			
<b>Assets</b>									
Cash and short term funds	1,891,486	0	0	0	0	69,461	0	1,960,947	3.55
Securities purchased under resale agreement	49,976	0	0	0	0	0	0	49,976	2.92
Deposits and placements with financial institutions	0	143,500	188,976	0	0	0	0	332,476	3.55
Held-for-trading securities	0	0	0	0	0	0	352,699	352,699	5.81
Available-for-sale securities	781,675	327,863	747,011	3,201,694	698,065	(4,096) <sup>^</sup>	0	5,752,212	4.93
Loans, advances and financing									
- performing	15,233,570	1,165,013	1,248,186	807,818	95,345	1,618,965 <sup>*</sup>	0	20,168,897	5.69
- non-performing	0	0	0	0	0	762,020 <sup>#</sup>	0	762,020	0
Other assets	0	0	0	0	0	155,561	105,391	260,952	0
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	785,086	0	785,086	0
Investment in subsidiary companies	0	0	0	0	0	1,611	0	1,611	0
Property, plant and equipment	0	0	0	0	0	247,651	0	247,651	0
Deferred taxation asset	0	0	0	0	0	129,527	0	129,527	0
<b>Total assets</b>	<b>17,956,707</b>	<b>1,636,376</b>	<b>2,184,173</b>	<b>4,009,512</b>	<b>793,410</b>	<b>3,765,786</b>	<b>458,090</b>	<b>30,804,054</b>	
<b>Liabilities</b>									
Deposits from customers	8,551,641	3,071,793	4,687,263	927,416	0	2,554,162	0	19,792,275	2.65
Deposits and placements of banks and other financial institutions	1,302,372	1,550,478	199,160	7,392	7,361	0	0	3,066,763	3.77
Obligations on securities sold under repurchase agreements	2,564,168	47,628	0	0	0	0	0	2,611,796	2.77
Bills and acceptances payable	0	0	0	0	0	1,340,850	0	1,340,850	0
Amount due to Cagamas	6,312	166,709	56,974	371,554	320,233	0	0	921,782	4.33
Subordinated term loan	0	0	0	177,903	355,806	0	0	533,709	5.68
Other liabilities	0	0	0	0	0	320,691	75,423	396,114	0
Taxation and zakat	0	0	0	0	0	37,670	0	37,670	0
<b>Total liabilities</b>	<b>12,424,493</b>	<b>4,836,608</b>	<b>4,943,397</b>	<b>1,484,265</b>	<b>683,400</b>	<b>4,253,373</b>	<b>75,423</b>	<b>28,700,959</b>	
On-balance sheet interest sensitivity gap	5,532,214	(3,200,232)	(2,759,224)	2,525,247	110,010	(487,587)	382,667	2,103,095	
Off-balance sheet interest sensitivity gap	0	0	566,926	(566,926)	0	0	0	0	
<b>Total interest sensitivity gap</b>	<b>5,532,214</b>	<b>(3,200,232)</b>	<b>(2,192,298)</b>	<b>1,958,321</b>	<b>110,010</b>	<b>(487,587)</b>	<b>382,667</b>	<b>2,103,095</b>	

<sup>^</sup> The negative amount includes allowance for diminution in value of investment securities in accordance with the Company's accounting policy amounting to (RM50,276,000) for Group and Bank.

<sup>\*</sup> The amount includes general allowance for loan, advances and financing in accordance with the Company's accounting policy amounting to (RM306,870,000) for Group and (RM306,855,000) for Bank.

<sup>#</sup> The amount includes specific allowance for loan, advances and financing in accordance with the Company's accounting policy amounting to (RM581,528,000) for Group and (RM581,012,000) for Bank.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****32 Interest/Profit Rate Risk (continued)****Group**

As at 31 December 2004	Non Trading Book						Trading Book	Total	Average interest rate
	Up to 1 month	>1-3 months	>3-12 months	>1-5 years	Over 5 years	Non-interest sensitive			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>Assets</b>									
Cash and short term funds	1,318,341	0	0	0	0	60,825	0	1,379,166	2.45
Deposits and placements with financial institutions	0	67,500	169,100	0	0	287,391	0	523,991	2.45
Held-for-trading securities	0	0	0	0	0	0	579,445	579,445	4.44
Available-for-sale securities	270,230	596,172	709,766	3,286,791	70,495	(51,733)^	0	4,881,721	4.95
Loans, advances and financing	14,076,679	1,459,721	1,785,786	770,219	376,446	612,665*	0	19,081,516	4.87
Other assets	0	0	0	0	0	131,347	16,653	148,000	0
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	694,086	0	694,086	0
Property, plant and equipment	0	0	0	0	0	202,724	0	202,724	0
Deferred taxation asset	0	0	0	0	0	102,982	0	102,982	0
<b>Total assets</b>	<b>15,665,250</b>	<b>2,123,393</b>	<b>2,664,652</b>	<b>4,057,010</b>	<b>446,941</b>	<b>2,040,287</b>	<b>596,098</b>	<b>27,593,631</b>	
<b>Liabilities</b>									
Deposits from customers	7,690,615	2,798,528	3,774,078	226,264	0	2,452,327	0	16,941,812	2.70
Deposits and placements of banks and other financial institutions	1,555,175	1,733,052	207,894	15,988	2,797	0	0	3,514,906	2.32
Obligations on securities sold under repurchase agreements	2,100,694	27,660	0	0	0	0	0	2,128,354	2.65
Bills and acceptances payable	0	0	0	0	0	1,533,193	0	1,533,193	0
Amount due to Cagamas	6,461	12,993	59,636	575,793	355,898	0	0	1,010,781	4.42
Subordinated term loan	0	0	0	76,000	494,000	0	0	570,000	5.79
Other liabilities	0	0	0	0	0	258,900	15,107	274,007	0
Taxation and zakat	0	0	0	0	0	8,464	0	8,464	0
<b>Total liabilities</b>	<b>11,352,945</b>	<b>4,572,233</b>	<b>4,041,608</b>	<b>894,045</b>	<b>852,695</b>	<b>4,252,884</b>	<b>15,107</b>	<b>25,981,517</b>	
On-balance sheet interest sensitivity gap	4,312,305	(2,448,840)	(1,376,956)	3,162,965	(405,754)	(2,212,597)	580,991	1,612,114	
Off-balance sheet interest sensitivity gap	0	0	0	0	0	0	0	0	
<b>Total interest sensitivity gap</b>	<b>4,312,305</b>	<b>(2,448,840)</b>	<b>(1,376,956)</b>	<b>3,162,965</b>	<b>(405,754)</b>	<b>(2,212,597)</b>	<b>580,991</b>	<b>1,612,114</b>	

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****32 Interest/Profit Rate Risk (continued)****Bank**

As at 31 December 2004	Non Trading Book						Trading Book RM'000	Total RM'000	Average interest rate %
	Up to 1 Month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000			
<b>Assets</b>									
Cash and short term funds	1,318,341	0	0	0	0	60,825	0	1,379,166	2.45
Deposits and placements with financial institutions	0	67,500	169,100	0	0	287,391	0	523,991	2.45
Held-for-trading securities	0	0	0	0	0	0	579,445	579,445	4.44
Available-for-sale securities	270,230	596,172	709,766	3,286,791	70,495	(51,733)^	0	4,881,721	4.95
Loans, advances and financing	14,076,679	1,459,721	1,785,786	769,328	376,446	612,680*	0	19,080,640	4.87
Other assets	0	0	0	0	0	136,198	16,653	152,851	0
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	694,086	0	694,086	0
Investment in subsidiary companies	0	0	0	0	0	1,611	0	1,611	0
Property, plant and equipment	0	0	0	0	0	202,721	0	202,721	0
Deferred taxation asset	0	0	0	0	0	103,208	0	103,208	0
<b>Total assets</b>	<b>15,665,250</b>	<b>2,123,393</b>	<b>2,664,652</b>	<b>4,056,119</b>	<b>446,941</b>	<b>2,046,987</b>	<b>596,098</b>	<b>27,599,440</b>	
<b>Liabilities</b>									
Deposits from customers	7,711,027	2,798,548	3,774,078	226,264	0	2,452,993	0	16,962,910	2.70
Deposits and placements of banks and other financial institutions	1,555,175	1,733,052	207,894	15,988	2,797	0	0	3,514,906	2.32
Obligations on securities sold under repurchase agreements	2,100,694	27,660	0	0	0	0	0	2,128,354	2.65
Bills and acceptances payable	0	0	0	0	0	1,533,193	0	1,533,193	0
Amount due to Cagamas	6,461	12,993	59,636	575,793	355,898	0	0	1,010,781	4.42
Subordinated term loan	0	0	0	76,000	494,000	0	0	570,000	5.79
Other liabilities	0	0	0	0	0	255,857	15,107	270,964	0
Taxation and zakat	0	0	0	0	0	8,464	0	8,464	0
<b>Total liabilities</b>	<b>11,373,357</b>	<b>4,572,253</b>	<b>4,041,608</b>	<b>894,045</b>	<b>852,695</b>	<b>4,250,507</b>	<b>15,107</b>	<b>25,999,572</b>	
On-balance sheet interest sensitivity gap	4,291,893	(2,448,860)	(1,376,956)	3,162,074	(405,754)	(2,203,520)	580,991	1,599,868	
Off-balance sheet interest sensitivity gap	0	0	0	0	0	0	0	0	
<b>Total interest sensitivity gap</b>	<b>4,291,893</b>	<b>(2,448,860)</b>	<b>(1,376,956)</b>	<b>3,162,074</b>	<b>(405,754)</b>	<b>(2,203,520)</b>	<b>580,991</b>	<b>1,599,868</b>	

^ The negative amount includes allowance for diminution in value of investment securities in accordance with the Company's accounting policy amounting to (RM69,894,000) for Group and Bank.

\* The amount includes specific allowance and general allowance for loan, advances and financing in accordance with the Company's accounting policy amounting to (RM762,335,000) for Group and (RM761,636,000) for Bank

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)**

**32 INTEREST / PROFIT RATE RISK (continued)**

Derivative financial instruments used for hedging

The Bank has entered into interest rate swap contracts that entitle it to receive/pay interest at fixed rates on notional principal amounts and obliges it to pay/receive interest at floating rates on the same amounts. Under the interest rate swaps, the Bank agrees with other parties to exchange, at agreed intervals, the differences between fixed rate and floating rate interest amounts calculated by reference to the agreed notional principal amounts. The floating rates of the Bank's interest rate swap contracts are linked to the Kuala Lumpur Inter Bank Offer Rate and London Inter Bank Offer Rate.

The interest rate swap contract with notional principal amount of RM570.0 million is used to swap the floating interest rate payments on the floating rate borrowings to fixed interest rate payments. The weighted average interest rate of the Bank's floating rate borrowings at balance sheet date was 5.7% (2004: 5.6%) per annum. After the interest rate swap, the Bank's weighted average interest rate at balance sheet date was 5.3% (2004: 3.1%) per annum.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****33 LIQUIDITY RISK**

The Group and the Bank are exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan drawdowns and guarantees, and from margin and other calls on cash-settled derivatives. The Group and the Bank do not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group and the Bank set limits on the minimum level of liquid assets to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The table below provides analysis of assets and liabilities of the Group and the Bank into relevant maturity tenures based on their contractual profile:

**Group**

<b>As at 31 December 2005</b>	<b>Up to 3 Months</b>	<b>&gt; 3 -6 Months</b>	<b>&gt;6-12 Months</b>	<b>&gt;1-3 Years</b>	<b>&gt;3-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>							
Cash and short term funds	1,960,947	0	0	0	0	0	1,960,947
Securities purchased under resale agreement	49,976	0	0	0	0	0	49,976
Deposits and placements with financial institutions	143,500	0	188,976	0	0	0	332,476
Held-for-trading securities	9,921	32,628	10,018	86,216	144,862	69,054	352,699
Available-for-sale securities	1,109,538	93,079	654,054	2,045,176	1,107,145	743,220	5,752,212
Loans, advances and financing	7,149,427	1,026,683	1,859,066	3,252,105	1,073,115	6,571,151	20,931,547
Other assets	97,308	15,311	17,909	132,961	0	480	263,969
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	785,086	785,086
Property, plant & equipment	0	0	0	0	0	247,669	247,669
Deferred taxation asset	0	0	0	0	0	129,243	129,243
<b>Total assets</b>	<b>10,520,617</b>	<b>1,167,701</b>	<b>2,730,023</b>	<b>5,516,458</b>	<b>2,325,122</b>	<b>8,545,903</b>	<b>30,805,824</b>
<b>Liabilities</b>							
Deposits from customers	14,163,861	2,192,013	2,495,250	139,875	787,541	0	19,778,540
Deposits and placements of banks and other financial institutions	2,852,850	197,958	1,202	5,934	1,458	7,361	3,066,763
Obligations on securities sold under repurchase agreements	2,611,796	0	0	0	0	0	2,611,796
Bills and acceptances payable	1,263,946	75,383	1,521	0	0	0	1,340,850
Amount due to Cagamas	173,021	15,237	41,737	258,013	113,541	320,233	921,782
Subordinated term loan	0	0	0	0	177,903	355,806	533,709
Other liabilities	204,614	45,069	31,915	117,405	170	0	399,173
Taxation and zakat	0	0	0	37,670	0	0	37,670
<b>Total liabilities</b>	<b>21,270,088</b>	<b>2,525,660</b>	<b>2,571,625</b>	<b>558,897</b>	<b>1,080,613</b>	<b>683,400</b>	<b>28,690,283</b>
<b>Net Liquidity gap</b>	<b>(10,749,471)</b>	<b>(1,357,959)</b>	<b>158,398</b>	<b>4,957,561</b>	<b>1,244,509</b>	<b>7,862,503</b>	<b>2,115,541</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****33 LIQUIDITY RISK (continued)****Bank**

<b>As at 31 December 2005</b>	<b>Up to 3 Months</b>	<b>&gt;3 -6 Months</b>	<b>&gt;6-12 Months</b>	<b>&gt;1-3 Years</b>	<b>&gt;3-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>							
Cash and short term funds	1,960,947	0	0	0	0	0	1,960,947
Securities purchased under resale agreement	49,976	0	0	0	0	0	49,976
Deposits and placements with financial institutions	143,500	0	188,976	0	0	0	332,476
Held-for-trading securities	9,921	32,628	10,018	86,216	144,862	69,054	352,699
Available-for-sale securities	1,109,538	93,079	654,054	2,045,176	1,107,145	743,220	5,752,212
Loans, advances and financing	7,149,427	1,026,683	1,859,037	3,251,616	1,072,988	6,571,166	20,930,917
Other assets	94,291	15,311	17,909	132,961	0	480	260,952
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	785,086	785,086
Investment in subsidiary companies	0	0	0	0	0	1,611	1,611
Property, plant & equipment	0	0	0	0	0	247,651	247,651
Deferred taxation asset	0	0	0	0	0	129,527	129,527
<b>Total assets</b>	<b>10,517,600</b>	<b>1,167,701</b>	<b>2,729,994</b>	<b>5,515,969</b>	<b>2,324,995</b>	<b>8,547,795</b>	<b>30,804,054</b>
<b>Liabilities</b>							
Deposits from customers	14,177,596	2,192,013	2,495,250	139,875	787,541	0	19,792,275
Deposits and placements of Banks and other financial institutions	2,852,850	197,958	1,202	5,934	1,458	7,361	3,066,763
Obligations on securities sold under repurchase agreements	2,611,796	0	0	0	0	0	2,611,796
Bills and acceptances payable	1,263,946	75,383	1,521	0	0	0	1,340,850
Amount due to Cagamas	173,021	15,237	41,737	258,013	113,541	320,233	921,782
Subordinated term loan	0	0	0	0	177,903	355,806	533,709
Other liabilities	204,614	45,069	31,915	114,389	127	0	396,114
Taxation and zakat	0	0	0	37,670	0	0	37,670
<b>Total liabilities</b>	<b>21,283,823</b>	<b>2,525,660</b>	<b>2,571,625</b>	<b>555,881</b>	<b>1,080,570</b>	<b>683,400</b>	<b>28,700,959</b>
<b>Net Liquidity gap</b>	<b>(10,766,223)</b>	<b>(1,357,959)</b>	<b>158,369</b>	<b>4,960,088</b>	<b>1,244,425</b>	<b>7,864,395</b>	<b>2,103,095</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****33 LIQUIDITY RISK (continued)****Group**

<b>As at 31 December 2004</b>	<b>Up to 3 Months</b>	<b>&gt; 3 -6 Months</b>	<b>&gt;6-12 Months</b>	<b>&gt;1-3 Years</b>	<b>&gt;3-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>							
Cash and short term funds	1,379,166	0	0	0	0	0	1,379,166
Deposits and placements with financial institutions	67,500	169,100	287,391	0	0	0	523,991
Held-for-trading securities	226,828	64,913	72,266	106,659	78,003	30,776	579,445
Available-for-sale securities	866,402	367,124	342,642	2,065,703	1,155,274	84,576	4,881,721
Loans, advances and financing	7,009,185	970,434	865,495	3,291,037	1,370,739	5,574,626	19,081,516
Other assets	81,065	8,813	5,855	51,208	0	1,059	148,000
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	694,086	694,086
Property, plant & equipment	0	0	0	0	0	202,724	202,724
Deferred taxation asset	0	0	0	102,982	0	0	102,982
<b>Total assets</b>	<b>9,630,146</b>	<b>1,580,384</b>	<b>1,573,649</b>	<b>5,617,589</b>	<b>2,604,016</b>	<b>6,587,847</b>	<b>27,593,631</b>
<b>Liabilities</b>							
Deposits from customers	12,766,157	1,560,061	2,384,909	200,945	29,740	0	16,941,812
Deposits and placements of banks and other financial institutions	3,288,228	201,617	6,277	9,785	6,203	2,796	3,514,906
Obligations on securities sold under repurchase agreements	2,128,354	0	0	0	0	0	2,128,354
Bills and acceptances payable	1,335,046	198,147	0	0	0	0	1,533,193
Amount due to Cagamas	19,454	19,665	39,971	300,963	274,830	355,898	1,010,781
Subordinated term loan	0	0	0	0	76,000	494,000	570,000
Other liabilities	191,881	31,714	20,216	30,196	0	0	274,007
Taxation and zakat	0	0	0	8,464	0	0	8,464
<b>Total liabilities</b>	<b>19,729,120</b>	<b>2,011,204</b>	<b>2,451,373</b>	<b>550,353</b>	<b>386,773</b>	<b>852,694</b>	<b>25,981,517</b>
<b>Net Liquidity gap</b>	<b>(10,098,974)</b>	<b>(430,820)</b>	<b>(877,724)</b>	<b>5,067,236</b>	<b>2,217,243</b>	<b>5,735,153</b>	<b>1,612,114</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****33 LIQUIDITY RISK (continued)****Bank**

<b>As at 31 December 2004</b>	<b>Up to 3 Months</b>	<b>&gt;3 -6 Months</b>	<b>&gt;6-12 Months</b>	<b>&gt;1-3 Years</b>	<b>&gt;3-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>							
Cash and short term funds	1,379,166	0	0	0	0	0	1,379,166
Deposits and placements with financial institutions	67,500	169,100	287,391	0	0	0	523,991
Held-for-trading securities	226,828	64,913	72,266	106,659	78,003	30,776	579,445
Available-for-sale securities	866,402	367,124	342,642	2,065,703	1,155,274	84,576	4,881,721
Loans, advances and financing	7,009,185	970,434	865,495	3,290,359	1,370,526	5,574,641	19,080,640
Other assets	85,916	8,813	5,855	51,208	0	1,059	152,851
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	694,086	694,086
Investment in subsidiary companies	0	0	0	0	0	1,611	1,611
Property, plant & equipment	0	0	0	0	0	202,721	202,721
Deferred taxation asset	0	0	0	103,208	0	0	103,208
<b>Total assets</b>	<b>9,634,997</b>	<b>1,580,384</b>	<b>1,573,649</b>	<b>5,617,137</b>	<b>2,603,803</b>	<b>6,589,470</b>	<b>27,599,440</b>
<b>Liabilities</b>							
Deposits from customers	12,787,235	1,560,081	2,384,909	200,945	29,740	0	16,962,910
Deposits and placements Of Banks and other financial institutions	3,288,228	201,617	6,277	9,785	6,203	2,796	3,514,906
Obligations on securities sold under repurchase agreements	2,128,354	0	0	0	0	0	2,128,354
Bills and acceptances payable	1,335,046	198,147	0	0	0	0	1,533,193
Amount due to Cagamas	19,454	19,665	39,971	300,963	274,830	355,898	1,010,781
Subordinated term loan	0	0	0	0	76,000	494,000	570,000
Other liabilities	188,889	31,714	20,165	30,196	0	0	270,964
Taxation and zakat	0	0	0	8,464	0	0	8,464
<b>Total liabilities</b>	<b>19,747,206</b>	<b>2,011,224</b>	<b>2,451,322</b>	<b>550,353</b>	<b>386,773</b>	<b>852,694</b>	<b>25,999,572</b>
<b>Net Liquidity gap</b>	<b>(10,112,209)</b>	<b>(430,840)</b>	<b>(877,673)</b>	<b>5,066,784</b>	<b>2,217,030</b>	<b>5,736,776</b>	<b>1,599,868</b>

The contractual maturity analysis often does not reflect the actual behavioural patterns. In particular, the Group and Bank have significant core deposits from customers which are contractually of very short term tenures, thus included in "up to 3 months" time band. However, past trends show that these deposits provide a stable source of long term funding for the Group and the Bank.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****34 CREDIT RISKS**

The following tables set out the credit risk concentrations of the Group and Bank:

<b>Group</b>	Short term Funds	Deposits and Placements with Financial Institutions	Held-for- Trading Securities	Available- for-Sale Securities <sup>^</sup>	Loans, Advances and Financing*	Interest Receivable	Commitments and Contingencies
<b>As at 31 December 2005</b>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	45,000	5,057	1,296,224	0	116,923
Mining and quarrying	0	0	0	0	16,899	0	29,954
Manufacturing	0	0	0	0	3,529,197	0	695,936
Electricity, gas and water	0	0	86,014	88,453	61,900	0	4,058
Construction	0	0	52,307	277,572	897,119	0	301,450
Real estate	0	0	0	0	1,621,544	0	323,717
Purchase of landed property (of which :							
i Residential	0	0	0	0	6,304,702	0	680,302
ii Non residential)	0	0	0	0	955,552	0	148,442
General commerce	0	0	10,381	56,561	2,649,249	0	539,270
Transport, storage and communication	0	0	15,965	130,557	456,102	0	64,604
Finance, insurance and business services	489,084	188,976	29,929	1,973,391	644,812	29,138	554,669
Purchase of securities	0	0	0	0	417,412	0	45,609
Purchase of transport vehicles	0	0	0	0	9,214	0	267
Consumption credit	0	0	0	0	1,207,587	0	572,444
Government	1,471,863	143,500	107,821	3,142,295	1,309,275	40,364	765
Others	0	0	5,282	128,602	443,157	0	303,155
	<b>1,960,947</b>	<b>332,476</b>	<b>352,699</b>	<b>5,802,488</b>	<b>21,819,945</b>	<b>69,502</b>	<b>4,381,565</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****34 CREDIT RISKS (continued)**

<b>Bank</b>	Short term Funds	Deposits and Placements with Financial Institutions	Held-for- Trading Securities	Available- for-Sale Securities <sup>^</sup>	Loans, Advances and Financing*	Interest Receivable	Commitments and Contingencies
<b>As at 31 December 2005</b>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	45,000	5,057	1,296,224	0	116,923
Mining and quarrying	0	0	0	0	16,899	0	29,954
Manufacturing	0	0	0	0	3,529,197	0	695,936
Electricity, gas and water	0	0	86,014	88,453	61,900	0	4,058
Construction	0	0	52,307	277,572	896,770	0	301,450
Real estate	0	0	0	0	1,621,544	0	323,717
Purchase of landed property (of which :							
i Residential	0	0	0	0	6,304,702	0	680,302
ii non residential)	0	0	0	0	955,552	0	148,442
General commerce	0	0	10,381	56,561	2,649,082	0	539,270
Transport, storage and communication	0	0	15,965	130,557	456,102	0	64,604
Finance, insurance and business services	489,084	188,976	29,929	1,973,391	644,812	29,138	554,669
Purchase of securities	0	0	0	0	417,412	0	45,609
Purchase of transport vehicles	0	0	0	0	9,214	0	267
Consumption credit	0	0	0	0	1,206,942	0	572,444
Government	1,471,863	143,500	107,821	3,142,295	1,309,275	40,364	765
Others	0	0	5,282	128,602	443,157	0	303,155
	<b>1,960,947</b>	<b>332,476</b>	<b>352,699</b>	<b>5,802,488</b>	<b>21,818,784</b>	<b>69,502</b>	<b>4,381,565</b>

<sup>^</sup>Excludes allowance for diminution in value of investment securities amounting to RM50,276,000 (Group and Bank).

\*Excludes allowances for bad and doubtful debts and financing amounting to RM888,398,000 (Group) and RM887,867,000 (Bank).

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 28.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****34 CREDIT RISKS (continued)**

<b>Group</b>	Short term Funds	Deposits and placements with financial institutions	Dealing securities	Investment Securities <sup>^</sup>	Loans, advances and financing*	Interest receivable	Commitments and contingencies
<b>As at 31 December 2004</b>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	10,435	0	1,300,604	0	191,535
Mining and quarrying	0	0	0	0	21,033	0	28,467
Manufacturing	0	0	0	857	3,335,573	0	624,117
Electricity, gas and water	0	0	228,698	64,974	83,447	0	73,764
Construction	0	0	102,670	297,988	909,396	0	213,384
Real estate	0	0	0	0	1,369,766	0	324,589
Purchase of landed property (of which :							
i Residential	0	0	0	0	5,571,658	0	636,908
ii Non residential)	0	0	0	0	822,738	0	147,296
General commerce	0	0	49,627	5,064	2,402,247	0	435,442
Transport, storage and communication	0	0	42,230	212,361	418,183	0	116,311
Finance, insurance and business services	416,608	164,657	35,604	1,780,398	833,534	22,138	304,814
Purchase of securities	0	0	0	0	266,936	0	37,220
Purchase of transport vehicles	0	0	0	0	10,154	0	348
Consumption credit	0	0	0	0	976,009	0	430,347
Government	962,558	359,334	75,548	2,553,543	1,273,590	32,683	1,008
Others	0	0	34,633	36,430	248,983	0	257,508
	<b>1,379,166</b>	<b>523,991</b>	<b>579,445</b>	<b>4,951,615</b>	<b>19,843,851</b>	<b>54,821</b>	<b>3,823,058</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****34 CREDIT RISKS (continued)**

<b>Bank</b>	Short term Funds	Deposits and placements with financial institutions	Dealing securities	Investment Securities <sup>^</sup>	Loans, advances and financing*	Interest receivable	Commitments and contingencies
<b>As at 31 December 2004</b>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	10,435	0	1,300,604	0	191,535
Mining and quarrying	0	0	0	0	21,033	0	28,467
Manufacturing	0	0	0	857	3,335,424	0	624,117
Electricity, gas and water	0	0	228,698	64,974	83,447	0	73,764
Construction	0	0	102,670	297,988	909,047	0	213,384
Real estate	0	0	0	0	1,369,766	0	324,589
Purchase of landed property (of which :							
i Residential	0	0	0	0	5,571,658	0	636,908
ii non residential)	0	0	0	0	822,738	0	147,296
General commerce	0	0	49,627	5,064	2,402,061	0	435,442
Transport, storage and Communication	0	0	42,230	212,361	418,183	0	116,311
Finance, insurance and business services	416,608	164,657	35,604	1,780,398	833,534	22,138	304,814
Purchase of securities	0	0	0	0	266,936	0	37,220
Purchase of transport Vehicles	0	0	0	0	10,154	0	348
Consumption credit	0	0	0	0	975,118	0	430,347
Government	962,558	359,334	75,548	2,553,543	1,273,590	32,683	1,008
Others	0	0	34,633	36,430	248,983	0	257,508
	<b>1,379,166</b>	<b>523,991</b>	<b>579,445</b>	<b>4,951,615</b>	<b>19,842,276</b>	<b>54,821</b>	<b>3,823,058</b>

<sup>^</sup>Excludes allowance for diminution in value of investment securities amounting to RM69,894,000 (Group and Bank).

\*Excludes allowances for bad and doubtful debts and financing amounting to RM762,335,000 (Group) and RM761,636,000 (Bank).

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 28.

**35 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****35 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

Accordingly, various methodologies have been used to estimate what the approximate fair values of such instruments might be. These methodologies involve uncertainties and are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimate of future cash flows, future expected loss experience and other factors. Changes in the uncertainties and assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Group's financial instruments, including loans and advances to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amounts that the Group could realise in a sales transaction at the balance sheet date. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Group as a going concern.

In addition, fair value information is not provided for non-financial instruments and financial instruments that are excluded from the scope of Financial Reporting Standard ("FRS") 132 which requires fair value information to be disclosed. These include property, plant and equipment, intangibles, interests in subsidiaries and all transactions and events conducted on the basis of Islamic Principles.

The following table summarises the fair values of the financial instruments, which were presented at carrying value in the reporting institution's balance sheet :

<b>Group</b>	<b>2005</b>		<b>2004</b>	
	<b>Fair value RM'000</b>	<b>Carrying value RM'000</b>	<b>Fair value RM'000</b>	<b>Carrying value RM'000</b>
<b>Financial Assets</b>				
Assets for which fair value approximates carrying value	1,797,016	1,797,016	1,309,940	1,309,940
Deposits and placements with financial Institutions	332,476	332,476	523,991	523,991
Held-for-trading securities	45,097	45,097	166,049	165,806
Available-for-sale securities	4,795,943	4,795,943	3,946,455	3,858,142
Loans, advance and financing	19,532,531	19,532,531	18,215,589	18,215,589
<b>Financial Liabilities</b>				
Deposits from customers	17,821,119	17,821,119	15,843,271	15,843,271
Deposits and placements of banks and other financial institutions	2,976,763	2,976,763	3,215,906	3,215,906
Obligations on securities sold under repurchase agreements	2,611,796	2,611,796	2,128,354	2,128,354
Liabilities for which fair value approximates carrying value	1,600,874	1,600,874	1,746,887	1,746,887
Amount due to Cagamas	915,035	921,782	1,005,408	1,010,781
Subordinated term loan	533,709	533,709	549,184	570,000

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****35 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

	2005		2004	
	Fair value RM'000	Carrying value RM'000	Fair value RM'000	Carrying value RM'000
<b><u>Bank</u></b>				
<b>Financial Assets</b>				
Assets for which fair value approximates carrying value	1,793,999	1,793,999	1,314,791	1,314,791
Deposits and placements with financial institutions	332,476	332,476	523,991	523,991
Held-for-trading securities	45,097	45,097	166,049	165,806
Available-for-sale securities	4,795,943	4,795,943	3,946,455	3,858,142
Loans, advance and financing	19,531,901	19,531,901	18,214,713	18,214,713
<b>Financial Liabilities</b>				
Deposits from customers	17,834,854	17,834,854	15,864,369	15,864,369
Deposits and placements of banks and other financial institutions	2,976,763	2,976,763	3,215,906	3,215,906
Obligations on securities sold under repurchase agreements	2,611,796	2,611,796	2,128,354	2,128,354
Liabilities for which fair value approximates carrying value	1,597,815	1,597,815	1,743,844	1,743,844
Amount due to Cagamas	915,035	921,782	1,005,408	1,010,781
Subordinated term loan	533,709	533,709	549,184	570,000

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****35 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

<u>Group and Bank</u>	2005			2004		
	Contract or underlying principal amount RM'000	Fair value		Contract or underlying principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
<b>Financial derivatives</b>						
Foreign exchange derivatives						
-forward	1,405,265	8,806	1,385	2,419,410	2,683	6,489
-swaps	2,068,448	3,628	4,341	6,279,502	8,718	1,954
-currency option	702,748	19,164	17,230	319,608	1,462	1,052
	<u>4,176,461</u>	<u>31,598</u>	<u>22,956</u>	<u>9,018,520</u>	<u>12,863</u>	<u>9,495</u>
Interest rate derivatives						
-swaps	12,445,582	66,065	79,411	1,628,850	3,678	5,586
-option	902,834	5,949	3,960	161,500	112	26
-swaption	34,600	47	171	0	0	0
	<u>13,383,016</u>	<u>72,061</u>	<u>83,542</u>	<u>1,790,350</u>	<u>3,790</u>	<u>5,612</u>
Equity derivatives						
-option	28,501	1,731	1,731	0	0	0

The fair values are based on the following methodologies and assumptions:

**Short term financial instruments**

The carrying value of the following financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values:

	Group		Bank	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
<u>Financial Assets</u>				
Cash and short term funds	1,544,017	1,307,510	1,544,017	1,307,510
Other assets	252,999	2,430	249,982	7,281
	<u>1,797,016</u>	<u>1,309,940</u>	<u>1,793,999</u>	<u>1,314,791</u>
<u>Financial liabilities</u>				
Bills and acceptances payable	1,340,827	1,532,071	1,340,827	1,532,071
Other liabilities	260,047	214,816	256,988	211,773
	<u>1,600,874</u>	<u>1,746,887</u>	<u>1,597,815</u>	<u>1,743,844</u>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)

### 35 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

#### **Deposits and placements with / from financial institutions**

The estimated fair values of deposits and placements with or from banks and other financial institutions with maturity of less than six months approximate the carrying values. For deposits and placements with maturity of six months or more, the fair values are estimated based on discounted cash flow using prevailing money market interest rates for deposits and placements with similar remaining period to maturity.

#### **Held-for-trading and Available-for-sale securities**

Fair value of securities that are actively traded is determined by quoted bid prices. For non-actively traded securities, independent broker quotations are obtained or valuation techniques are used to fair value the securities. The fair value of equity instruments classified under available-for-sale portfolio is estimated using internal valuation technique.

#### **Loans and advances**

For variable rate loans, excluding impaired loans, the carrying amount is generally a reasonable estimate of its fair value.

For unimpaired fixed rate loans and advances, fair values have been estimated by discounting the estimated future cash flow using the prevailing market rates of product types with similar credit risks and maturity.

The fair values of impaired loans and advances are represented by their carrying amounts, net of specific allowance, being the expected recoverable amount.

#### **Deposits from customers**

For deposits from customers, with maturity of less than six months, the carrying amount is a reasonable estimate of their fair value. For deposits with maturity of six months or more, fair value are estimated using discounted cash flows based on market rates, for similar products and maturity.

#### **Obligations on securities sold under repurchase agreements**

The estimated fair values of obligations on securities sold under repurchase agreements with maturity of less than six months approximate the carrying amounts. For obligations on securities sold under repurchase agreements with maturity six months or more, the fair value are estimated based on discounted cash flow using prevailing money market interest rates with similar remaining period to maturity.

#### **Amount due to Cagamas**

For floating rate contracts, the carrying amount is generally a reasonable estimate of its fair value. The fair values of fixed rate contracts are estimated based on discounted cash flow using prevailing rates offered by Cagamas Berhad for similar product type and remaining period to maturity.

#### **Subordinated Term Loan**

Fair values are estimated based on discounted cash flow using prevailing money market interest rates for interest rate swap with similar remaining period to maturity.

#### **Financial derivatives**

Fair value of financial derivatives is the estimated amounts the Group or the Bank would receive or pay to terminate the contracts at the balance sheet date.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****36 CAPITAL ADEQUACY**

	<b>Bank</b>	
	2005 RM'000	2004 RM'000
The capital adequacy ratios of the Bank are as follows:-		
Tier-1 capital	1,939,887	1,496,660
Eligible Tier-2 capital	873,371	876,855
Total capital	<u>2,813,258</u>	<u>2,373,515</u>
Less : Investment in subsidiaries and holding of other financial institution's capital	(1,611)	(1,611)
Total capital base	<u><u>2,811,647</u></u>	<u><u>2,371,904</u></u>
<b>Capital Ratios</b>		
Excluding proposed final dividend :		
Core-capital ratio	8.55%	7.53%
Risk-weighted capital ratio	12.40%	11.94%
Including proposed final dividend :		
Core-capital ratio	7.49%	6.78%
Risk-weighted capital ratio	11.34%	11.18%
i) Components of Tier-1 and Tier-2 capital are as follows:		
<u>Tier-1 capital</u>		
Paid-up share capital	287,500	287,500
Paid-up non-cumulative perpetual preference shares	4,000	0
Share premium	858,500	462,500
Retained profit	582,136	517,492
Other reserves	338,313	332,376
	<u>2,070,449</u>	<u>1,599,868</u>
Less: Deferred tax assets	(130,562)	(103,208)
Total Tier-1 capital	<u>1,939,887</u>	<u>1,496,660</u>
<u>Tier-2 capital</u>		
General allowance for bad and doubtful debts and financing	306,855	306,855
Subordinated term loan	566,516	570,000
Total Tier-2 capital	<u>873,371</u>	<u>876,855</u>
Total capital	2,813,258	2,373,515
Less :		
Investment in subsidiaries	(1,611)	(1,611)
Capital base	<u>2,811,647</u>	<u>2,371,904</u>

ii) Breakdown of the risk-weighted assets (RWA) in the various categories of risk-weights are as follows:

	2005		2004	
	Principal RM'000	Risk- Weighted RM'000	Principal RM'000	Risk- Weighted RM'000
Risk Weighted Assets for Credit Risk :				
0 %	7,463,626	0	6,309,690	0
10%	727,976	72,798	907,818	90,781
20%	2,252,277	450,455	1,790,129	358,026
50%	6,104,334	3,052,167	5,512,459	2,756,230
100%	18,389,433	18,389,433	16,455,454	16,455,454
	<u>34,937,646</u>	<u>21,964,853</u>	<u>30,975,550</u>	<u>19,660,491</u>
Risk Weighted Assets for Market Risk	703,290	703,290	196,604	196,604
	<u>35,640,936</u>	<u>22,668,143</u>	<u>31,172,154</u>	<u>19,857,095</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****36 CAPITAL ADEQUACY (continued)**

Pursuant to Bank Negara Malaysia's circular "Market Risk Capital Adequacy Framework: Incorporation of Market Risk into Risk Weighted Capital Ratio" dated 17 September 2004, the Bank has incorporated market risk position into its capital and comply with the minimum risk weighted capital ratio (RWCR) requirement of 8% by 1 April 2005. Risk weighted assets in previous year has been restated to incorporate market risk position for comparison purpose.

Pursuant to Bank Negara Malaysia's circular "Recognition of Deferred Tax Assets ('DTA') and Treatment of DTA for RWCR Purposes" dated 8 August 2003, deferred taxation income/(expense) is excluded from the computation of Tier 1 capital and deferred taxation assets is excluded from the calculation of risk weighted assets. In addition, deferred taxation income/(expense) arising from mark-to-market gains or losses on available-for-sale securities which are directly recognized in equity is also excluded from the computation of Tier 1 capital in accordance to Revised BNM/GP8 dated 5 October 2004.

**37 CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR**

	<b>Group</b>		<b>Bank</b>	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Cash and short-term funds	1,960,947	1,379,166	1,960,947	1,379,166
Deposits and placements with financial institutions	332,476	523,991	332,476	523,991
	<u>2,293,423</u>	<u>1,903,157</u>	<u>2,293,423</u>	<u>1,903,157</u>

**38 IMPACT ON ADOPTION OF REVISED BNM/GP8 AND FRS 2**

<b>Group</b>	<b>Previously reported RM'000</b>	<b>Effects RM'000</b>	<b>Restated RM'000</b>
<b>Balance Sheet – 1 January 2005</b>			
Held-for-trading securities	579,445	(434)	579,011
Available-for-sale securities	4,881,721	60,945	4,942,666
Loans, advances and financing	19,081,516	(154,569)	18,926,947
Deferred taxation assets	100,267	43,495	143,762
Other liabilities	274,687	(680)	274,007
Fair value reserves	0	51,371	51,371
- Fair value adjustments for available-for-sale assets		60,945	
- Deferred tax adjustments		(9,574)	
Capital reserves	56,619	10,376	66,995
Retained profits	443,350	(111,630)	331,720
- Revised BNM/GP8		(104,649)	
- FRS 2		(6,981)	

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****38 IMPACT ON ADOPTION OF REVISED BNM/GP8 AND FRS 2 (continued)****Group (continued)****Increase / (decrease)****Income Statement – Year Ended 31 December 2005**

	<b>Effects RM'000</b>
Total income	11,759
Share-based staff costs	<u>(6,175)</u>
Net profit before tax	5,584
Tax	<u>(1,564)</u>
Net profit after tax	<u>4,020</u>

**Bank****Increase / (decrease)****Balance Sheet – 1 January 2005**

	<b>Previously reported RM'000</b>	<b>Effects RM'000</b>	<b>Restated RM'000</b>
Held-for-trading securities	579,445	(434)	579,011
Available-for-sale securities	4,881,721	60,945	4,942,666
Loans, advances and financing	19,080,640	(154,569)	18,926,071
Deferred taxation assets	100,493	43,495	143,988
Other liabilities	271,644	(680)	270,964
Fair value reserves	0	51,371	51,371
Capital reserves	0	10,376	10,376
Retained profits	524,473	(111,630)	412,843

**Income Statement – Year Ended 31 December 2005**

	<b>Effects RM'000</b>
Net profit after tax	<u>4,020</u>

**Group****Increase / (decrease)****Balance Sheet – 1 January 2004**

	<b>Previously Reported RM'000</b>	<b>Effects RM'000</b>	<b>Restated RM'000</b>
Deferred taxation assets	109,112	716	109,828
Other liabilities	227,558	(200)	227,358
Capital reserves	0	2,756	2,756
Retained profits - FRS 2	201,699	(1,840)	199,859

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)**

**38 IMPACT ON ADOPTION OF REVISED BNM/GP8 AND FRS 2 (continued)**

**Group (continued)**

Increase / (decrease)

Income Statement – Year Ended 31 December 2004

	Effects RM'000
Share-based staff cost	(7,140)
Deferred tax	1,999
Net profit after tax	<u>(5,141)</u>

**Bank**

Increase / (decrease)

	Previously Reported RM'000	Effects RM'000	Restated RM'000
<u>Balance Sheet – 1 January 2004</u>			
Deferred taxation assets	108,977	716	109,693
Other liabilities	226,302	(200)	226,102
Capital reserves	0	2,756	2,756
Retained profits			
- FRS 2	280,708	(1,840)	278,868

Income Statement – Year Ended 31 December 2004

	Effects RM'000
Net profit after tax	<u>(5,141)</u>

**39 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 15 February 2006.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****40 THE OPERATION OF ISLAMIC BANKING (IB)**

BALANCE SHEETS AS AT 31 December 2005

	Note	Group and Bank	
		2005 RM'000	2004 RM'000
<b>ASSETS</b>			
Cash and short-term funds	(2)	416,930	71,656
Available-for-sale securities	(3)	457,119	449,757
Financing and other advances	(4)	1,399,016	865,927
Other assets	(6)	10,970	145,570
Statutory deposits with Bank Negara Malaysia		58,356	39,352
Deferred taxation assets	(19)	7,211	3,963
<b>TOTAL ASSETS</b>		<b>2,349,602</b>	<b>1,576,225</b>
<b>LIABILITIES AND ISLAMIC BANKING FUNDS</b>			
Deposits from customers	(7)	1,957,421	1,098,541
Deposits and placements of banks and other financial institutions	(8)	90,000	299,000
Bills and acceptances payable		23	1,122
Other liabilities	(9)	139,126	59,191
Tax and Zakat		11,443	10,671
<b>Total Liabilities</b>		<b>2,198,013</b>	<b>1,468,525</b>
Islamic Banking Funds	(10)	85,000	64,000
Retained profits		66,589	43,700
		<b>151,589</b>	<b>107,700</b>
<b>TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS</b>		<b>2,349,602</b>	<b>1,576,225</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	(20)	<b>584,120</b>	<b>588,044</b>

The accompanying notes on pages 91 to 107 form an integral part of the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****40 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

## INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

	Note	Group and Bank	
		2005	2004
		RM'000	RM'000
Income derived from investment of depositors' funds	(11)	43,334	42,621
Allowance for losses on financing and other loans	(12)	(13,120)	(15,509)
Transfer (to) / from profit equalisation reserve		(4,471)	4,479
Total attributable income		25,743	31,591
Income attributable to depositors	(13)	(39,493)	(42,806)
Income attributable to shareholders		(13,750)	(11,215)
Income derived from the investment of Islamic banking funds	(14)	45,142	25,007
Total net income		31,392	13,792
Personnel expenses	(15)	(1,758)	(1,100)
Other overhead expenses	(16)	(1,143)	(1,156)
Profit before zakat and taxation		28,491	11,536
Zakat	(17)	(383)	(24)
Taxation	(18)	(7,461)	(1,725)
Net profit for the financial year		20,647	9,787

The accompanying notes on pages 91 to 107 form an integral part of the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****40 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

## STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005

	Note	Islamic Banking Fund RM'000	Fair Value Reserves RM'000	Retained Profits RM'000	Total RM'000
<b>Group and Bank</b>					
Balance at 1 January 2005					
- As previously stated		64,000	0	43,700	107,700
- Adjustments on adoption of revised BNM/GP8	(25)	0	2,406	1,487	3,893
As restated		64,000	2,406	45,187	111,593
Net profit attributable to shareholders		0	0	20,647	20,647
Revaluation of available-for-sale securities		0	(2,294)	0	(2,294)
Deferred tax on revaluation of available-for-sale securities		0	643	0	643
Additional funds allocated from Head Office		21,000	0	0	21,000
Balance at 31 December 2005		85,000	755	65,834	151,589
Balance at 1 January 2004		20,000	0	33,913	53,913
Additional funds allocated from Head Office		44,000	0	0	44,000
Net profit attributable to shareholders		0	0	9,787	9,787
Balance at 31 December 2004		64,000	0	43,700	107,700

The accompanying notes on pages 91 to 107 form an integral part of the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****40 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005**

	Note	<b>Group and Bank</b>	
		2005 RM'000	2004 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation and zakat		28,491	11,536
Adjustments for:-			
Net profit from dealing securities		0	(188)
Allowance for bad and doubtful debts and financing		13,120	15,509
Profit Equalisation Reserve		4,471	(4,479)
Amortisation of premium less accretion of discount		136	116
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>		<b>46,218</b>	<b>22,494</b>
<b>(Increase)/Decrease in Operating Assets :</b>			
Loans, advances and financing		(544,722)	(535,144)
Other assets and statutory deposits with Bank Negara Malaysia		115,596	(75,024)
Dealing securities (net)			485,673
<b>Increase/(Decrease) in Operating Liabilities :</b>			
Deposits from customers		858,880	(466,332)
Bills and acceptances payable		(1,099)	393
Other liabilities		75,464	47,176
Deposits of banks and other financial institutions		(209,000)	297,932
Cash generated from/(utilised in) operations		341,337	(222,832)
Income tax and zakat paid		(10,613)	0
<b>NET CASH GENERATED FROM/(UTILISED IN) OPERATING ACTIVITIES</b>		<b>330,724</b>	<b>(222,832)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investment securities (net)		(6,450)	(54,444)
Increase in investment		21,000	44,000
<b>NET CASH GENERATED FROM/ (UTILISED IN) INVESTING ACTIVITIES</b>		<b>14,550</b>	<b>(10,444)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>345,274</b>	<b>(233,276)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR</b>		<b>71,656</b>	<b>304,932</b>
<b>CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR</b>	(24)	<b>416,930</b>	<b>71,656</b>

The accompanying notes on pages 91 to 107 form an integral part of the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)**

**40 THE OPERATION OF ISLAMIC BANKING (continued)**

**(1) DISCLOSURE OF SYARIAH ADVISOR**

In accordance with the Service Agreement, the Syariah Committee (SC) members are expected to participate and engage themselves actively in deliberating Syariah issues in relation to the Bank's Islamic banking activities and their main duties and responsibilities are as follows: -

- a) To advise the Bank's Board of Directors on Syariah matters in its business operations;
- b) To endorse the Bank's Syariah Compliance Manuals which are to specify the manner in which a submission or request for advice be made to the Bank's SC, the conduct of the Bank's SC's meeting and the manner of compliance with any Syariah decision;
- c) To endorse and validate Syariah compliance on related documentation issued by the Bank;
- d) To assist related parties of the Bank for advice upon request;
- e) To advise on matters which have not been resolved or endorsed to be referred to the Syariah Advisory Council (SAC) of the Bank Negara Malaysia (BNM);
- f) To provide written Syariah opinion and to assist SAC on reference for advices;
- g) To provide written Syariah opinion where it is referred to the Bank's SC by the Bank and where the Bank submits applications to BNM for new product approval; and
- h) To assist SAC on reference for advice with clear explanations and recommendations for a decision supported by Syariah jurisprudential literature.

	<b>Group and Bank</b>	
	2005	2004
	RM'000	RM'000
<b>(2) CASH AND SHORT-TERM FUNDS</b>		
Cash and balances with banks and other financial institutions	130	24
Money at call and deposit placements maturing within one month	416,800	71,632
	<u>416,930</u>	<u>71,656</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****40 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(3) SECURITIES PORTFOLIO**

	<b>Group and Bank</b>	
	2005	2004
	RM'000	RM'000
ii) Available-for-sale securities		
Money market instruments:-		
Quoted :		
Malaysian Government investment issues	143,250	226,532
Sanadat Mudharabah Cagamas	64	110,134
Sanadat Cagamas (SAC)	110,433	0
Khazanah bonds	14,901	14,199
Private debt securities	5,058	10,507
Unquoted:	273,706	361,372
Islamic Negotiable Instruments of Deposits	65,000	80,000
Bankers acceptances and Islamic accepted bills	118,413	0
	<u>457,119</u>	<u>441,372</u>
Amortisation of premium less accretion of discounts	0	8,385
	<u>457,119</u>	<u>449,757</u>

**(4) FINANCING AND OTHER ADVANCES**

## i) By type of financing and other advances

Cash financing	216,055	85,753
Term financing		
- Housing financing	167,059	122,944
- Syndicated term financing	294,487	244,031
- Hire purchase receivables	328,737	256,068
- Leasing receivables	25,669	24,556
- Other term financing	153,912	87,458
Revolving Credits	305,609	183,895
Customer's liability under acceptance credits	114,999	0
Unearned income	(176,807)	(117,952)
Gross financing	<u>1,429,720</u>	<u>886,753</u>
Allowance for bad and doubtful debts and financing		
- Specific	(9,400)	(7,635)
- General	(21,304)	(13,191)
Net financing	<u>1,399,016</u>	<u>865,927</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****40 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

## (4) FINANCING AND OTHER ADVANCES (continued)

	<b>Group and Bank</b>	
	2005 RM'000	2004 RM'000
ii) Financing analysed by concepts		
Bai' Bithaman Ajil	709,884	510,397
Bai-Inah	195,827	66,667
Qardhul-Hassan	24	17
Ijarah	23,486	22,569
Ijarah Thumma Al Bai	295,491	226,991
Other financing	205,008	60,112
	<u>1,429,720</u>	<u>886,753</u>
iii) Financing by type of customer		
Domestic business enterprises		
- Small medium enterprises	221,863	159,955
- Others	933,864	586,644
Individuals	272,435	140,154
Other domestic entities	9	0
Foreign entities	1,549	0
	<u>1,429,720</u>	<u>886,753</u>
iv) Financing by profit rate sensitivity		
Fixed rate:		
- House financing	97,754	70,415
- Hire purchase receivables	295,491	226,991
- Other financing	436,379	161,421
Variable rate:		
- Other financing	600,096	427,926
	<u>1,429,720</u>	<u>886,753</u>
v) Financing according to economic sector		
Agriculture	550,645	411,238
Mining & quarrying	1,867	2,536
Manufacturing	434,475	241,758
Electricity, gas and water	118	0
Construction	36,616	14,351
Real estate	1,271	1,678
Purchase of landed property		
(of which : i. Residential	102,538	70,773
ii. Non-residential)	3,712	4,125
General Commerce	41,336	32,785
Transport, storage and communication	63,039	11,538
Purchase of securities	489	3,786
Purchase of transport vehicles	9	0
Consumption credit	169,229	67,024
Finance, insurance and business services	15,532	16,106
Others	8,844	9,055
	<u>1,429,720</u>	<u>886,753</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****40 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

## (5) NON-PERFORMING FINANCING

i) Movements in non-performing financing are as follows:-

	<b>Group and Bank</b>	
	2005	2004
	RM'000	RM'000
Balance at 1 January		
- As previously stated	13,508	4,553
-Adjustments on adoption of revised BNM/GP8	(794)	(477)
As restated	<u>12,714</u>	<u>4,076</u>
Non-performing during the year	10,515	12,150
Reclassified as performing during the year	(1,913)	(2,441)
Amount recovered	(1,855)	(1,059)
Amount written off	(3,257)	(12)
Balance at 31 December	<u>16,204</u>	<u>12,714</u>
Specific allowance	(9,400)	(7,635)
Net non performing financing	<u>6,804</u>	<u>5,079</u>
Ratio of net non-performing financing to net financing	<u>0.48%</u>	<u>0.58%</u>

ii) Movements in the allowance for bad and doubtful debts and financing are as follows :

<u>General allowance</u>		
Balance at 1 January	13,191	4,635
Allowance made during the year	8,113	8,556
Balance at 31 December	<u>21,304</u>	<u>13,191</u>
(as % of total financing less specific allowance)	<u>1.5%</u>	<u>1.5%</u>
 <u>Specific allowance</u>		
Balance at 1 January	7,635	696
Allowance made during year	6,437	7,984
Amount recovered	(1,414)	(1,031)
Amount written off	(3,258)	(14)
Balance at 31 December	<u>9,400</u>	<u>7,635</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)**

**40 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

(5) NON-PERFORMING FINANCING (continued)

	<b>Group and Bank</b>	
	2005 RM'000	2004 RM'000
iii) Non-performing financing according to economic sector is as follows:-		
Agriculture	69	0
Manufacturing	7,756	6,248
Construction	87	91
Purchase of landed property		
of which : i. Residential	2,850	2,655
ii. Non-residential	0	120
General commerce	3,703	3,264
Transport, storage and communication	116	120
Finance, insurance and business services	73	46
Consumption credit	1,471	88
Others	79	82
	<u>16,204</u>	<u>12,714</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****40 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

	<b>Group and Bank</b>	
	2005	2004
	RM'000	RM'000
(6) OTHER ASSETS		
Income receivable	1,630	1,718
Other debtors, deposits and prepayments	9,340	143,852
	<u>10,970</u>	<u>145,570</u>
(7) DEPOSITS FROM CUSTOMERS		
i) By type of deposits		
<b>Non-Mudharabah Fund:</b>		
Demand deposits	123,789	98,662
Savings deposits	271,193	255,514
Negotiable Islamic Debt Certificate	1,113,337	219,655
Others	14,417	9,117
	<u>1,522,736</u>	<u>582,948</u>
<b>Mudharabah Fund:</b>		
General investment deposits	96,762	332,390
Islamic short term Mudharabah Investment	337,923	183,203
Negotiable Islamic Debt Certificate	0	0
	<u>434,685</u>	<u>515,593</u>
Total deposits from customers	<u>1,957,421</u>	<u>1,098,541</u>
ii) The deposits are sourced from the following customers:-		
Government and statutory bodies	9	13
Business enterprises	361,084	171,024
Individuals	366,917	354,364
Others	1,229,411	573,140
	<u>1,957,421</u>	<u>1,098,541</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****40 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(8) DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<b>Group and Bank</b>	
	2005	2004
	RM'000	RM'000
<b>Non-Mudharabah Fund:</b>		
Licensed banks	0	0
	<u>0</u>	<u>0</u>
<b>Mudharabah Fund:</b>		
Licensed banks	70,000	99,000
Licensed finance companies	0	20,000
Other financial institutions	20,000	180,000
	<u>90,000</u>	<u>299,000</u>
Total deposits and placements of banks and other financial institutions	<u>90,000</u>	<u>299,000</u>

**(9) OTHER LIABILITIES**

Other accruals and charges	134,655	59,191
Profit equalisation reserve	4,471	0
	<u>139,126</u>	<u>59,191</u>
<u>Profit equalisation reserve (PER)</u>		
Balance at 1 January	0	4,479
Amount provided during the year	5,275	0
Amount written back during the year	(804)	(4,479)
Balance at 31 December	<u>4,471</u>	<u>0</u>

**(10) ISLAMIC BANKING CAPITAL FUNDS**

	<b>Group and Bank</b>	
	2005	2004
	RM'000	RM'000
Islamic banking funds	85,000	64,000
Reserves :		
Net unrealised gains on available-for-sale investments of which the deposits' position is RM702,000 (2004: Nil)	755	0
Retained profits	65,834	43,700
	<u>151,589</u>	<u>107,700</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)**

**40 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

(11) INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS

	<b>Group and Bank</b>	
	2005	2004
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	2,048	12,027
(ii) Other funds	41,286	30,594
	<u>43,334</u>	<u>42,621</u>

	<b>Group and Bank</b>	
	General Investment Deposits	Investment of other funds
	2005	2004
	RM'000	RM'000
<u>Finance income and hibah:</u>		
Financing and other advances	1,142	23,026
Held-for-trading securities	0	0
Available-for-sale securities	767	15,453
Money at call and deposit with financial institutions	142	2,873
	<u>2,051</u>	<u>41,352</u>
Amortisation of premium less accretion of discounts	(3)	(66)
	<u>2,048</u>	<u>41,286</u>
<u>Other dealing income:</u>		
Net gain from sale of held-for-trading securities	0	0
	<u>2,048</u>	<u>41,286</u>

	<b>Group and Bank</b>	
	General Investment Deposits	Investment of other funds
	2005	2004
	RM'000	RM'000
<u>Finance income and hibah:</u>		
Financing and other advances	3,259	8,290
Held-for-trading securities	556	1,413
Available-for-sale securities	5,805	14,766
Money at call and deposit with financial institutions	2,379	6,053
	<u>11,999</u>	<u>30,522</u>
Amortisation of premium less accretion of discounts	(21)	(54)
	<u>11,978</u>	<u>30,468</u>
<u>Other held-for-trading income:</u>		
Net loss from sale of held-for-trading securities	49	126
	<u>12,027</u>	<u>30,594</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****40 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

	<b>Group and Bank</b>	
	2005	2004
(12) ALLOWANCE FOR LOSSES ON LOANS AND FINANCING	RM'000	RM'000
Allowance for bad and doubtful debts and financing:-		
Specific allowance (net)		
- Made in the financial year	6,437	7,983
- Written back	(1,414)	(1,030)
General allowance		
- Made in the financial year	8,113	8,556
Bad debts and financing		
- Recovered	(16)	0
	<u>13,120</u>	<u>15,509</u>

	<b>Group and Bank</b>	
	2005	2004
(13) INCOME ATTRIBUTABLE TO DEPOSITORS	RM'000	RM'000
Deposits from customers		
- Mudharabah Fund	14,042	31,564
- Non-Mudharabah Fund	5,760	5,884
Deposits and placements of banks and other financial institutions		
- Mudharabah Fund	7,305	3,818
- Non-Mudharabah Fund	12,386	1,540
	<u>39,493</u>	<u>42,806</u>

The Bank's policy on profit distribution is in conformity with Bank Negara Malaysia's "The Framework of the Rate of Return".



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****40 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

## (16) OTHER OVERHEAD EXPENSES (continued)

	<b>Group and Bank</b>	
	<b>2005</b>	<b>2004</b>
	<b>RM'000</b>	<b>RM'000</b>
(ii) Marketing expenses		
Transport and travelling	44	18
Advertisement and business promotion	402	529
Others	11	0
	<u>457</u>	<u>547</u>
(iii) Administration and general expenses		
Printing and stationery	81	72
Postage and courier	1	1
Telephone, telex and fax	32	38
Legal and consultancy fees	114	183
Other administrative and general expenses	397	211
	<u>625</u>	<u>505</u>

Remuneration paid to Syariah Committee for the financial year ended 31 December 2005 amounting to RM48,900 (2004 : RM9,650). No remuneration was paid to the directors in 2005 (2004 : nil)

## (17) ZAKAT OBLIGATION

The Bank only pays zakat on its business. The Bank does not pay zakat on behalf of depositors or shareholders.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****40 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

	<b>Group and Bank</b>	
	2005 RM'000	2004 RM'000
(18) TAXATION		
Malaysian income tax – current year	11,002	3,971
Deferred taxation :		
- relating to originating and reversal of temporary differences (Note 20)	(3,541)	(2,246)
	<u>7,461</u>	<u>1,725</u>

The numerical reconciliation between the average effective tax rate and the applicable tax rate are as follows:

	<b>Group and Bank</b>	
	2005 %	2004 %
Malaysian tax rate of 28% (2004 : 28%)	28.0	28.0
Tax effects of:		
Expenses not deductible for tax purposes	(1.8)	(13.0)
Average effective tax rate	<u>26.2</u>	<u>15.0</u>

**(19) DEFERRED TAXATION**

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

	<b>Group and Bank</b>	
	2005 RM'000	2004 RM'000
Deferred tax assets (before offsetting)	7,504	3,963
Deferred tax liabilities (before offsetting)	(293)	0
Deferred tax assets after offsetting	<u>7,211</u>	<u>3,963</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2005 (continued)****40 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

## (19) DEFERRED TAXATION (continued)

The movements in deferred tax assets and liabilities during the financial period comprise the following

	Temporary differences arising from leasing business	General allowance on financing and other advances	Unrealised gain / loss on revaluation of financial instruments	Other temporary differences	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Group and Bank</b>					
2005					
Balance at 1 January	372	3,591	0	0	3,963
(Debit) / credit to fair value reserve	0	0	(293)	0	(293)
Credited/(charged) to income statement (Note (19))	(85)	2,374	1,252	0	3,541
Balance at 31 December	287	5,965	959	0	7,211
<b>Group and Bank</b>					
2004					
Balance at 1 January	(835)	1,298	0	1,254	1,717
Credited/(charged) to income statement (Note (19))	1,207	2,293	0	(1,254)	2,246
Balance at 31 December	372	3,591	0	0	3,963









Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD  
(Incorporated in Malaysia)

**STATEMENT BY DIRECTORS PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965**

We, Tan Sri Dato' Nasruddin Bin Bahari and Dato'Yeoh Beow Tit, two of the directors of OCBC Bank (Malaysia) Berhad, state that, in the opinion of the directors, the financial statements set out on pages 18 to 107 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Bank as at 31 December 2005 and of the results and cash flows of the Group and the Bank for the financial year then ended, in accordance with the provisions of the Companies Act, 1965, the MASB approved accounting standards in Malaysia and Bank Negara Malaysia Guidelines.

In accordance with a resolution of the Board of Directors dated 15 February 2006.

TAN SRI DATO' NASRUDDIN BIN BAHARI  
DIRECTOR

DATO' YEOH BEOW TIT  
DIRECTOR

Kuala Lumpur

**STATUTORY DECLARATION PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965**

I, Tan Fong Sang, being the officer primarily responsible for the financial management of OCBC Bank (Malaysia) Berhad, do solemnly, and sincerely declare that the accompanying balance sheets of the Group and the Bank as at 31 December 2005 and the related income statements and cash flow statements of the Group and the Bank for the financial year then ended, together with the notes thereto as set out on pages 18 to 107 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared at     )  
Kuala Lumpur in Wilayah Persekutuan     )  
on 15 February 2006.                     )     TAN FONG SANG

Before me,

TAN BOON CHUA  
COMMISSIONER FOR OATHS

**REPORT OF THE AUDITORS TO THE MEMBER OF OCBC BANK (MALAYSIA) BERHAD**

We have audited the financial statements set out on pages 18 to 107. These financial statements are the responsibility of the Bank's directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act 1965 and for no other purpose. We do not assume responsibility to any other for the content of this report.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the MASB approved accounting standards in Malaysia, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965 so as to give a true and fair view of :
- (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
  - (ii) the state of affairs of the Group and the Bank as at 31 December 2005 and of the results and cash flows of the Group and the Bank for the financial year ended on that date;

and

- (b) the accounting and other records and the registers required by the Act to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the Act.

We are satisfied that the financial statements of the subsidiary companies that have been consolidated with the Bank's financial statements are in the form and content appropriate and proper for the purpose of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

Our audit reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of section 174 of the Act.

PRICEWATERHOUSECOOPERS  
(No.AF:1146)  
Chartered Accountants

DATO' AHMAD JOHAN BIN MOHAMMAD RASLAN  
(No.1867/09/06 (J))  
Partner of the firm

Kuala Lumpur

15 February 2006