

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

31 DECEMBER 2008

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS – 31 DECEMBER 2008

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

The Directors have pleasure in submitting their report and the audited financial statements of the Group and the Bank for the financial year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activities of the Group and of the Bank are banking and related financial services which also include Islamic Banking ("IB") business. On 1 December 2008, the IB operations in Malaysia, previously included in the Bank's operations, were transferred to a newly incorporated wholly-owned subsidiary, OCBC Al-Amin Bank Berhad as disclosed in Notes 9 and 43(27) to the financial statements. The principal activities of the subsidiary companies during the financial year are in the businesses of IB, lease financing and the provision of nominees services.

Other than above, there have been no significant changes in these activities during the financial year.

FINANCIAL RESULTS	GROUP	BANK
	2008	2008
	RM'000	RM'000
Profit before taxation and zakat	839,018	848,420
Taxation	(222,428)	(224,775)
Zakat	(15)	(15)
Net profit attributable to shareholders	<u>616,575</u>	<u>623,630</u>

DIVIDENDS

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

- i. a final gross dividend of 20.0 sen per share less tax on 16 April 2008 in respect of the previous financial year amounting to RM42.55 million on the fully issued and paid-up ordinary shares of the Bank;
- ii. a dividend of 4.51% per annum (on total paid up amount) on 19 March 2008 and 19 September 2008 amounting to RM9.0 million and RM9.1 million, respectively, 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 RM8.95 million to the preference shareholders. The Directors do not recommend any dividend on ordinary shares to be paid for the year under review.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)

SHARE CAPITAL

There were no changes in the authorised, issued and paid up share capital of the Bank during the financial year.

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 Group and the Bank 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 Group and of the Bank inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Group and the Bank 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 Group and of the Bank 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 Group and of the Bank 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 Group and of the Bank misleading or inappropriate.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)

CONTINGENT AND OTHER LIABILITIES

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

- a) any charge on the assets of the Group and the Bank 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 Group and the Bank 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 Group and the Bank 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 Group and the Bank 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 Group and the Bank that would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and the Bank 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.

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 Group and the Bank for the financial year in which this report is made.

FINANCIAL PERFORMANCE

The Bank and its subsidiaries recorded a net profit of RM617 million for the financial year ended 31 December 2008, representing an increase of RM105 million or 20% compared to 2007. The growth was due primarily to an increase of RM179 million or 23% in operating profit to RM942 million which was offset by an increase of RM57 million in provisions from RM45 million last year to RM102 million this year.

Total net income rose by RM234 million or 18% to RM1.5 billion as a result of an increase in net interest income of RM128 million or 15% to RM995 million, while non-interest income grew by RM75 million or 21% to RM432 million. Overhead expenses rose at a slower pace, by RM56 million or 10%, to RM599 million; the growth coming mainly from increased business activities and expenses related to the operating expenses of the new IB subsidiary.

Specific allowances increased by RM62 million to RM48 million compared to a writeback of RM14 million last year due to higher provisioning. General allowances made for loans growth remained unchanged at RM58 million for 2008 and 2007. The net NPL ratio decreased further to 1.99% (2007: 2.55%).

The Group's gross loans outstanding as at 31 December 2008 grew by RM3.7 billion or 13% to RM31.1 billion for the year, derived mainly from business banking activities. Consequently, total assets grew by RM5.7 billion to RM47.9 billion.

Shareholders' funds strengthened to RM3.1 billion while the bank's risk weighted capital ratio (RWCR) as at 31 December 2008 stood at 11.58%.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)

ACTIVITIES & ACHIEVEMENTS

OCBC Bank is today among the largest foreign banks in Malaysia. With a staff strength of over 3,000 employees and a network of 29 branches, we offer a range of specialist financial services that include consumer, corporate, investment, premier and transaction banking, and global treasury services.

The Bank continues to maintain a healthy mix of customers in Malaysia, ranging from individuals of diverse demographic groups to corporate and SME customers, and sole proprietorships and partnerships. We are now recognised as a bank that serves both individuals and businesses across communities, thanks to initiatives surrounding both the conventional and Islamic components of our business.

Accolades for the year included being named Best Foreign Cash Management Bank in Malaysia by AsiaMoney in its Cash Management Poll involving large, medium and small corporates; gaining the Best SME Cash Management Solutions Award 2007 for Asia by The Asset Magazine, and being recognised as Top SMI Supporter (Financial Institutions Category) by Credit Guarantee Corporation (CGC).

Along with these, RAM Rating Services Berhad reaffirmed OCBC Bank's long-term rating of AA1 with a positive outlook in July 2008, an endorsement of the improving trend in our credit fundamentals and commendable operating track record.

In line with our nationwide branch transformation initiative aimed at offering customers enhanced levels of service, interaction and convenience, nine out of our 29 branches have already been revamped with the new design. Two of the transformation exercises – involving the branches in Segamat and Melaka – were carried out in conjunction with branch relocation exercises which were undertaken in order to better serve the needs of customers. In Melaka, this coincided with the introduction of OCBC Bank's seven-day banking service, the state's first full-fledged service of this nature.

Perhaps the highlight of the year was the establishment of our wholly-owned IB subsidiary, OCBC Al-Amin Bank Berhad, which commenced operations on 1 December 2008, replacing the 13-year-old "window" through which our IB services were previously rendered. We opened the first branch at Jaya One, Petaling Jaya, and now hope to penetrate a larger segment of customers who are seeking innovative Syariah-compliant products and services, initially in Malaysia and ultimately in the region.

In business banking, we continued to perform well, witnessing strong growth in total income involving both SMEs and large corporates, catalysed, in part, by strong initiatives in new customer acquisition and focus on investment banking, trade and treasury.

Together with OCBC in Singapore, we embarked on an institutional business banking advertising campaign that centred on how we would continue to innovate for the convenience of businesses. This served as part of our commitment to lend support to businesses that might find the going tough during the current economic uncertainties, and also to boost their use of OCBC's convenient approach to business banking.

As a long-time forerunner in supporting SMEs, we continued to work closely with Bank Negara Malaysia to assist SMEs in their times of need. In 2008, this assistance was rendered, among others, in the form of providing credit assistance for applications to Bank Negara Malaysia's SME Assistance Facility and SME Modernisation Facility. These special facilities aimed to relieve SMEs of some of the financial burden brought about by the recent global economic downturn.

We also set up a dedicated hotline aimed at providing avenues for SMEs facing financial difficulties to seek assistance and enhance their efficiency and productivity. And we took a major step towards entrenching our position as one of the top supporters of SMEs in the country by becoming the first foreign bank to participate in the Credit Guarantee Corporation's (CGC) Direct Access Guarantee Scheme (DAGS).

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)

ACTIVITIES & ACHIEVEMENTS (continued)

As part of our effort to establish a leadership position in trade finance, we conducted a series of seminars nationwide to help businesses involved in the documentary credit industry to take full advantage of the provisions of UCP600 (Uniform Customs and Practice for Documentary Credits). UCP600 is a set of trade finance guidelines implemented in July 2007. The seminars aimed to quell the effects of a lack of sufficient comprehension of the trade guidelines.

In transaction banking, we recorded four-fold growth in online banking transaction value and volume, with products and services being rolled out to provide greater ease and convenience for businesses. Beyond branch banking, OCBC made available to customers several new services or enhancements to existing services. These included Easi-FPX by phone, Easi-CashCollect, EPF payment via Easi-GIRO, and enhancements to Easi-Alerts to ensure businesses are updated on their account activities.

In investment banking, despite the challenging second half, we successfully concluded 17 transactions with an aggregate value of close to RM11 billion and maintained our strong position in both the loan syndication and debt capital markets. Among notable transactions for loan syndications arranged by OCBC Bank as Joint Mandated Lead Arrangers/Joint Bookrunners were the maiden SGD1 billion loan syndication for Khazanah Nasional Berhad to finance the acquisition of a stake in the Singapore-listed Parkway Holdings Ltd, and another landmark USD1 billion loan syndication for a subsidiary of MISC Berhad, which was upsized from an initial USD500 million. OCBC also acted as Joint Lead Arranger for a EUR850 million loan for a subsidiary of Petroliam Nasional Berhad and sole Mandated Lead Arranger/Bookrunner for USD130 million Syndicated Credit Facilities for M3nergy Berhad's Floating, Storage and Offloading vessel financing.

In debt capital markets, we successfully arranged the Lower Tier 2 subordinated bonds of RM1 billion for Oversea-Chinese Banking Corporation Limited, representing the first issuance of a bank capital instrument by a Singapore bank in Malaysia. In addition, OCBC acted as Joint Lead Manager/Bookrunner for the maiden bond issuance of RM1 billion in Malaysia by a Korean Bank, The Export Import Bank of Korea – the deal was recently awarded the Most Innovative Deal of the Year in Southeast Asia by Alpha Southeast Asia publication – a RM500 million Innovative Tier 1 bank capital structure for CIMB Bank Berhad and a RM1 billion Commercial Papers/Medium Term Notes Programme for F&N Holdings Bhd.

To meet the banking needs of the country's rapidly growing base of mass affluent individuals, we launched a new bundled solution and service known as iQ, targeting the time-stressed mass affluent segment. Mass affluent customers are defined broadly as those earning from RM5,000 to RM15,000 per month. iQ comprises an innovative cash flow management solution for individuals and a special concierge service. This service is currently available in the Klang Valley and will be made available in other market centres during 2009.

As part of our multi-channel strategy to make banking more convenient, we initiated OCBC Mobile Banking to allow customers to manage their accounts and perform selected transactions via their mobile phones, over any local mobile network operator, making OCBC Bank the first in the country to offer such a service across all mobile phone networks utilising GPRS, EDGE or 3G data connectivities.

In the area of wealth management, we made significant progress on deposits growth and investment sales. To assist investors during volatile times, we launched OCBC Stabiliser, a strategic programme which allows investors to benefit in times of crisis through a diversified equity portfolio, and OCBC Builder for customers seeking a unique blend of high-interest savings and a long-term endowment plan.

We also continued to leverage on our strategic relationship with Great Eastern Life Assurance (Malaysia) Berhad (GELA) to cross-sell more products to our combined customer bases. In Malaysia, insurance premiums achieved through OCBC Bank's credit cards grew 14% more than in 2007. The OCBC-GELA co-branded card constitutes 25% of total OCBC cards in force, of which GELA policyholders constitute about 70% of the co-branded card base. Mortgages sold by GELA's agency force saw a significant increase of 57% of loan acceptances in 2008, contributing to 8% of mortgage sales during the year.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)

MAJOR BUSINESS PLANS & ACTIVITIES FOR YEAR 2009

For 2009, OCBC Bank's consumer banking thrust will centre on distribution, product and portfolio management, customer engagement and expense control. In striving for a stronger distribution network, we will continue to focus on the productivity and redeployment of our sales force via a multi-channel distribution model and mobilise alternative channels and business partners to expand customer reach. To better manage our products and portfolio, we will be even more critical about consumer product relevance with the goal of owning targeted segments and categories, innovate on product bundling, seeking opportunities for new fee-based income opportunities. We will move ahead with our branch transformation initiative to enhance customer experience, redefine and refine our business and customer engagement model to achieve higher product penetration and cross selling successes, leverage on our call centre capability, and enhance our value proposition to focus on banking convenience to capture market share in the mass affluent segment. In view of the unfavourable economic climate, several expense controls measures would be put in place, including tightening management of direct expenses, assembling a task force to seek out expense-saving opportunities, working with business partners to optimise marketing and promotional spend, and spending smartly on new business investments and opportunities.

Products-wise, the focus in 2009 would be to build the unsecured lending business, together with fee-based income and higher yield assets, whilst managing our liabilities towards lower cost deposits. This would include developing new board rate house loans, enhancing unsecured lending products and activities, developing a new range of bancassurance products targeted at the mass affluent segment, developing a savings product for the premier banking segment and rolling out a new range of cash management and fixed income unit trust products to meet with ongoing market sentiments.

Our business banking efforts would continue to revolve round the large corporates, commercial banking and retail commercial banking segments. For large corporates, we will continue to strive to become one of the top five bankers to the very large corporates whilst being principal banker to the relatively smaller corporates. We will focus on more cross-border activities, working with our overseas branches in cross-selling non-loan products to boost fee income. On the commercial banking front, we will actively explore receivable financing that is centered on suppliers to large corporates. Our efforts would continue to be rooted firmly on cash management services, mobilising our resources in accordance with available opportunities. In retail commercial banking, process improvements and centralisation of loans and disbursement activities would be key ingredients in our resolve to offer quicker turnaround time to achieve higher revenue generation.

In treasury, we aim to build proper infrastructure to support the long-term plan of replicating a treasury business that is comparable to that of the best banks of our size, while taking advantage of the competitive advantages we already possess. We would leverage off the experience and expertise in Singapore for products, technology, management and customer service whilst building on being the centre of excellence for the Malaysia markets within the organisation and expanding this approach for the benefit of customers, business partners, counterparties and other stakeholders so that they recognise the value we bring to them. Given the anticipated challenges surrounding the economic situation, our strategy would relatively be more conservative compared to previous years. In a market with volatility, opportunities are available with the widening of credit spreads, from market arbitrage as well as weaker competition. We would remain mindful of specific challenges emanating from reduced risk appetites, slowing of customer flows, volatile markets, stricter policies and regulation, and liquidity conservation.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)

RATINGS BY EXTERNAL AGENCIES

The Bank is rated by an external agency, RAM Rating Services 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), the outlook of which was reaffirmed as "positive" in July 2008 and is still in use at the reporting date. The rating is reflective of the Bank's resilient asset quality, sound credit risk management, sustainable financial performance and strong capitalisation.

CORPORATE GOVERNANCE

Board Composition and Independence

The Board comprises eight Directors, of whom seven are non-executive Directors. The non-executive Directors are: Tan Sri Dato' Nasruddin Bin Bahari (Chairman of the Bank), Mr David Conner, Mr Ching Wei Hong, Dr Raja Lope Bin Raja Shahrome, Mr Soon Tit Koon, Ms Tan Siok Choo and Mr David Wong Cheong Fook.

The Executive Director on the Board is Mr Jeffrey Chew Sun Teong who is also the 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 four Directors deemed independent, namely, Tan Sri Dato' Nasruddin Bin Bahari, Dr Raja Lope Bin Raja Shahrome, Ms Tan Siok Choo and Mr David Wong Cheong Fook.

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, Board Nominating Committee and Board Risk Management Committee and 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 representation at Board Committees.

Board Conduct and Responsibilities

The Board is elected by the shareholder 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.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)

CORPORATE GOVERNANCE (continued)

Board Conduct and Responsibilities (continued)

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 Management 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 2008, the Board and Board Audit Committee held a total of six meetings each whilst the Board Nominating Committee and Board Risk Management Committee held a total of two and six meetings respectively. 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 Committees have separate and independent access to the internal auditors, external auditors, Bank's senior management and to the company secretary. The Directors, in addition, could take independent professional advice 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 has approved the annual performance evaluation process to assess the effectiveness of the Board, Board committees with the formation of the Board Nominating Committee.

BOARD COMMITTEE

Audit Committee

The Audit Committee comprises Tan Sri Dato' Nasruddin bin Bahari, Ms Tan Siok Choo and Mr 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 Terms of Reference of the Audit Committee is approved by the Board. The Committee has full access to, and co-operation from Management, and has the discretion to invite any Directors and executive officers to attend its meetings. The Audit Committee has been given the resources required for it to discharge its functions. It has explicit authority to investigate any matter within its terms of reference.

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)

CORPORATE GOVERNANCE (continued)

Audit Committee (continued)

The Audit Committee may meet at any time with the internal auditors and external auditors. It meets with the Bank's auditors to approve the audit plans and review the scope of audits. The Committee reviews the financial statements of the Bank, related party transactions and the auditors' report thereon and submits them to the Board of Directors. In addition to the review of the financial statements, the Committee reviews and evaluates with the internal auditors and external auditors, the adequacy of the systems of internal controls, governance procedures, 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 auditors.

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

Internal Audit Function

The Audit Committee approves the Audit Charter of Internal Audit and reviews the effectiveness of the internal audit function. In line with leading practice, Internal Audit's mission statement requires it to provide independent objective assessments designed to help the Bank to accomplish its strategic initiatives by engaging a risk-based, systematic and disciplined approach to evaluate the adequacy and effectiveness of risk management, control, and governance processes. Its scope of work is to provide reasonable, but not absolute, assurance to the Audit Committee and Senior Management that the Bank'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 and effectiveness of the system of controls 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 Practice of Internal Auditing of The Institute of Internal Auditors, Guidelines on Minimum Audit Standards for Internal Auditors of Financial Institutions (BNM/GP10) of Bank Negara Malaysia, as well as other applicable local regulatory requirements for Internal Audit.

Internal Audit adopts a risk-based audit methodology. Annual audit plan is developed using the risk-based approach and is approved by the Audit Committee. Audit work is prioritised and scoped in accordance with the risk assessment of the Business Units. This includes all principal risks of the Bank, namely financial, strategic, technology, regulatory and operational risks. Internal Audit works closely with the Business Units to develop an understanding of the Bank's key objectives and processes to identify principal risks.

Computerised audit systems and software are adopted to automate audit process, facilitate sampling process and support audit execution. The audit works undertaken by Internal Audit cover internal control systems for business activities, security and access controls for the key computer systems, data integrity, control procedures for product and system projects, and controls over the monitoring of risk management operations.

Internal Audit also sits in as an observer in major new product and system developments, process improvement activities and special projects, to help evaluate risk exposures and ensure that proposed mitigating internal controls are adequately evaluated and implemented on a timely basis. It also examines the effectiveness of internal control systems that mitigate risks inherent in recording of transactions, safeguarding of assets, compliance with laws and regulations, and adherence with established policies and procedures.

The Audit Committee is responsible for the adequacy of the internal audit function, its resources and standing, and ensures that processes are in place for recommendations raised in internal audit reports to be dealt with in a timely manner and outstanding exceptions or recommendations are closely monitored.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)**CORPORATE GOVERNANCE (continued)****Internal Controls**

The Board believes that, in the absence of any evidence to the contrary, the system of internal controls 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 Bank in its current business environment.

The system of internal controls provides reasonable, but not absolute assurance that the Bank 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 controls 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. At least quarterly Credit Risk Management Report
4. At least quarterly Asset Liability & Market Risk Report
5. At least quarterly Operational Risk Management Report
6. Half yearly 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' ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS IN 2008

Name of Director	Number of Meetings attended in 2008							
	Board		Audit Committee		Nominating Committee		Risk Management Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Tan Sri Dato' Nasruddin Bin Bahari	6	6	6	6	2	2	6	6
David Conner	6	6			2	2	6	6
Ching Wei Hong	6	6					6	6
Dr Raja Lope Bin Raja Shahrome	6	6					6	6
Soon Tit Koon	6	5			2	1	6	5
Tan Siok Choo	6	6	6	6	2	2	6	6
David Wong Cheong Fook	6	6	6	6	2	2	6	6
Chew Sun Teong (appointed on 8 August 2008)	6	2						
Dato' Yeoh Beow Tit (resigned on 1 August 2008)	6	2						

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

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)

CORPORATE GOVERNANCE (continued)

FURTHER INFORMATION ON DIRECTORS

Profile of the Board of Directors

Tan Sri Dato' Nasruddin Bin Bahari, Chairman

Tan Sri Dato' Nasruddin was 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 OCBC Al-Amin Bank Berhad, Affin Moneybrokers Sendirian Berhad, The Pacific Insurance Berhad, PacificMas Berhad, OCBC Credit Berhad, OCBC Advisers (Malaysia) Sdn Bhd and Sumber Petroleum Cemerlang (SPC) Sendirian Bhd and a Director of Lingkar Transkota Holdings Bhd ("LITRAK") and IJM Land Berhad.

Mr David Conner

Mr David Conner was 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 joined Oversea-Chinese Banking Corporation Limited ("OCBCL") in April 2002 as a Director and Group Chief Executive Officer and is presently Chairman of Bank of Singapore Limited, a Commissioner of OCBC NISP and a Director of several companies, including OCBC Al-Amin Bank Berhad, Great Eastern Holdings Limited and Lion Global Investors Ltd. Mr Conner holds a Bachelor of Arts from Washington University in St Louis and a Master of Business Administration from Columbia University.

Mr Ching Wei Hong

Mr Ching was appointed to the Board on 20 June 2006. He is also the Senior Executive Vice President of OCBCL. He oversees the Group's Finance, Operations and Technology functions. His responsibilities as Chief Financial Officer include capital management, financial and management accounting, legal and regulatory compliance and investor relations. As Head of Group Operations and Technology, he oversees the Group's transaction processing and technology operations. Mr Ching has more than 24 years of experience in regional finance, corporate banking and cash management. Before joining the Group, he was Director of Corporate Finance, Philips Electronics Asia Pacific Pte Ltd. He also held senior regional assignments in Bank of America and was Treasurer of Union Carbide Asia Pacific. Mr Ching holds a Bachelor of Business Administration from the National University of Singapore. He is also presently a Director of OCBC Al-Amin Bank Berhad, Network for Electronic Transfers (S) Pte Ltd (NETS), E2 Power Pte Ltd, E2 Power Sdn Bhd and OCBC Overseas Investment Pte Ltd.

Dr Raja Lope Bin Raja Shahrome

Dr Raja Lope was appointed to the Board on 10 March 2007. He holds an Honours Degree in Economics from the University of Malaya in Singapore, an MA from the University of Pennsylvania and a PhD from the London School of Economics. His working experience was mainly with central and commercial banking except for a few years when he was working in a rating agency. He currently sits on the Board of Directors/Governors of OCBC Al-Amin Bank Berhad, PacificMas Berhad, First Nationwide Holdings Sdn Bhd, Standard London (Asia) Sdn Bhd and several other private companies.

Mr Soon Tit Koon

Mr Soon was appointed to the Board on 19 June 2003. He was the Chief Financial Officer of OCBCL from 2002 to June 2008 and was appointed Senior Executive Vice President in April 2007. He is now the Head of Group Investments responsible for managing OCBC Bank's strategic investments and joint ventures, as well as non-core investments in equities and real estate. He was formerly the Chief Financial Officer of Wilmar Holdings and Managing Director of Citicorp Investment Bank, Singapore where he worked 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.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)

CORPORATE GOVERNANCE (continued)

Profile of the Board of Directors (continued)

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 OCBC Al-Amin Bank Berhad and United Malacca 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.

Mr David Wong Cheong Fook

Mr David Wong was appointed to the Board on 30 March 2004. He is presently Chairman of Ascendas Funds Management (S) Ltd and a Director at OCBC, OCBC Al-Amin Bank Berhad, PacificMas Berhad, Pacific Mutual Fund Berhad, The Pacific Insurance Berhad, Banking Computer Services Pte Ltd, Teva Pharmaceutical Investments Singapore Pte Ltd, Jurong International Holdings Pte Ltd, LMA International NV, APL Japan Trust Management (Singapore) Limited and Energy Market Company Pte Ltd. He also serves as a member of National Environment Agency and Casino Regulatory Authority of Singapore. He 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.

Mr Chew Sun Teong, Jeffrey

Mr Jeffrey Chew was appointed to the Board on 8 August 2008. He is also a Director of OCBC Al-Amin Bank Berhad, E2 Power Sdn Bhd, PacificMas Berhad and Pac Lease Sdn Bhd. He started his career with PriceWaterhouseCoopers in 1987 involved in corporate audit and taxation for 4 years prior to joining Citibank Malaysia. During his 12-year career with Citibank, he held various positions in the areas of customer relationship in corporate, commercial and SMEs, international offshore banking, risk management. Prior to joining OCBC Bank (Malaysia) Berhad in April 2003, his last held position was General Manager of Commercial/SME banking business and Director of Citicorp Capital Sdn Bhd. He is a qualified accountant and a fellow member of the Association of Chartered Certified Accountants, UK.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (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

David Wong Cheong Fook

Soon Tit Koon

Tan Siok Choo

Ching Wei Hong

Dr Raja Lope Bin Raja Shahrome

Chew Sun Teong (appointed on 8 August 2008)

Dato' Yeoh Beow Tit (resigned on 1 August 2008)

In accordance with Articles 106 and 107 of the Bank's Articles of Association, Mr David Conner and Ms Tan Siok Choo shall retire at the forthcoming Annual General Meeting and being eligible, offered themselves for re-election.

In accordance with Article 110 of the Bank's Articles of Association, Mr Chew Sun Teong shall retire at the forthcoming Annual General Meeting and being eligible, offered himself for re-election.

In accordance with Section 129 of the Companies Act, 1965, Tan Sri Dato' Nasruddin Bin Bahari and Dr Raja Lope Bin Raja Shahrome who have attained 70 years of age, offered themselves for re-appointment at the forthcoming Annual General Meeting.

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

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

	<u>Shareholdings registered in the name of Directors or in which Directors have a direct interest</u>			
	<u>As at 1.1.2008/ Date of appointment</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2008</u>
David Conner	1,009,393	111,149	0	1,120,542
Ching Wei Hong	27,740	22,791	0	50,531
Soon Tit Koon	140,257	71,545	0	211,802
Tan Sri Dato' Nasruddin Bin Bahari	14,400	4,800	0	19,200
David Wong Cheong Fook	21,600	6,800	0	28,400
Chew Sun Teong (appointed with effect from 8 August 2008)	17,917	0	0	17,917

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)**DIRECTORS AND THEIR INTEREST IN SHARES AND OPTIONS (continued)**Oversea-Chinese Banking Corporation LimitedNumber of ordinary sharesShareholdings registered in the name of Directors or in which
Directors have a direct interest (continued)

	<u>As at 1.1.2008</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2008</u>
<u>Class G Preference Shares</u>				
David Conner	50,000	0	0	50,000

Class B Preference Shares

Ching Wei Hong	0	2,500	0	2,500
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Shareholdings in which Directors have deemed interest ^{1/}

	<u>As at 1.1.2008/ Date of appointment</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2008</u>
David Conner	288,018	224,624	111,149	401,493
Ching Wei Hong	52,759	35,824	22,791	65,792
Soon Tit Koon	187,676	110,113	71,545	226,244
Tan Siok Choo	3,530,550	0	0	3,530,550
Chew Sun Teong (appointed with effect from 8 August 2008)	37,996	529	0	38,525

Class G Preference Shares

Tan Siok Choo	735,532	0	0	735,532
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^{1/} Deemed interest includes shares granted under the OCBC Deferred Share Plan and acquisition rights under the OCBC Employee Share Purchase Plan.

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

Number of unissued ordinary shares

Share Options held by Directors in their own name

	<u>As at 1.1.2008/ Date of appointment</u>	<u>Offered</u>	<u>Exercised</u>	<u>As at 31.12.2008</u>	<u>Date option expire</u>
David Conner	3,395,000	450,000	0	3,845,000	8/4/2012 – 13/3/2018
Ching Wei Hong	192,280	60,000	0	252,280	14/3/2014 – 13/3/2018
Soon Tit Koon	748,000	100,000	0	848,000	8/4/2012 – 13/3/2018

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)

DIRECTORS AND THEIR INTEREST IN SHARES AND OPTIONS (continued)

Number of unissued ordinary shares

Share Options held by Directors in their own name (continued)

	<u>As at 1.1.2008/ Date of appointment</u>	<u>Offered</u>	<u>Exercised</u>	<u>As at 31.12.2008</u>	<u>Date option expire</u>
Chew Sun Teong (appointed with effect from 8 August 2008)	102,000	0	0	102,000	13/3/2015 – 13/3/2018

OCBC Capital Corporation Limited ("OCC")

Number of preference shares with liquidation value of S\$100 each

Shareholdings in which Directors have deemed interest

	<u>As at 1.1.2008</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2008</u>
Non-cumulative non-convertible guaranteed <u>OCC-A-Preference Shares</u>				
Soon Tit Koon	10,000	0	0	10,000
Non-cumulative Non-convertible guaranteed <u>OCC (2008) Preference Shares</u>				
David Wong Cheong Fook	0	200	0	200

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 25 to the financial statements, or the fixed salary of full-time employees of the Bank or related companies) 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.

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)

DIRECTORS' BENEFITS (continued)

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 OCBC pursuant to the OCBC Executives' Share Option Scheme, 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 and acquisition rights under the OCBC Employee Share Purchase Plan.

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.

AUDITORS

Our auditors, Messrs KPMG, have expressed their willingness to accept re-appointment.

In accordance with a resolution of the Board of Directors dated 17 February 2009.

TAN SRI DATO' NASRUDDIN BIN BAHARI
DIRECTOR

CHEW SUN TEONG
DIRECTOR

Kuala Lumpur

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

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

In the opinion of the Directors, the financial statements set out on pages 22 to 131 are drawn up in accordance with the provisions of the Companies Act, 1965, and Financial Reporting Standards as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Group and the Bank as at 31 December 2008 and of their financial performances and cash flows for the year ended on that date.

In accordance with a resolution of the Board of Directors dated 17 February 2009.

TAN SRI DATO' NASRUDDIN BIN BAHARI
DIRECTOR

CHEW SUN TEONG
DIRECTOR

Kuala Lumpur

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

I, Tan Fong Sang, the officer primarily responsible for the financial management of OCBC Bank (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 22 to 131 are, to the best of my knowledge and belief, 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 17 February 2009) TAN FONG SANG

Before me,

TAN BOON CHUA
COMMISSIONER FOR OATHS

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

Company No. 295400 W
(Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of OCBC Bank (Malaysia) Berhad, which comprise the balance sheets as at 31 December 2008 of the Group and the Bank, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 22 to 131.

Directors' Responsibility for the Financial Statements

The Directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Companies Act, 1965 and Financial Reporting Standards in Malaysia as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the financial position of the Group and of the Bank as of 31 December 2008 and of their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- a) In our opinion, 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.
- b) We are satisfied that the accounts of the subsidiaries that have been consolidated with the Bank's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- c) Our audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Matters

This report is made solely to the members of the Bank, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

KPMG

Firm Number: AF 0758
Chartered Accountants

Foong Mun Kong

Approval Number: 2613/12/10(J)
Chartered Accountant

Petaling Jaya, Selangor.

Date: 17 February 2009

BALANCE SHEETS AS AT 31 DECEMBER 2008

	Note	Group		Bank	
		2008 RM'000	2007 (restated) RM'000	2008 RM'000	2007 (restated) RM'000
ASSETS					
Cash and short-term funds	2	4,374,064	5,636,115	3,717,429	5,636,115
Securities purchased under resale agreements		0	358,344	0	358,344
Deposits and placements with banks and other financial institutions	3	1,230,613	230,399	1,230,613	230,399
Held-for-trading securities	4	581,784	1,872,798	581,784	1,872,798
Available-for-sale securities	4	8,577,769	5,850,023	7,744,641	5,850,023
Loans, advances and financing	5	30,174,433	26,611,930	28,044,170	26,611,747
Other assets	7	1,646,421	441,302	1,898,721	441,300
Statutory deposits with Bank Negara Malaysia	8	937,608	843,608	853,608	843,608
Investment in subsidiary companies	9	0	0	196,611	1,611
Property, plant and equipment	10	255,933	226,039	253,994	226,031
Investment property	11	12,358	10,066	12,358	10,066
Prepaid lease payments	12	2,929	2,981	2,929	2,981
Non-current assets held for sale	13	0	2,092	0	2,092
Deferred taxation asset	14	78,980	100,056	66,627	100,345
TOTAL ASSETS		47,872,892	42,185,753	44,603,485	42,187,460
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits from customers	15	36,688,985	31,467,966	33,967,274	31,482,621
Deposits and placements of banks and other financial institutions	16	3,859,946	4,064,268	3,546,146	4,064,268
Bills and acceptances payable		1,446,081	1,682,232	1,431,979	1,682,232
Amount due to Cagamas		435,327	628,680	435,327	628,680
Subordinated term loan / bonds	17	981,162	1,089,210	981,162	1,089,210
Other liabilities	18	1,273,813	702,377	1,068,096	702,240
Taxation and zakat		61,340	65,637	61,325	65,556
Total Liabilities		44,746,654	39,700,370	41,491,309	39,714,807
Financed by :					
Share capital	19	291,500	291,500	291,500	291,500
Reserves	20	2,834,738	2,193,883	2,820,676	2,181,153
Shareholders' Equity		3,126,238	2,485,383	3,112,176	2,472,653
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		47,872,892	42,185,753	44,603,485	42,187,460
COMMITMENTS AND CONTINGENCIES	31	73,615,708	59,568,827	72,821,958	59,568,827

The accounting policies on pages 28 to 37 and notes on pages 38 to 131 form an integral part of the financial statements.

INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Interest income	21	2,133,875	1,896,050	2,134,947	1,896,050
Interest expense	22	(1,138,807)	(1,029,113)	(1,138,820)	(1,029,464)
Net interest income		995,068	866,937	996,127	866,586
Islamic Banking income	43(25)	113,137	81,564	105,732	81,564
		1,108,205	948,501	1,101,859	948,150
Non-interest income	23	432,105	357,290	436,297	357,289
Net income		1,540,310	1,305,791	1,538,156	1,305,439
Staff costs and overhead expenses	24	(598,618)	(542,760)	(596,871)	(542,475)
Operating profit before allowances		941,692	763,031	941,285	762,964
Allowance for losses on loans, advances and financing	26	(106,033)	(44,053)	(96,224)	(44,135)
Provision for commitment and contingencies	18(b)	3,936	(1,304)	3,936	(1,304)
Impairment losses on investment property	24	(577)	0	(577)	0
Profit before taxation and zakat		839,018	717,674	848,420	717,525
Taxation	28	(222,428)	(206,422)	(224,775)	(206,372)
Zakat		(15)	784	(15)	784
Net profit attributable to shareholders		616,575	512,036	623,630	511,937
Basic earnings per share (sen)	29	208.2	171.8	210.6	171.8
Dividend per ordinary share – nil gross (2007 : 40.0 sen) less income tax (sen)	30	0.0	29.4	0.0	29.4

The accounting policies on pages 28 to 37 and notes on pages 38 to 131 form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

Note	Share capital	Non-distributable				Distributable	Total
		Share Premium	Statutory reserve	Capital reserve	Fair value reserve	Retained profits	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group							
Balance at 1 January 2008	291,500	858,500	322,000	56,619	70,687	886,077	2,485,383
Revaluation of available-for-sale securities (net)	0	0	0	0	111,091	0	111,091
Deferred tax on revaluation of available-for-sale securities (net)	0	0	0	0	(26,171)	0	(26,171)
Net gains recognised directly in equity	0	0	0	0	84,920	0	84,920
Net profit attributable to shareholders	0	0	0	0	0	616,575	616,575
Total recognised income and expense for the year	0	0	0	0	84,920	616,575	701,495
Dividends paid on ordinary shares in respect of :							
- Final 2007	30	0	0	0	0	(42,550)	(42,550)
Dividends paid on preference shares	30	0	0	0	0	(18,090)	(18,090)
Balance at 31 December 2008	<u>291,500</u>	<u>858,500</u>	<u>322,000</u>	<u>56,619</u>	<u>155,607</u>	<u>1,442,012</u>	<u>3,126,238</u>
Balance at 1 January 2007	291,500	858,500	322,000	56,619	67,892	633,437	2,229,948
Revaluation of available-for-sale securities (net)	0	0	0	0	720	0	720
Deferred tax on revaluation of available-for-sale securities (net)	0	0	0	0	2,075	0	2,075
Net gains recognised directly in equity	0	0	0	0	2,795	0	2,795
Net profit attributable to shareholders	0	0	0	0	0	512,036	512,036
Total recognised income and expense for the year	0	0	0	0	2,795	512,036	514,831
Dividends paid on ordinary shares in respect of :							
- Final 2006	30	0	0	0	0	(199,381)	(199,381)
- Interim 2007	30	0	0	0	0	(41,975)	(41,975)
Dividends paid on preference shares	30	0	0	0	0	(18,040)	(18,040)
Balance at 31 December 2007	<u>291,500</u>	<u>858,500</u>	<u>322,000</u>	<u>56,619</u>	<u>70,687</u>	<u>886,077</u>	<u>2,485,383</u>

**STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008
(continued)**

Note	Share capital	Non-distributable			Distributable		Total
		Share premium	Statutory reserve	Fair value reserve	Retained profits		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Bank							
Balance at 1 January 2008	291,500	858,500	322,000	70,687	929,966	2,472,653	
Revaluation of available-for-sale securities (net)	0	0	0	106,678	0	106,678	
Deferred tax on revaluation of available-for-sale securities (net)	0	0	0	(25,068)	0	(25,068)	
Realised gain on available-for-sale securities reclassified to income statement upon disposal	0	0	0	(5,077)	0	(5,077)	
Net gains recognised directly in equity	0	0	0	76,533	0	76,533	
Net profit attributable to shareholders	0	0	0	0	623,630	623,630	
Total recognised income and expense for the year	0	0	0	76,533	623,630	700,163	
Dividends paid on ordinary shares in respect of :							
- Final 2007	30	0	0	0	(42,550)	(42,550)	
Dividends paid on preference shares	30	0	0	0	(18,090)	(18,090)	
Balance at 31 December 2008	<u>291,500</u>	<u>858,500</u>	<u>322,000</u>	<u>147,220</u>	<u>1,492,956</u>	<u>3,112,176</u>	
Balance at 1 January 2007	291,500	858,500	322,000	67,892	677,425	2,217,317	
Revaluation of available-for-sale securities (net)	0	0	0	720	0	720	
Deferred tax on revaluation of available-for-sale securities (net)	0	0	0	2,075	0	2,075	
Net gains recognised directly in equity	0	0	0	2,795	0	2,795	
Net profit attributable to shareholders	0	0	0	0	511,937	511,937	
Total recognised income and expense for the year	0	0	0	2,795	511,937	514,732	
Dividends paid on ordinary shares in respect of :							
- Final 2006	30	0	0	0	(199,381)	(199,381)	
- Interim 2007	30	0	0	0	(41,975)	(41,975)	
Dividends paid on preference shares	30	0	0	0	(18,040)	(18,040)	
Balance at 31 December 2007	<u>291,500</u>	<u>858,500</u>	<u>322,000</u>	<u>70,687</u>	<u>929,966</u>	<u>2,472,653</u>	

The accounting policies on pages 28 to 37 and notes on pages 38 to 131 form an integral part of the financial statements.

CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation and zakat		839,018	717,674	848,420	717,525
Adjustments for:-					
Net gains from sale of held-for-trading securities		(6,813)	(6,910)	(6,813)	(6,910)
Net gains from sale of available-for-sale securities		(25,314)	(4,784)	(36,791)	(4,784)
Dividends received		(7,075)	(5,619)	(7,075)	(5,619)
Depreciation of property, plant and equipment		32,749	31,219	32,710	31,216
Depreciation of investment property		601	163	601	163
Amortisation of prepaid lease payments		52	71	52	71
Impairment losses on investment property		577	0	577	0
Loss/(Gain) on disposal of property, plant and equipment (net)		132	(114)	132	(113)
Gain on disposal of non-current assets held for sale		(4,649)	(1,851)	(4,649)	(1,851)
Allowance for losses on loans, advances and financing		106,033	44,053	96,224	44,135
Profit equalisation reserve		1,089	(4,083)	4,708	(4,083)
Amortisation of premium less accretion of discount (Write back of)/Provision for commitment and contingencies		(3,936)	1,304	(3,936)	1,304
Equity compensation benefits		6,115	3,418	6,115	3,418
Unrealised gains on revaluation (net)		(193,848)	(16,071)	(193,728)	(16,071)
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		767,921	801,742	759,558	801,673
(Increase) / Decrease in Operating Assets :					
Loans, advances and financing		(3,668,536)	(3,623,786)	(3,619,640)	(3,624,056)
Other assets and statutory deposits with Bank Negara Malaysia		1,745,020	23,274	1,712,307	23,198
Deposits and placement with banks and other financial institutions		(1,000,214)	2,050,347	(1,835,054)	2,050,347
Held-for-trading securities (net)		1,288,231	(1,341,504)	1,288,231	(1,341,504)
Securities purchased under resale agreements		358,344	(358,344)	358,344	(358,344)
Increase / (Decrease) in Operating Liabilities :					
Deposits from customers		5,221,019	6,821,299	4,915,396	6,821,737
Bills and acceptances payable		(236,151)	(135,953)	(246,952)	(135,953)
Amount due to Cagamas		(193,353)	(60,618)	(193,353)	(60,618)
Other liabilities		(2,230,874)	106,499	(1,938,826)	106,471
Obligations on securities sold under repurchase agreements		0	(3,075,577)	0	(3,075,577)
Deposits and placements of banks and other financial institutions		(204,322)	1,098,820	(77,586)	1,098,820
Cash generated from operations		1,847,085	2,306,199	1,122,425	2,306,194
Income tax and zakat paid		(231,835)	(193,909)	(231,835)	(193,901)
NET CASH GENERATED FROM OPERATING ACTIVITIES		1,615,250	2,112,290	890,590	2,112,293

CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of available-for-sale securities (net)		(2,614,531)	(246,397)	(2,516,399)	(246,397)
Purchase of property, plant and equipment		(62,997)	(25,070)	(61,510)	(25,070)
Purchase of investment property		(3,470)	(1,309)	(3,470)	(1,309)
Proceeds from sale of property, plant and equipment		222	804	705	801
Proceeds from sale of non-current assets held for sale		6,741	2,395	6,741	2,395
Dividends received		7,075	5,619	7,075	5,619
Subscription of ordinary shares of Islamic subsidiary		0	0	(195,000)	0
Subscription of Islamic subordinated bonds of Islamic subsidiary		0	0	(200,000)	0
Net cash received pursuant to business vesting to Islamic subsidiary		0	0	362,923	0
NET CASH UTILISED IN INVESTING ACTIVITIES		(2,666,960)	(263,958)	(2,598,935)	(263,961)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid		(60,640)	(259,396)	(60,640)	(259,396)
(Repayment)/Proceeds from subordinated term loan/ bonds		(149,701)	400,000	(149,701)	400,000
NET CASH (UTILISED IN) / GENERATED FROM FINANCING ACTIVITIES		(210,341)	140,604	(210,341)	140,604
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(1,262,051)	1,988,936	(1,918,686)	1,988,936
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		5,636,115	3,647,179	5,636,115	3,647,179
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	40	4,374,064	5,636,115	3,717,429	5,636,115

The accounting policies on pages 28 to 37 and notes on pages 38 to 131 form an integral part of the financial statements.

SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

A. Basis of preparation of the financial statements

The financial statements of the Group and of the Bank have been prepared under the historical cost convention (except as disclosed in the notes to the financial statements) and comply with applicable Financial Reporting Standards ("FRSs") as modified by Bank Negara Malaysia Guidelines, comply with the provisions of the Companies Act, 1965, and Syariah requirements (operations of Islamic Banking).

The financial statements incorporate all activities relating to Islamic Banking ("IB") which have been undertaken by the Group and the Bank in compliance with Syariah principles.

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

The accounting policies adopted by the Group and the Bank are consistent with those adopted in previous years except for the adoption of the following new and amended FRSs and IC Interpretations issued by the Malaysian Accounting Standards Board that is effective for the Group's annual reporting date, 31 December 2008. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group or the Bank in the current or prior periods. In certain cases, they did however give rise to additional disclosures.

- FRS 107, Cash Flow Statements
- FRS 112, Income Taxes
- FRS 118, Revenue
- FRS 119, Employee Benefits
- FRS 137, Provisions, Contingent Liabilities and Contingent Assets

The following new FRSs and IC Interpretations issued by MASB have not been adopted by the Group and the Bank in preparing the financial statements for the year ended 31 December 2008:

	Effective Date	Date of adoption by the Group and Bank
FRS 4 Insurance Contracts	On or after 1 January 2010	Not applicable
FRS 7 Financial Instruments: Disclosure	On or after 1 January 2010	1 January 2010
FRS 8 Operating Segments	On or after 1 July 2009	Not applicable
FRS 139 Financial Instruments: Recognition and Measurement	On or after 1 January 2010	1 January 2010
IC Interpretation 9 Reassessment of Embedded Derivatives	On or after 1 January 2010	1 January 2010
IC Interpretation 10 Interim Financial Reporting and Impairment	On or after 1 January 2010	1 January 2010

FRS 7 requires disclosures to enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. New disclosures, where relevant, will be included throughout the financial statements. Whilst there will be no effect on the financial position or results, comparative information will be revised where necessary.

The impact of applying FRS 139 on the financial statements upon first adoption is not disclosed by virtue of the exemption given in FRS 139.103AB.

The initial application of the other applicable FRSs and IC Interpretations are not expected to have any material impact on the financial statements of the Group and the Bank.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)**

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 2008. 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 of 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.

C. Recognition of Interest Income / Financing Income

Interest income / financing income, except for interest earned on hire purchase, block discounting and lease financing, 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.

Income earned on hire purchase, block discounting 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 discounting and lease debts.

Income from IB financing is recognised on an accrual basis in accordance with the principles of Syariah.

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 subsidiary companies 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 the revised Bank Negara Malaysia (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 Group is required to make 100% specific allowance on the unsecured portion. Exception may only be allowed subject to approval as per the Group's Non-Performing Loan Approval Authority Limits.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)**

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

The Group 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.

Impaired loans, advances and financing are 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.

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 of the collaterals at a price higher than valuation used by the Group, 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 loans, advances 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 Group 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 Group 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 Group classifies its securities portfolios into held-for-trading and available-for-sale securities. Currently no financial assets have been classified as held-to-maturity.

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 providers, 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.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)**

G. Securities (continued)

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 unquoted 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.

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

H. Investment in Subsidiary Companies

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.

Investments in subsidiary companies are stated in the Bank's balance sheet at cost less impairment losses, and written down when the Directors consider that there is a diminution in the value of such investments which is other than temporary.

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.

When significant parts of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment and depreciated separately.

Freehold land is not depreciated. Leasehold buildings 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 depreciable amount is determined after deducting the residual value.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)**

I. Property, Plant and Equipment and Depreciation (continued)

The principal annual rates are:-

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

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

J. Investment Property

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both. These include land held for a currently undetermined future use. Properties that are occupied by the companies in the Group are accounted for as owner-occupied rather than as investment properties. The Group has adopted the cost method in measuring investment properties. Investment properties are stated at cost less accumulated depreciation and impairment losses, consistent with the accounting policy for property, plant and equipment as stated in Section I of the Group's accounting policies.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of 50 years for buildings. Freehold land is not depreciated.

K. Assets under Lease

Assets under lease which in substance transfer the risks and benefits of ownership of the assets to the Group are capitalised under property, plant and equipment. The assets and the corresponding lease obligations are recorded at the lower of the present value of the minimum lease payments or the fair value of the leased assets at the beginning of the lease term. 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 leases and the related rentals are charged to income statements as incurred.

Leasehold land that normally has an indefinite economic life and title is not expected to pass to the Group by the end of the lease term is treated as an operating lease. The payment made on entering into or acquiring a leasehold land is accounted as prepaid lease payments that are amortised over the remaining lease term.

L. Bills and Acceptances Payable

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

M. Amount Due To Cagamas

In the normal course of banking operations, the Group sells loans to Cagamas Berhad. The Group is liable in respect of the loans sold directly to Cagamas Berhad under the condition that the Group 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 2008 (continued)**

N. Currency Translations and Conversion

i) Functional and Presentation Currency

These financial statements are presented in Ringgit Malaysia (RM), which is the Group's functional currency. All financial information presented in RM has been rounded to the nearest thousand, unless otherwise stated.

ii) Transactions and Balances

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement.

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

	<u>2008</u>	<u>2007</u>
Foreign currency	RM	RM
1 US Dollar	3.46	3.31
1 Australian Dollar	2.40	2.91
1 Singapore Dollar	2.41	2.30
100 Japanese Yen	3.84	2.95

O. Taxation

Taxation comprises current and deferred tax. Taxation is recognised in the income statements except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

i) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

ii) Deferred tax

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for reporting purposes and the amounts used for taxation purposes. The principal temporary differences arise from allowance for impairment loss on securities, allowance for loans, advances and financing, depreciation on property, plant and equipment, depreciation on investment property and unrealised gains and losses of financial instruments. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)**

P. Zakat Contribution

Zakat represents business zakat payable by the Group to comply with the principles of Syariah and as approved by the Syariah Supervisory Council. The Group only pays zakat on its business and does not pay zakat on behalf of depositors or shareholders. There were no statutory requirements for the Group to pay zakat for its IB business when it was operated under the Islamic window. Hence, any payment of zakat was subject to the discretion of the Group.

Q. 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

R. 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.

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.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)**

S. Employee Benefits

- i) Short term employee benefits
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 Scheme
Share Option Schemes are offered to executives of the rank of Manager and above, including executive directors. Options granted over shares of the ultimate holding company of the Bank 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.
 - c) Employee Share Purchase Plan
The Employee Share Purchase Plan ("ESP Plan") is a savings-based share ownership plan that allows eligible employees to participate in shares of the ultimate holding company of the Bank by making monthly contributions to the ESP Plan Account and interest accrued at a preferential rate determined by the Remuneration Committee. The Committee will fix the offering period and acquisition price for the new ordinary shares to be issued under the ESP Plan. The ESP Plan balances are included in non-bank customer savings deposits.

The fair value of options granted 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 Share Option Schemes and acquisition rights to ordinary shares of the ultimate holding company of the Bank under the ESP Plan. The fair 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 over the remaining vesting period, with recognition of a corresponding liability payable to the ultimate holding company of the Bank. The liability is remeasured at each balance sheet date up to the settlement date, with changes in fair value recognised in the income statement.

Further details of the equity compensation benefits are disclosed in Note 18(a).

T. Non-current Assets Held for Sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 (continued)**

U. 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.

V. Profit Equalisation Reserve (PER)

PER is a mechanism to reduce the fluctuations in the profit rates payable to the depositors under IB operations. 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 Group.

W. Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- a) Section E – Allowance for Bad and Doubtful Debts and Financing
- b) Note 18(a) – Equity Compensation Benefits
- c) Note 31 – Commitments and Contingencies
- d) Note 38 – Fair Value of Financial Instruments and Section X - Derivatives

X. 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 Group 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 2008 (continued)**

X. Derivatives (continued)

When the Group 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. 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.

Refer to Section Y of the accounting policies for derivatives used for hedging purposes.

Y. Hedging

The Group enters into derivative transactions for trading purposes, and the realised and unrealised gains and losses are recognised in trading income. The Group 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 Group 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 relating to the hedged risk. 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.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008**1 GENERAL INFORMATION**

The principal activities of the Group and of the Bank are banking and related financial services which also include IB business. On 1 December 2008, the IB operations in Malaysia, previously included in the Bank's operations, were transferred to a newly incorporated wholly-owned subsidiary, OCBC Al-Amin Bank Berhad ("OCBC Al-Amin") as disclosed in Notes 9 and 43(27). The principal activities of the subsidiary companies during the financial year are in the businesses of Islamic banking, lease financing and the provision of nominees services.

Other than above, there have been no significant changes in these activities during the financial year.

The number of employees at the end of the financial year amounted to 3,282 (2007: 2,747) employees in the Group and 3,170 (2007: 2,745) employees in the Bank. The number of employees seconded to E2 Power Sdn Bhd, a related company amounted to 426 (2007: 486), and to OCBC Al-Amin amounted to 40 for the end of current financial year.

The immediate 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 19th Floor, Menara OCBC, 18 Jalan Tun Perak, 50050 Kuala Lumpur.

2 CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	239,862	280,408	236,297	280,408
Money at call and deposit placements maturing within one month	4,134,202	5,355,707	3,481,132	5,355,707
	<u>4,374,064</u>	<u>5,636,115</u>	<u>3,717,429</u>	<u>5,636,115</u>

3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Licensed banks	780,613	130,399	780,613	130,399
Bank Negara Malaysia	450,000	100,000	450,000	100,000
	<u>1,230,613</u>	<u>230,399</u>	<u>1,230,613</u>	<u>230,399</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**4 SECURITIES PORTFOLIO**

	Group		Bank	
	2008	2007	2008	2007
i) Held-for-trading securities	RM'000	RM'000	RM'000	RM'000
<u>At fair value</u>				
Malaysian Government treasury bills	0	38,410	0	38,410
Malaysian Government securities	63,059	234,984	63,059	234,984
Government Investment Certificate	41,902	93,704	41,902	93,704
Bank Negara Malaysia bills	1,662	224,022	1,662	224,022
Bank Negara Malaysia negotiable notes	0	53,750	0	53,750
Private debt securities	474,804	1,225,322	474,804	1,225,322
Quoted shares in Malaysia	357	2,606	357	2,606
	<u>581,784</u>	<u>1,872,798</u>	<u>581,784</u>	<u>1,872,798</u>
ii) Available-for-sale securities				
<u>At fair value</u>				
Malaysian Government treasury bills	0	28,973	0	28,973
Malaysian Government securities	4,136,832	2,757,797	4,136,832	2,757,797
Government Investment Certificate	1,444,231	1,069,944	992,589	1,069,944
Bank Negara Malaysia negotiable notes	0	153,162	0	153,162
Bank Negara Malaysia bills	84,252	0	84,252	0
Cagamas bonds / notes	0	35,280	0	35,280
Private debt securities	1,397,079	1,040,538	1,089,876	1,040,538
Negotiable instruments of deposit	1,224,283	625,000	1,150,000	625,000
Other government securities	173,343	0	173,343	0
Quoted shares in Malaysia	53,861	93,889	53,861	93,889
Unquoted shares in Malaysia	56,315	51,673	56,315	51,673
Unquoted shares outside Malaysia	8,142	0	8,142	0
Debentures	190	188	190	188
	<u>8,578,528</u>	<u>5,856,444</u>	<u>7,745,400</u>	<u>5,856,444</u>
Allowance for impairment losses in available-for-sale securities :				
- Unquoted shares in Malaysia	(109)	(109)	(109)	(109)
- Private debt securities	(638)	(6,300)	(638)	(6,300)
- Debentures	(12)	(12)	(12)	(12)
	<u>(759)</u>	<u>(6,421)</u>	<u>(759)</u>	<u>(6,421)</u>
	<u>8,577,769</u>	<u>5,850,023</u>	<u>7,744,641</u>	<u>5,850,023</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**4 SECURITIES PORTFOLIO (continued)**

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

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Balance at 1 January	6,421	759	6,421	759
Amount transferred from allowance for losses on loans, advances and financing	0	5,662	0	5,662
Amount written off	(5,662)	0	(5,662)	0
Balance at 31 December	<u>759</u>	<u>6,421</u>	<u>759</u>	<u>6,421</u>

5 LOANS, ADVANCES AND FINANCING

i) By type

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Overdrafts	3,791,580	3,261,190	3,406,495	3,261,190
Term loans/financing :				
Housing loans/financing	7,724,556	6,762,610	7,605,105	6,762,610
Syndicated term loan/financing	1,867,533	1,560,204	1,649,828	1,560,204
Hire purchase	632,743	449,570	140	449,570
Lease receivables	18,377	24,465	17,805	23,714
Other term loans	10,716,266	9,448,499	10,195,573	9,448,499
Credit/charge cards receivables	596,688	583,652	596,688	583,652
Bills receivable	106,383	79,123	96,141	79,123
Trust receipts	114,056	114,657	113,641	114,657
Claims on customers under acceptance credits	2,400,698	2,356,607	2,155,104	2,356,607
Block discounting	330	330	330	330
Loans to banks and other financial institutions	203,631	218,050	203,631	218,050
Revolving credit	1,973,320	2,032,899	1,608,721	2,032,899
Staff loans (of which RM Nil [2007 : RM Nil] to Directors)	116,362	114,217	116,362	114,217
Other loans	1,127,044	665,208	1,119,465	665,208
	<u>31,389,567</u>	<u>27,671,281</u>	<u>28,885,029</u>	<u>27,670,530</u>
Unearned interest and income	(305,848)	(238,406)	(1,227)	(238,381)
Gross loans, advances and financing	<u>31,083,719</u>	<u>27,432,875</u>	<u>28,883,802</u>	<u>27,432,149</u>
Allowance for bad and doubtful debts and financing :				
- Specific	(449,277)	(418,833)	(413,155)	(418,305)
- General	(460,009)	(402,112)	(426,477)	(402,097)
Net loans, advances and financing	<u>30,174,433</u>	<u>26,611,930</u>	<u>28,044,170</u>	<u>26,611,747</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**5 LOANS, ADVANCES AND FINANCING (continued)**

Included in lease receivables of the Group and the Bank are the gross Islamic Ijarah leasing receivables of RM16,677,412 less specific and general allowance for doubtful debts of RM781,036 as at 31 December 2008, which are excluded as part of the IB operations of the Bank transferred to OCBC Al-Amin as disclosed in Note 43(27). Out of this leasing receivable amount, leasing amounted to RM954,902 have been classified as non-performing financing.

ii) By type of customers

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Domestic banking institutions	0	33,272	0	33,074
Domestic non-bank financial institutions				
- Stockbroking companies	0	50,161	0	50,161
- Others	244,475	235,908	244,475	235,908
Domestic business enterprises				
- Small medium enterprises ("SME")	5,797,370	4,677,986	5,402,780	4,677,808
- Non-SME	13,787,081	12,441,181	12,338,722	12,440,831
Government and statutory bodies	43,822	219,651	43,822	219,651
Individuals	11,110,959	9,712,221	10,755,395	9,712,221
Other domestic entities	2,319	2,666	2,319	2,666
Foreign entities	97,693	59,829	96,289	59,829
	<u>31,083,719</u>	<u>27,432,875</u>	<u>28,883,802</u>	<u>27,432,149</u>

iii) By interest/profit rate sensitivity

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Fixed rate				
Housing loans/financing	71,516	78,618	0	78,618
Hire purchase receivables	573,537	406,910	77	406,910
Other fixed rate loan/financing	2,378,696	2,400,288	1,133,027	2,399,562
Variable rate				
BLR plus	19,654,259	16,566,038	19,654,259	16,566,038
Cost-plus	3,819,013	3,818,288	3,819,013	3,818,288
Other variable rates	4,586,698	4,162,733	4,277,426	4,162,733
	<u>31,083,719</u>	<u>27,432,875</u>	<u>28,883,802</u>	<u>27,432,149</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**5 LOANS, ADVANCES AND FINANCING (continued)**

iv) By sector

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Agriculture	1,880,061	1,651,442	1,393,752	1,651,442
Mining and quarrying	307,953	275,747	274,395	275,747
Manufacturing	5,624,525	5,089,382	4,943,751	5,089,382
Electricity, gas and water	352,677	230,974	352,677	230,974
Construction	945,294	1,326,049	830,410	1,325,700
Real estate	3,818,470	2,821,911	3,650,272	2,821,911
Wholesale and retail trade and restaurant	4,620,135	3,661,575	4,470,113	3,661,396
Transport, storage and communication	697,485	609,475	562,904	609,475
Finance, insurance and business services	724,812	734,952	694,873	734,952
Community, social and personal services	557,004	462,357	516,696	462,357
Household sector, of which				
i. Purchase of residential properties	7,649,344	6,817,604	7,576,412	6,817,604
ii. Purchase of non-residential properties	1,186,296	863,765	1,184,577	863,765
iii. Others	2,358,552	2,088,470	2,079,134	2,088,470
Others	361,111	799,172	353,836	798,974
	<u>31,083,719</u>	<u>27,432,875</u>	<u>28,883,802</u>	<u>27,432,149</u>

6 NON-PERFORMING LOANS, ADVANCES AND FINANCING

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

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	1,108,380	1,307,988	1,107,852	1,307,469
Non-performing during the year (gross)	511,865	490,377	508,443	490,368
Reclassified as performing during the year	(226,848)	(171,768)	(226,031)	(171,768)
Amount converted to available-for-sale securities	0	(5,662)	0	(5,662)
Amount recovered	(250,319)	(365,502)	(249,690)	(365,502)
Amount written off	(84,576)	(147,053)	(83,343)	(147,053)
Transfer pursuant to business vesting to Islamic subsidiary	0	0	(43,206)	0
Foreign exchange difference	(537)	0	(537)	0
Balance at 31 December	<u>1,057,965</u>	<u>1,108,380</u>	<u>1,013,488</u>	<u>1,107,852</u>
Specific allowance	<u>(449,277)</u>	<u>(418,833)</u>	<u>(413,155)</u>	<u>(418,305)</u>
Net non-performing loans, advances and financing	<u>608,688</u>	<u>689,547</u>	<u>600,333</u>	<u>689,547</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**6 NON-PERFORMING LOANS, ADVANCES AND FINANCING (continued)**

	Group		Bank	
	2008	2007	2008	2007
Ratio of net non-performing loans, advances and financing to gross loans, advances and financing less specific allowance	<u>1.99%</u>	<u>2.55%</u>	<u>2.11%</u>	<u>2.55%</u>

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

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<u>General allowance</u>				
Balance at 1 January	402,112	344,400	402,097	344,385
Allowance made during the year	57,897	57,712	57,281	57,712
Transfer pursuant to business vesting to Islamic subsidiary	0	0	(32,901)	0
Balance at 31 December	<u>460,009</u>	<u>402,112</u>	<u>426,477</u>	<u>402,097</u>
As % of gross loans, advances and financing less specific allowance	<u>1.50%</u>	<u>1.50%</u>	<u>1.50%</u>	<u>1.50%</u>
<u>Specific allowance</u>				
Balance at 1 January	418,833	550,681	418,305	550,162
Allowance made during the year	257,990	248,125	247,581	248,116
Amount transferred to allowance for impairment losses for available-for-sale securities	0	(3,795)	0	(3,795)
Amount written back in respect of recoveries	(142,599)	(229,126)	(141,677)	(229,126)
Amount written off	(84,576)	(147,052)	(83,343)	(147,052)
Transfer pursuant to business vesting to Islamic subsidiary	0	0	(27,340)	0
Foreign exchange difference	(371)	0	(371)	0
Balance at 31 December	<u>449,277</u>	<u>418,833</u>	<u>413,155</u>	<u>418,305</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**6 NON-PERFORMING LOANS, ADVANCES AND FINANCING (continued)**

iii) Non-performing loans, advances and financing by sector are as follows:

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Agriculture	7,638	17,871	7,386	17,871
Manufacturing	367,267	323,981	346,185	323,981
Construction	46,337	60,266	41,732	59,916
Real estate	104,754	132,105	104,645	132,105
Wholesale and retail trade and restaurant	136,018	180,046	132,443	179,868
Transport, storage and communication	3,850	5,360	3,170	5,360
Finance, insurance and business services	4,402	2,960	4,402	2,960
Community, social and personal services	2,363	1,753	2,136	1,753
Household sector, of which				
i. Purchase of residential properties	241,793	227,513	237,418	227,513
ii. Purchase of non-residential properties	14,520	16,155	14,517	16,155
iii. Others	97,112	98,987	87,543	98,987
Others	31,911	41,383	31,911	41,383
	<u>1,057,965</u>	<u>1,108,380</u>	<u>1,013,488</u>	<u>1,107,852</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)

7 OTHER ASSETS	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Interest receivable	121,465	97,182	114,912	97,182
Derivative assets (a)	1,021,420	261,577	1,020,543	261,577
Unquoted Islamic Subordinated Bonds of subsidiary (b)	0	0	200,000	0
Other debtors, deposits and prepayments	503,536	82,543	563,266	82,541
	<u>1,646,421</u>	<u>441,302</u>	<u>1,898,721</u>	<u>441,300</u>

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

Group	2008			2007		
	Contract or underlying principal amount RM'000	Fair value		Contract or underlying principal amount RM'000	Fair value	
		Assets	Liabilities		Assets	Liabilities
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial derivatives						
Trading:						
Foreign exchange derivatives						
- forward	2,759,888	76,996	43,013	2,524,600	14,178	20,266
- swaps	11,284,101	214,090	184,675	7,539,447	80,105	85,368
- currency option	6,285,783	162,559	40,795	3,227,591	10,415	11,162
Interest rate derivatives						
- swaps	28,958,574	492,720	385,884	23,438,918	113,593	66,434
- option	1,307,348	8,194	2,942	1,329,485	5,815	1,115
- swaption	200,000	2,796	252	900,000	4,278	934
- futures	0	0	0	19,841	0	0
Equity and commodity derivatives						
- swap	176,700	450	450	0	0	0
- option	865,886	27,032	27,032	358,023	33,128	33,128
	<u>51,838,280</u>	<u>984,837</u>	<u>685,043</u>	<u>39,337,905</u>	<u>261,512</u>	<u>218,407</u>
Hedging:						
Interest rate derivatives						
- swaps	746,339	36,583	0	586,039	65	8,481
	<u>52,584,619</u>	<u>1,021,420</u>	<u>685,043</u>	<u>39,923,944</u>	<u>261,577</u>	<u>226,888</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)

7 OTHER ASSETS (continued)

Bank	2008			2007		
	Contract or underlying principal amount RM'000	Fair value		Contract or underlying principal amount RM'000	Fair value	
		Assets	Liabilities		Assets	Liabilities
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Financial derivatives						
Trading:						
Foreign exchange derivatives						
- forward	2,759,888	76,996	43,013	2,524,600	14,178	20,266
- swaps	11,284,100	214,090	184,675	7,539,447	80,105	85,368
- currency option	6,181,065	161,686	39,922	3,227,591	10,415	11,162
Interest rate derivatives						
- swaps	28,958,574	492,720	385,884	23,438,918	113,593	66,434
- option	1,307,348	8,194	2,942	1,329,485	5,815	1,115
- swaption	200,000	2,796	252	900,000	4,278	934
- futures	0	0	0	19,841	0	0
Equity and commodity derivatives						
-swap	176,700	450	450	0	0	0
- option	788,168	27,028	27,028	358,023	33,128	33,128
	51,655,843	983,960	684,166	39,337,905	261,512	218,407
Hedging:						
Interest rate derivatives						
- swaps	746,339	36,583	0	586,039	65	8,481
	52,402,182	1,020,543	684,166	39,923,944	261,577	226,888

- b) The unquoted Islamic Subordinated Bonds relate to the Islamic subsidiary, OCBC Al-Amin, which the Bank newly subscribed during the year in connection with the transfer and vesting of its IB business to OCBC Al-Amin as disclosed in Notes 9 and 43(27).

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**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.

9 INVESTMENT IN SUBSIDIARY COMPANIES

	Bank	
	2008	2007
Unquoted shares at cost	RM'000	RM'000
- in Malaysia	196,617	1,617
Less : Allowance for diminution in value	(6)	(6)
	<u>196,611</u>	<u>1,611</u>

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

Name	Principal activities	Percentage of equity held	
		2008 %	2007 %
OCBC Al-Amin Bank Berhad	Islamic banking	100	-
OCBC Credit Berhad	Licensed credit company	100	100
Malaysia Nominees (Tempatan) Sdn Bhd	Nominees services	100	100
Malaysia Nominees (Asing) Sdn Bhd	Nominees services	100	100

On 21 May 2008, OCBC Al-Amin was incorporated as a wholly-owned subsidiary of the Bank to undertake the IB business, with an authorised share capital of RM500,000,000 divided into 500,000,000 ordinary shares of RM1 each and an issued and paid-up share capital of RM2 represented by 2 ordinary shares of RM1 each.

On 1 December 2008, the Bank subscribed for the additional 54,999,998 ordinary shares of RM1.00 each at RM3.00 per ordinary share for a total cash consideration of RM164,999,994, pursuant to the establishment and transfer of the IB operations to OCBC Al-Amin as disclosed in Note 43(27). On the same date, the Bank also fully subscribed the Non Tradeable Non Transferable Redeemable Islamic Subordinated Bonds ("Restricted Subordinated Bonds") of RM200 million issued by OCBC Al-Amin by cash (Note 7(b)). The Restricted Subordinated Bonds issued by OCBC Al-Amin was structured under the principles of Mudharabah and backed by the same pool of identified assets currently funded by the RM200 million redeemable Islamic subordinated bonds as disclosed in Note 17(c).

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**9 INVESTMENT IN SUBSIDIARY COMPANIES**

The assets and liabilities of the Bank's IB operations which were transferred to OCBC Al-Amin on 1 December 2008 are set out below:

	RM'000
Assets transferred	
Cash and short-term funds	2,077
Deposits and placements with financial institutions	903,553
Available-for-sale securities	742,239
Financing and other advances	2,090,993
Other assets	26,086
Deferred taxation asset	13,171
Total assets	<u>3,778,119</u>
Liabilities transferred	
Deposits from customers	2,430,743
Deposits and placements of banks and other financial institutions	440,536
Bills and acceptances payable	3,301
Other liabilities	508,136
Provision for zakat	15
Total liabilities	<u>3,382,731</u>
Net assets transferred	<u>395,388</u>
Satisfied by:	
Cash consideration - received	365,000
- receivable	30,388
Total cash consideration	<u>395,388</u>
Cashflow arising from business vesting to Islamic subsidiary:	
Cash consideration received	365,000
Less: Cash and cash equivalent disposed	(2,077)
Net cash received pursuant to business vesting to Islamic subsidiary	<u>362,923</u>

On 31 December 2008, the Bank further subscribed for an additional 10,000,000 ordinary shares of RM1.00 each at RM3.00 per ordinary share for a total cash consideration of RM30,000,000.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**10 PROPERTY, PLANT AND EQUIPMENT**

Group 2008	Balance at 1 January (restated) RM'000	Additions RM'000	Disposal/ written off RM'000	Balance at 31 December RM'000
<u>Cost</u>				
Freehold land and buildings	189,733	7,031	0	196,764
Buildings on leasehold land:				
- less than 50 years	3,575	32	0	3,607
- 50 years or more	7,018	58	0	7,076
Office equipment and furniture	64,874	6,903	(630)	71,147
Computer equipment	139,143	33,410	(1,409)	171,144
Motor vehicles	2,719	0	(406)	2,313
Renovation	10,584	15,424	0	26,008
<u>Assets under lease:-</u>				
Computer/office equipment and furniture	1,898	139	0	2,037
	<u>419,544</u>	<u>62,997</u>	<u>(2,445)</u>	<u>480,096</u>
	Balance at 1 January (restated) RM'000	Charge for the year RM'000	Reversed on disposal/ written off RM'000	Balance at 31 December RM'000
<u>Accumulated depreciation</u>				
Freehold land and buildings	28,833	7,591	0	36,424
Buildings on leasehold land :				
- less than 50 years	852	92	0	944
- 50 years or more	1,430	151	0	1,581
Office equipment and furniture	48,327	3,370	(562)	51,135
Computer equipment	97,060	17,835	(1,334)	113,561
Motor vehicles	1,402	321	(195)	1,528
Renovation	6,228	3,311	0	9,539
<u>Assets under lease:-</u>				
Computer/office equipment and furniture	1,681	78	0	1,759
	<u>185,813</u>	<u>32,749</u>	<u>(2,091)</u>	<u>216,471</u>
	Balance at 1 January RM'000	Charge for the year RM'000	Reversed on disposal/ written off RM'000	Balance at 31 December RM'000
<u>Impairment losses</u>				
Freehold land and buildings	4,172	0	0	4,172
Leasehold land and buildings :				
- less than 50 years	1,085	0	0	1,085
- 50 years or more	728	0	0	728
Office equipment and furniture	1,707	0	0	1,707
	<u>7,692</u>	<u>0</u>	<u>0</u>	<u>7,692</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**10 PROPERTY, PLANT AND EQUIPMENT (continued)**

Group (continued) 2008	Balance at 31 December RM'000
<u>Carrying amounts</u>	
Freehold land and buildings	156,168
Buildings on leasehold land :	
- less than 50 years	1,578
- 50 years or more	4,767
Office equipment and furniture	18,305
Computer equipment	57,583
Motor vehicles	785
Renovation	16,469
<u>Assets under lease:-</u>	
Computer/office equipment and furniture	278
	<u>255,933</u>

Bank 2008	Balance at 1 January (restated) RM'000	Additions RM'000	Disposal/ written off RM'000	Disposal to Islamic subsidiary RM'000	Balance at 31 December RM'000
<u>Cost</u>					
Freehold land and buildings	189,733	7,031	0	0	196,764
Buildings on leasehold land:					
- less than 50 years	3,575	32	0	0	3,607
- 50 years or more	7,018	58	0	0	7,076
Office equipment and furniture	64,860	6,752	(630)	(519)	70,463
Computer equipment	139,054	32,713	(1,409)	(30)	170,328
Motor vehicles	2,719	0	(406)	0	2,313
Renovation	10,584	14,785	0	0	25,369
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	1,898	139	0	0	2,037
	<u>419,441</u>	<u>61,510</u>	<u>(2,445)</u>	<u>(549)</u>	<u>477,957</u>

Accumulated depreciation	Balance at 1 January (restated) RM'000	Charge for the year RM'000	Reversed on disposal/ written off RM'000	Disposal to Islamic subsidiary RM'000	Balance at 31 December RM'000
Freehold land and buildings	28,833	7,591	0	0	36,424
Buildings on leasehold land :					
- less than 50 years	852	92	0	0	944
- 50 years or more	1,430	151	0	0	1,581
Office equipment and furniture	48,320	3,362	(562)	(39)	51,081
Computer equipment	96,972	17,822	(1,334)	(27)	113,433
Motor vehicles	1,402	321	(195)	0	1,528
Renovation	6,228	3,293	0	0	9,521
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	1,681	78	0	0	1,759
	<u>185,718</u>	<u>32,710</u>	<u>(2,091)</u>	<u>(66)</u>	<u>216,271</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**10 PROPERTY, PLANT AND EQUIPMENT (continued)**

Bank (continued) 2008	Balance at 1 January	Charge for the year	Reversed on disposal/ written off	Disposal to Islamic subsidiary	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Impairment losses</u>					
Freehold land and buildings	4,172	0	0	0	4,172
Leasehold land and buildings :					
- less than 50 years	1,085	0	0	0	1,085
- 50 years or more	728	0	0	0	728
Office equipment and furniture	1,707	0	0	0	1,707
	<u>7,692</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,692</u>

	Balance at 31 December
	RM'000
<u>Carrying amounts</u>	
Freehold land and buildings	156,168
Buildings on leasehold land :	
- less than 50 years	1,578
- 50 years or more	4,767
Office equipment and furniture	17,675
Computer equipment	56,895
Motor vehicles	785
Renovation	15,848
<u>Assets under lease:-</u>	
Computer/office equipment and furniture	278
	<u>253,994</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**10 PROPERTY, PLANT AND EQUIPMENT (continued)**

Group 2007	Balance at 1 January	Additions	Disposal/ written off	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000
<u>Cost</u>				
Freehold land and buildings	188,284	1,449	0	189,733
Buildings on leasehold land:				
- less than 50 years	3,504	71	0	3,575
- 50 years or more	6,991	27	0	7,018
Office equipment and furniture	62,632	3,296	(1,054)	64,874
Computer equipment	125,416	14,285	(558)	139,143
Motor vehicles	4,418	574	(2,273)	2,719
Renovation	5,285	5,299	0	10,584
<u>Assets under lease:-</u>				
Computer/office equipment and furniture	1,829	69	0	1,898
	<u>398,359</u>	<u>25,070</u>	<u>(3,885)</u>	<u>419,544</u>
	Balance at 1 January	Charge for the year	Reversed on disposal/ written off	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000
<u>Accumulated depreciation</u>				
Freehold land and buildings	21,791	7,042	0	28,833
Buildings on leasehold land :				
- less than 50 years	758	94	0	852
- 50 years or more	1,290	140	0	1,430
Office equipment and furniture	45,967	3,315	(955)	48,327
Computer equipment	82,595	14,879	(414)	97,060
Motor vehicles	2,912	316	(1,826)	1,402
Renovation	868	5,360	0	6,228
<u>Assets under lease:-</u>				
Computer/office equipment and furniture	1,608	73	0	1,681
	<u>157,789</u>	<u>31,219</u>	<u>(3,195)</u>	<u>185,813</u>
	Balance at 1 January	Charge for the year	Reversed on disposal/ written off	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000
<u>Impairment losses</u>				
Freehold land and buildings	4,172	0	0	4,172
Buildings on leasehold land :				
- less than 50 years	1,085	0	0	1,085
- 50 years or more	728	0	0	728
Office equipment and furniture	1,707	0	0	1,707
	<u>7,692</u>	<u>0</u>	<u>0</u>	<u>7,692</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**10 PROPERTY, PLANT AND EQUIPMENT (continued)**

Group (continued) 2007	Balance at 31 December RM'000
<u>Carrying amounts</u>	
Freehold land and buildings	156,728
Buildings on leasehold land :	
- less than 50 years	1,638
- 50 years or more	4,860
Office equipment and furniture	14,840
Computer equipment	42,083
Motor vehicles	1,317
Renovation	4,356
<u>Assets under lease:-</u>	
Computer/office equipment and furniture	217
	<u>226,039</u>

Bank 2007	Balance at 1 January RM'000	Additions RM'000	Disposal/ written off RM'000	Balance at 31 December RM'000
<u>Cost</u>				
Freehold land and buildings	188,284	1,449	0	189,733
Buildings on leasehold land:				
- less than 50 years	3,504	71	0	3,575
- 50 years or more	6,991	27	0	7,018
Office equipment and furniture	62,615	3,296	(1,051)	64,860
Computer equipment	125,327	14,285	(558)	139,054
Motor vehicles	4,418	574	(2,273)	2,719
Renovation	5,285	5,299	0	10,584
<u>Assets under lease:-</u>				
Computer/office equipment and furniture	1,829	69	0	1,898
	<u>398,253</u>	<u>25,070</u>	<u>(3,882)</u>	<u>419,441</u>

<u>Accumulated depreciation</u>	Balance at 1 January RM'000	Charge for the year RM'000	Reversed on disposal/ written off RM'000	Balance at 31 December RM'000
Freehold land and buildings	21,791	7,042	0	28,833
Buildings on leasehold land :				
- less than 50 years	758	94	0	852
- 50 years or more	1,290	140	0	1,430
Office equipment and furniture	45,962	3,312	(954)	48,320
Computer equipment	82,507	14,879	(414)	96,972
Motor vehicles	2,912	316	(1,826)	1,402
Renovation	868	5,360	0	6,228
<u>Assets under lease:-</u>				
Computer/office equipment and furniture	1,608	73	0	1,681
	<u>157,696</u>	<u>31,216</u>	<u>(3,194)</u>	<u>185,718</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**10 PROPERTY, PLANT AND EQUIPMENT (continued)**

Bank (continued) 2007	Balance at 1 January	Charge for the year	Reversed on disposal/ written off	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000
<u>Impairment losses</u>				
Freehold land and buildings	4,172	0	0	4,172
Buildings on leasehold land :				
- less than 50 years	1,085	0	0	1,085
- 50 years or more	728	0	0	728
Office equipment and furniture	1,707	0	0	1,707
	<u>7,692</u>	<u>0</u>	<u>0</u>	<u>7,692</u>
				<u>Balance at 31 December RM'000</u>
<u>Carrying amounts</u>				
Freehold land and buildings				156,728
Buildings on leasehold land :				
- less than 50 years				1,638
- 50 years or more				4,860
Office equipment and furniture				14,833
Computer equipment				42,082
Motor vehicles				1,317
Renovation				4,356
<u>Assets under lease:-</u>				
Computer/office equipment and furniture				<u>217</u>
				<u>226,031</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**11 INVESTMENT PROPERTY**

	Group and Bank	
	2008	2007
	RM'000	RM'000
<u>Cost</u>		
Balance at 1 January	12,994	13,402
Reclassified to non-current assets held for sale (Note 13)	0	(1,717)
Addition	3,470	1,309
Disposal	0	0
Balance at 31 December	<u>16,464</u>	<u>12,994</u>
<u>Accumulated depreciation</u>		
Balance at 1 January	1,822	2,013
Reclassified to non-current assets held for sale (Note 13)	0	(354)
Charge for the year	601	163
Balance at 31 December	<u>2,423</u>	<u>1,822</u>
<u>Impairment losses</u>		
Balance at 1 January	1,106	1,508
Reclassified to non-current assets held for sale (Note 13)	0	(402)
Charge for the year	577	0
Balance at 31 December	<u>1,683</u>	<u>1,106</u>
<u>Carrying amounts</u>		
Balance at 31 December	<u>12,358</u>	<u>10,066</u>
Fair value at 31 December	<u>55,160</u>	<u>54,830</u>
Included in carrying amounts are:		
Freehold land and buildings	12,358	10,066
Leasehold land and building:-		
- 50 years or more	0	0
	<u>12,358</u>	<u>10,066</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**12 PREPAID LEASE PAYMENTS**

	Leasehold land		Total RM'000
	Unexpired period less than 50 years RM'000	Unexpired period 50 years or more RM'000	
Group and Bank 2008			
<u>Cost</u>			
Balance at 1 January / 31 December	3,047	3,745	6,792
<u>Accumulated amortisation</u>			
Balance at 1 January	385	265	650
Amortisation for the year	36	16	52
Balance at 31 December	421	281	702
<u>Impairment losses</u>			
Balance at 1 January / 31 December	1,554	1,607	3,161
<u>Carrying amounts</u>			
Balance at 31 December	1,072	1,857	2,929
Group and Bank 2007			
<u>Cost</u>			
Balance at 1 January	3,047	5,745	8,792
Reclassified to non-current assets held for sale (Note 13)	0	(2,000)	(2,000)
Balance at 31 December	3,047	3,745	6,792
<u>Accumulated amortisation</u>			
Balance at 1 January	349	408	757
Amortisation for the year	36	35	71
Reclassified to non-current assets held for sale (Note 13)	0	(178)	(178)
Balance at 31 December	385	265	650
<u>Impairment losses</u>			
Balance at 1 January	1,554	2,298	3,852
Reclassified to non-current assets held for sale (Note 13)	0	(691)	(691)
Balance at 31 December	1,554	1,607	3,161
<u>Carrying amounts</u>			
Balance at 31 December	1,108	1,873	2,981

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**13 NON-CURRENT ASSETS HELD FOR SALE**

	Group and Bank	
	2008	2007
	RM'000	RM'000
Balance at 1 January	2,092	544
Amount reclassified from investment property :		
- Cost	0	1,717
- Accumulated depreciation	0	(354)
- Impairment losses	0	(402)
Amount reclassified from prepaid lease payments		
- Cost	0	2,000
- Amortised lease payment	0	(178)
- Impairment losses	0	(691)
Disposal	(2,092)	(544)
Balance at 31 December	<u>0</u>	<u>2,092</u>

14 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:

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets (before offsetting)	132,070	191,780	118,326	191,780
Deferred tax liabilities (before offsetting)	(53,090)	(91,724)	(51,699)	(91,435)
Deferred tax assets after offsetting	<u>78,980</u>	<u>100,056</u>	<u>66,627</u>	<u>100,345</u>

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

	Balance at	Credit	Credit / (charged)	Balance at
	1 January		to income statement	31 December
	2008	to reserves	(Note 28)	2008
	RM'000	RM'000	RM'000	RM'000
Group				
Allowance for impairment loss in available-for-sale securities	197	0	(7)	190
Temporary differences arising from leasing business	3,015	0	770	3,785
Excess of capital allowance over depreciation	(12,356)	0	(1,676)	(14,032)
General allowance on loans, advances and financing	104,553	0	10,453	115,006
Unrealised gains / losses on revaluation of financial instruments	(20,211)	(26,171)	10,427	(35,955)
Impairment on loans, advances and financing	16,557	0	(16,557)	0
Other temporary differences	8,301	0	1,685	9,986
Total	<u>100,056</u>	<u>(26,171)</u>	<u>5,095</u>	<u>78,980</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**14 DEFERRED TAXATION (continued)**

	Balance at 1 January 2008	Credit to reserves	Credit / (charged) to income statement (Note 28)	Transfer pursuant to business vesting to Islamic subsidiary	Reversal upon disposal of available- for-sale securities	Balance at 31 December 2008
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bank						
Allowance for impairment loss in available-for-sale securities	197	0	(7)	0	0	190
Temporary differences arising from leasing business	3,312	0	770	0	0	4,082
Excess of capital allowance over depreciation	(12,356)	0	(1,677)	0	0	(14,033)
General allowance on loans, advances and financing	104,545	0	10,300	(8,226)	0	106,619
Unrealised gains / losses on revaluation of financial instruments	(20,211)	(25,068)	8,735	0	1,692	(34,852)
Impairment on loans, advances and financing	16,557	0	(16,557)	0	0	0
Other temporary differences	8,301	0	1,265	(4,945)	0	4,621
Total	100,345	(25,068)	2,829	(13,171)	1,692	66,627

	Balance at 1 January 2007	Debit to reserves	Credit / (charged) to income statement (Note 28)	Balance at 31 December 2007
	RM'000	RM'000	RM'000	RM'000
Group				
Allowance for impairment loss in available-for-sale securities	213	0	(16)	197
Temporary differences arising from leasing business	2,926	0	89	3,015
Excess of capital allowance over depreciation	(13,020)	0	664	(12,356)
General allowance on loans, advances and financing	96,436	0	8,117	104,553
Unrealised gains / losses on revaluation of financial instruments	(18,458)	2,075	(3,828)	(20,211)
Impairment on loans, advances and financing	23,182	0	(6,625)	16,557
Other temporary differences	10,864	0	(2,563)	8,301
Total	102,143	2,075	(4,162)	100,056

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**14 DEFERRED TAXATION (continued)**

	Balance at 1 January 2007	Debit to reserves	Credit / (charged) to income statement (Note 28)	Balance at 31 December 2007
	RM'000	RM'000	RM'000	RM'000
Bank				
Allowance for impairment loss in available-for-sale securities	213	0	(16)	197
Temporary differences arising from leasing business	3,250	0	62	3,312
Excess of capital allowance over depreciation	(13,020)	0	664	(12,356)
General allowance on loans, advances and financing	96,428	0	8,117	104,545
Unrealised gains / losses on revaluation of financial instruments	(18,458)	2,075	(3,828)	(20,211)
Impairment on loans, advances and financing	23,182	0	(6,625)	16,557
Other temporary differences	10,864	0	(2,563)	8,301
Total	102,459	2,075	(4,189)	100,345

15 DEPOSITS FROM CUSTOMERS

i) By type of deposits

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Demand deposits	4,779,724	4,160,825	4,215,300	4,175,460
Savings deposits	2,083,575	1,931,446	1,802,865	1,931,446
Fixed deposits	21,171,298	17,334,211	20,009,411	17,334,231
Negotiable instruments of deposits	649,999	138,833	294,178	138,833
Short-term money market deposits	6,798,750	7,272,115	6,583,173	7,272,115
Structured investments	1,150,375	594,447	1,052,009	594,447
Others	55,264	36,089	10,338	36,089
	36,688,985	31,467,966	33,967,274	31,482,621

ii) By type of customers

Government and statutory bodies	4,585	80,248	4,569	80,248
Business enterprises	16,759,835	14,722,391	15,299,199	14,722,391
Individuals	16,663,350	13,597,992	16,230,234	13,597,992
Others	3,261,215	3,067,335	2,433,272	3,081,990
	36,688,985	31,467,966	33,967,274	31,482,621

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**16 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Licensed banks	3,293,458	1,746,978	3,153,918	1,746,978
Bank Negara Malaysia	0	1,653,463	0	1,653,463
Other financial institutions	566,488	663,827	392,228	663,827
	<u>3,859,946</u>	<u>4,064,268</u>	<u>3,546,146</u>	<u>4,064,268</u>

17 SUBORDINATED TERM LOAN / BONDS

		Group		Bank	
		2008	2007	2008	2007
		RM'000	RM'000	RM'000	RM'000
USD 100 million	2003/2013 (a)	361,617	326,090	361,617	326,090
USD 50 million	2004/2014 (b)	0	163,045	0	163,045
RM 200 million	2006/2021 (c)	200,000	200,000	200,000	200,000
RM 400 million	2007/2017 (d)	419,545	400,075	419,545	400,075
		<u>981,162</u>	<u>1,089,210</u>	<u>981,162</u>	<u>1,089,210</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 6th 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 6th anniversary year from the date of disbursement.

On 31 March 2008, the Bank repaid the full subordinated term loan of USD50 million 10-year unsecured term loan obtained from Oversea-Chinese Banking Corporate Limited, Labuan Branch upon approval of Bank Negara Malaysia.

c) On 24 November 2006, the Bank issued RM200 million redeemable Islamic subordinated bonds on a 15-year non-callable 10-year basis under the principle of Mudharabah (profit sharing contract) at a projected constant rate of 5.40% for the first 10 years and a step up of 100 basis point commencing from the beginning of the 11th year from the issue date and ending on the date of full redemption of the subordinated bonds, subject to the availability of profits and the investors' entitlement under the profit sharing ratio. Unless the call option is exercised by the Bank, the subordinated bonds shall be redeemed in full by five equal and consecutive annual payments. The call option is subject to prior approval from Bank Negara Malaysia and Monetary Authority of Singapore (MAS), be redeemable in whole but not in part on 24 November 2016 and on every Profit Payment Date thereafter. The subordinated bonds were not included as part of the IB operations transferred to OCBC Al-Amin as disclosed in Note 43(27).

The subordinated bonds, rated AA2 by Rating Agency Malaysia Berhad, which previously qualified as Tier 2 capital, have been offset against the Restricted Subordinated Bonds held by the Bank as disclosed in Note 9, for the purpose of determining the capital adequacy ratio of the Bank.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**17 SUBORDINATED TERM LOAN / BONDS (continued)**

- d) On 30 November 2007, the Bank issued redeemable subordinated bonds of RM400 million on a 10-year non-callable 5-years basis at an initial coupon rate of 4.55% for the first 5 years and a step up of 100 basis point above the initial coupon rate with effect from (and including) the 5th anniversary date onward and up to (but excluding) the date of early redemption or the maturity date of the subordinated bonds, whichever is earlier. The Bank may, at its option and subject to the prior approval of BNM, exercise its call option where it may redeem in whole but not in part the subordinated bonds at any time on the 5th anniversary date from the issue date and on every coupon payment date thereafter at 100% of the principal amount outstanding together with accrued but unpaid coupon payment. Unless the call option is exercised by the Bank, the subordinated bonds would essentially have a final maturity of 10 years.

The subordinated bonds, rated AA2 by Rating Agency Malaysia Berhad, qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of the Bank.

18 OTHER LIABILITIES

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Accruals for personnel costs *	59,845	54,571	59,799	54,519
Equity compensation benefits (a)	9,838	5,274	9,838	5,274
Obligations under finance lease	0	198	259	198
Provision for commitments and contingencies (b)	0	3,936	0	3,936
Interest payable	227,563	186,182	215,260	186,182
Other accruals and charges	275,363	210,256	98,774	210,171
Derivatives liabilities [Note 7(a)]	685,043	226,888	684,166	226,888
Profit equalisation reserve [Note 43(11)]	16,161	15,072	0	15,072
	<u>1,273,813</u>	<u>702,377</u>	<u>1,068,096</u>	<u>702,240</u>

* Includes accrual for salary, bonus, employee benefits and EPF

a) Equity compensation benefits

Equity compensation benefits refer to the fair value for all goods and services received in respect of cash-settled share-based payment transactions recognised under FRS 2 Share-Based Payment.

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.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**18 OTHER LIABILITIES (continued)**a) Equity compensation benefits (continued)

- (ii) Share Option Schemes, for shares of the ultimate holding company of the Bank, are offered to executives, of the rank of 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.

At an Extraordinary General Meeting held on 19 April 2007, shareholders of the ultimate holding company of the Bank approved the alterations to enable option holders to select one of the following alternatives when exercising their options:

- (a) All share election – an election to receive in full the number of ordinary shares upon full payment of the aggregate acquisition cost in respect of the options exercised;
- (b) Partial share election – an election to receive ordinary shares representing the notional profit which would have been derived if the ordinary shares in respect of the options exercised had been sold; or
- (c) Cash election – an election to receive in cash the profit derived from the sale by the ultimate holding company of the Bank on behalf of the employee of all ordinary shares in respect of the options exercised.

1) Share option schemes

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

	2008		2007	
	Number of share options	Weighted average acquisition price S\$	Number of shares options	Weighted average acquisition price S\$
At 1 January	8,271,876	5.131	12,275,214	5.111
Granted	384,490	7.520	328,200	8.590
Exercised	(1,066,885)	4.747	(4,360,472)	5.032
Lapsed	(79,590)	4.690	28,934	4.998
At 31 December	<u>7,509,891</u>		<u>8,271,876</u>	
Exercisable options at end of financial year	<u>7,131,901</u>	5.438	<u>7,466,773</u>	5.131
Weighted average share price for options exercised (S\$)		7.826		8.904

Details of the options outstanding as at 31 December 2008 are as follows:

Grant year	Grant date	Exercise period	Acquisition price (S\$)	2008	
				Outstanding	Exercisable
2000	06/03/2000	06/12/2002 to 05/12/2009	4.542	569,448	569,448
2001	05/03/2001	05/12/2003 to 04/12/2010	5.367	1,363,656	1,363,656
2002	08/04/2002	09/04/2003 to 08/04/2012	5.742	2,277,729	2,277,729
2003	27/03/2003	28/03/2004 to 26/03/2013	4.067	1,096,171	1,096,171
2004	15/03/2004	16/03/2005 to 14/03/2014	5.142	758,293	758,293
2005	14/03/2005	15/03/2006 to 13/03/2015	5.767	374,129	374,129
2006	14/03/2006	15/03/2007 to 13/03/2016	6.820	374,133	374,133
2007	14/03/2007	15/03/2008 to 13/03/2017	8.590	318,342	318,342
2008	14/03/2008	15/03/2009 to 13/03/2018	7.520	377,990	0
				<u>7,509,891</u>	<u>7,131,901</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**18 OTHER LIABILITIES (continued)**a) Equity compensation benefits (continued)

Details of the options outstanding as at 31 December 2007 are as follows:

Grant year	Grant date	Exercise period	Acquisition price (S\$)	2007	
				Outstanding	Exercisable
1998	25/05/1999	22/01/2001 to 21/01/2008	2.675	64,384	64,384
1999	25/05/1999	10/12/2001 to 09/12/2008	3.139	187,162	187,162
2000	06/03/2000	06/12/2002 to 05/12/2009	4.542	656,777	656,777
2001	05/03/2001	05/12/2003 to 04/12/2010	5.367	1,576,244	1,576,244
2002	08/04/2002	09/04/2003 to 08/04/2012	5.742	2,512,379	2,512,379
2003	27/03/2003	28/03/2004 to 26/03/2013	4.067	1,270,331	1,270,331
2004	15/03/2004	16/03/2005 to 14/03/2014	5.142	838,004	838,004
2005	14/03/2005	15/03/2006 to 13/03/2015	5.767	441,217	247,023
2006	14/03/2006	15/03/2007 to 13/03/2016	6.820	398,678	114,469
2007	14/03/2007	15/03/2008 to 13/03/2017	8.590	326,700	0
				8,271,876	7,466,773

2) Share option expenses

The fair value of share options granted during the financial year ended 31 December 2008 determined using the binomial valuation model was S\$688,000 (2007 : S\$579,000). The significant inputs into the model were average share price, calculated from grant date to acceptance date, of S\$8.16 (2007: S\$9.00), expected volatility based on Bloomberg's 250-day historical price volatility as of acceptance date of 25.23% (2007: 20.21%), expected dividend yield of 3.43% (2007: 2.56%), exercise multiple of 1.57 times (2007: 1.57 times) and annual risk-free interest rate based on SGS 10-year bond yield of 2.27% (2007: 2.74%). Other inputs into the model were the acquisition price, grant date and maturity date, as shown in the previous table.

(iii) Employee 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 acquisition of ordinary shares to eligible employees under this share ownership scheme which allows the participants to acquire for ordinary shares after the first anniversary of the two-year offering period commencing 1 July 2004 to 30 June 2006.

The bank's second ESP Plan, which commenced on 1 July 2006, expired on 30 June 2008. During the financial year, 642,478 shares were transferred to employees of the Bank upon the exercise of acquisition rights and conversion on expiry date.

The third offering of the ESP Plan commenced on 1 July 2008 and will expire on 30 June 2010.

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

	2008		2007	
	Number of acquisition rights	Weighted average acquisition price S\$	Number of acquisition rights	Acquisition price S\$
At 1 January	937,562	6.450	1,137,344	6.450
Acquisition	1,525,727	8.270	0	-
Lapsed	(116,581)	7.972	(95,499)	6.450
Exercised	(944,948)	6.450	(104,283)	6.450
At 31 December	1,401,760		937,562	

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**18 OTHER LIABILITIES (continued)**

b) Movements in provision for commitments and contingencies are as follows:

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Balance at 1 January	3,936	2,632	3,936	2,632
Amount (reversed) / provided during the year (net)	(3,936)	1,304	(3,936)	1,304
Balance at 31 December	<u>0</u>	<u>3,936</u>	<u>0</u>	<u>3,936</u>

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

19 SHARE CAPITAL

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Authorised:				
Ordinary shares of RM1 each	1,000,000	1,000,000	1,000,000	1,000,000
Non-convertible perpetual preference shares of RM1 each	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>
	<u>1,005,000</u>	<u>1,005,000</u>	<u>1,005,000</u>	<u>1,005,000</u>
Issued and fully paid:				
287,500,000 ordinary shares of RM1 each	287,500	287,500	287,500	287,500
4,000,000 non-cumulative non-convertible perpetual preference shares of RM1 each	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>
	<u>291,500</u>	<u>291,500</u>	<u>291,500</u>	<u>291,500</u>

The main features of the non-cumulative, non-convertible perpetual preference shares are as follows:

- the preference shares carry a net cash dividend of 4.51% per annum of the liquidation preference payable semi-annually 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 2008 (continued)**20 RESERVES**

Detailed breakdown of the reserves are shown in the Statements of Changes in Equity.

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. Capital reserve is the portion of profits capitalised prior to the local incorporation (pre-acquisition profits) arising from consolidation. 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.

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 2008. The Finance Act, 2007 introduced a single tier company income tax system with effect from year of assessment 2008. As such, the Section 108 tax credit as at 31 December 2008 will be available to the Bank until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

21 INTEREST INCOME

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Loans and advances				
- Interest income other than recoveries from NPL	1,552,931	1,380,209	1,552,934	1,380,209
- Recoveries from NPL	29,408	27,838	29,408	27,838
Money at call and deposit placements with financial institutions	280,883	203,410	280,883	203,410
Held-for-trading securities	49,606	63,681	49,606	63,681
Available-for-sale securities	241,111	262,357	241,111	262,357
Others	2,947	1,827	4,016	1,827
	<u>2,156,886</u>	<u>1,939,322</u>	<u>2,157,958</u>	<u>1,939,322</u>
Amortisation of premium less accretion of discount	(23,011)	(43,272)	(23,011)	(43,272)
	<u>2,133,875</u>	<u>1,896,050</u>	<u>2,134,947</u>	<u>1,896,050</u>

22 INTEREST EXPENSE

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Deposits and placements of banks and other financial institutions	154,680	140,084	154,680	140,084
Deposits from other customers	921,720	773,440	921,720	773,771
Loans sold to Cagamas	21,418	28,129	21,418	28,129
Subordinated term loan / bonds	40,295	30,755	40,295	30,755
Others	694	56,705	707	56,725
	<u>1,138,807</u>	<u>1,029,113</u>	<u>1,138,820</u>	<u>1,029,464</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**23 NON-INTEREST INCOME**

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Fee income:				
Commission	88,726	109,042	88,726	109,042
Service charges and fees	96,678	74,118	96,678	74,118
Guarantee fees	19,932	17,576	19,932	17,576
Other fee income	24,681	15,391	28,859	15,391
	<u>230,017</u>	<u>216,127</u>	<u>234,195</u>	<u>216,127</u>
Income from securities (net):				
Net gains from sale of held-for-trading securities	6,813	6,910	6,813	6,910
Net gains from sale of available-for-sale securities	27,668	4,784	27,668	4,784
Unrealised losses on revaluation of held-for-trading securities (net)	(9,596)	(5,421)	(9,596)	(5,421)
Gross dividends from Malaysia:				
- Available-for-sale securities	7,075	5,619	7,075	5,619
	<u>261,977</u>	<u>228,019</u>	<u>266,155</u>	<u>228,019</u>
Other income (net):				
Gains arising from dealing in foreign currency (net)	108,408	104,115	108,408	104,115
Gains / (Losses) arising from trading derivatives (net)	12,974	(3,529)	12,974	(3,529)
Unrealised gains on revaluation of derivatives (net)	34,434	21,826	34,434	21,826
Rental income	6,127	4,951	6,141	4,951
Gain on disposal of property, plant and equipment	12	403	12	402
Gain on disposal of non-current assets held for sale	4,649	1,851	4,649	1,851
Others	3,524	(346)	3,524	(346)
	<u>170,128</u>	<u>129,271</u>	<u>170,142</u>	<u>129,270</u>
	<u>432,105</u>	<u>357,290</u>	<u>436,297</u>	<u>357,289</u>

24 STAFF COSTS AND OVERHEAD EXPENSES

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Personnel costs (i)	297,369	252,790	296,023	252,579
Establishment costs (ii)	62,373	51,785	62,248	51,767
Marketing expenses (iii)	32,911	45,221	33,375	45,221
Administration and general expenses (iv)	205,965	192,964	205,225	192,908
	<u>598,618</u>	<u>542,760</u>	<u>596,871</u>	<u>542,475</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**24 STAFF COSTS AND OVERHEAD EXPENSES (continued)**

The above expenditure includes the following statutory disclosures:

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Directors' remuneration (Note 25)	3,464	2,410	3,377	2,378
Rental of premises	8,230	4,747	8,139	4,734
Auditors' remuneration	268	238	220	220
Depreciation of property, plant and equipment	32,749	31,219	32,710	31,216
Depreciation of investment property	601	163	601	163
Amortisation of prepaid lease payments	52	71	52	71
Impairment loss on investment property	577	0	577	0
Loss on disposal of property, plant and equipment	144	289	144	289

i) Personnel costs

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Wages, salaries and bonus	212,507	181,530	211,604	181,388
Defined contribution plan (EPF)	35,593	29,881	35,449	29,858
Equity compensation benefits	6,118	3,418	6,115	3,418
Employee benefits	1,015	919	1,008	919
Other personnel costs	42,136	37,042	41,847	36,996
	<u>297,369</u>	<u>252,790</u>	<u>296,023</u>	<u>252,579</u>

Defined contribution plan

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

ii) Establishment costs

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Rental of premises	8,216	4,747	8,139	4,734
Rental of equipment	508	0	508	0
Depreciation of property, plant and equipment	32,749	25,859	32,710	25,856
Depreciation of investment property	601	163	601	163
Amortisation of prepaid lease payments	52	71	52	71
Repair and maintenance	6,836	7,481	6,832	7,480
Others	13,411	13,464	13,406	13,463
	<u>62,373</u>	<u>51,785</u>	<u>62,248</u>	<u>51,767</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**24 STAFF COSTS AND OVERHEAD EXPENSES (continued)****iii) Marketing expenses**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Transport and travelling	8,388	6,951	8,364	6,951
Advertisement and business promotion	22,354	36,120	22,853	36,120
Others	2,169	2,150	2,158	2,150
	<u>32,911</u>	<u>45,221</u>	<u>33,375</u>	<u>45,221</u>

iv) Administration and general expenses

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Printing and stationery	9,798	10,467	9,782	10,466
Postage and courier	6,299	4,575	6,295	4,575
Telephone, telex and fax	8,482	5,553	8,478	5,552
Legal and consultancy fees	5,758	7,888	5,723	7,851
Transaction processing fees*	132,280	120,623	131,822	120,623
Other administrative and general expenses	43,348	43,858	43,125	43,841
	<u>205,965</u>	<u>192,964</u>	<u>205,225</u>	<u>192,908</u>

* Transaction processing fees were incurred for transactions being processed by e2 Power Sdn Bhd, a related company.

25 DIRECTORS' REMUNERATION

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

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Directors of the Bank:				
Executive Director (CEO)^:				
- Salary	976	1,129	976	1,129
- Bonuses	563	413	563	413
- Gratuity	943	0	943	0
- Benefits-in-kind (BIK)	21	35	21	35
- Defined contribution retirement plan (EPF)	246	246	246	246
- Other employee benefits	178	111	178	111
Non-Executive Directors:				
- Fees	471	511	471	479
- Benefits-in-kind (BIK)	32	29	32	29
	<u>3,430</u>	<u>2,474</u>	<u>3,430</u>	<u>2,442</u>

^ Includes remuneration of previous Executive Director (CEO) who resigned during the year.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**25 DIRECTORS' REMUNERATION (continued)**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Directors of subsidiary companies:				
Executive Director (CEO):				
- Salary	47	0	0	0
- Defined contribution retirement plan (EPF)	8	0	0	0
- Other employee benefits	0	0	0	0
Non-Executive Directors:				
- Fees	32	0	0	0
	<u>87</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>3,517</u>	<u>2,474</u>	<u>3,430</u>	<u>2,442</u>
Total excluding BIK	<u>3,464</u>	<u>2,410</u>	<u>3,377</u>	<u>2,378</u>

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

	Group		Bank	
	2008 Number of Directors	2007 Number of Directors	2008 Number of Directors	2007 Number of Directors
<u>Executive</u>				
More than RM50,000 but less than RM100,000	1	0	0	0
More than RM300,000 but less than RM350,000	1	0	1	0
More than RM1,500,000 but less than RM1,550,000	1	1	1	1
<u>Non-executive</u>				
Nil remuneration	8	8	3	3
Less than RM50,000	1	3	0	2
More than RM50,000 but less than RM100,000	3	2	3	2
More than RM250,000 but less than RM300,000	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**26 ALLOWANCE FOR LOSSES ON LOANS, ADVANCES AND FINANCING**

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Allowance for / (write back of) losses on loans, advances and financing:				
Specific allowance				
- Made in the financial year	257,990	248,125	247,581	248,116
- Written back	(142,599)	(229,126)	(141,677)	(229,126)
General allowance - Made in the financial year	57,897	57,712	57,281	57,712
Other allowance	1,222	390	1,224	390
Bad debts and financing				
- Written off	206	246	206	246
- Recovered	(68,683)	(33,294)	(68,391)	(33,203)
	<u>106,033</u>	<u>44,053</u>	<u>96,224</u>	<u>44,135</u>

27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

Related parties of the Bank are as follows:

- (a) Holding company is Oversea-Chinese Banking Corporation Limited;
 - (b) Subsidiary companies of the Bank are as disclosed in Note 9;
 - (c) Other related companies are within the Oversea-Chinese Banking Corporation Limited Group.
 - (d) Key management (including Directors) of the Bank (including their immediate family members) and entities in which they have control, joint control or significant influence.
- (i) The significant related party transactions of the Group during the financial year and balances at balance sheet date are as follows:

Group	Holding Company	Other Related Companies	Key Management
	RM '000	RM '000	RM '000
2008			
Income :			
Interest on deposits and placements	19,077	0	0
Commission income	0	14,839	0
Rental income	0	4,203	0
	<u>19,077</u>	<u>19,042</u>	<u>0</u>
Expenditure :			
Interest on fixed deposits	0	1,511	232
Interest on other deposits	0	2	27
Interest on deposits and placements	83,876	1,591	0
Interest on subordinated term loans	21,128	0	0
Rental expenses	0	602	0
Transaction processing fees	0	132,280	0
	<u>105,004</u>	<u>135,986</u>	<u>259</u>
Reimbursement from various expenses	<u>0</u>	<u>40,045</u>	<u>0</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

<u>Group</u>	Holding Company	Other Related Companies	Key Management
	RM '000	RM '000	RM '000
2008			
Amount due from :			
Current accounts	22,291	0	0
Deposits and placements	411,682	0	0
Interest / profit receivable	830	0	0
	<u>434,803</u>	<u>0</u>	<u>0</u>
Amount due to :			
Current accounts and fixed deposits	7,984	161,029	12,336
Other deposits	0	251	588
Deposits and placements	1,897,408	53,676	0
Subordinated term loan / bonds	361,616	0	0
Transaction processing fees payable	0	458	0
Interest payable	5,455	0	0
	<u>2,272,463</u>	<u>215,414</u>	<u>12,924</u>
Commitments:			
Foreign exchange derivatives	641,716	505	0
Interest rate derivatives	2,426,101	0	0
Equity derivatives	16,120	0	0
Transaction related contingent items	178	0	0
	<u>3,084,115</u>	<u>505</u>	<u>0</u>
2007			
Income :			
Interest on deposits and placements	15,873	0	0
Commission income	0	3,674	0
Rental income	0	5,160	0
	<u>15,873</u>	<u>8,834</u>	<u>0</u>
Expenditure :			
Interest on fixed deposits	0	1,870	209
Interest on other deposits	0	0	46
Interest on deposits and placements	61,910	1,552	0
Interest on subordinated term loans	29,160	0	0
Management fees	0	47	0
Rental expenses	0	603	0
Transaction processing fees	0	120,623	0
	<u>91,070</u>	<u>124,695</u>	<u>255</u>
Reimbursement from various expenses	0	45,532	0

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

Group	Holding Company	Other Related Companies	Key Management
	RM '000	RM '000	RM '000
2007			
Amount due from :			
Current accounts	115,487	0	0
Deposits and placements	603,495	0	0
Interest receivable	3,901	0	0
	<u>722,883</u>	<u>0</u>	<u>0</u>
Amount due to :			
Current accounts and fixed deposits	9,137	102,199	7,897
Other deposits	0	0	1,323
Deposits and placements	981,535	43,386	0
Subordinated term loan / bonds	489,135	0	0
Interest payable	7,572	0	0
	<u>1,487,379</u>	<u>145,585</u>	<u>9,220</u>
Commitments:			
Foreign exchange derivatives	183,597	3,671	0
Interest rate derivatives	1,371,382	0	0
Equity derivatives	29,650	0	0
	<u>1,584,629</u>	<u>3,671</u>	<u>0</u>

- (ii) The significant related party transactions of the Bank during the financial year and balances at balance sheet date are as follows:

Bank	Holding Company	Subsidiary Companies	Other Related Companies	Key Management
	RM '000	RM '000	RM '000	RM '000
2008				
Income :				
Interest on deposits and placements	19,077	0	0	0
Commission income	0	0	14,839	0
Interest on loans and advances	0	146	0	0
Interest on subordinated Islamic bonds	0	923	0	0
Sundry income	0	10,947	0	0
Rental income	0	0	4,203	0
	<u>19,077</u>	<u>12,016</u>	<u>19,042</u>	<u>0</u>
Expenditure :				
Interest on fixed deposits	0	1	1,448	226
Interest on other deposits	0	0	0	27
Interest on deposits and placements	83,876	0	1,591	0
Interest on subordinated term loans	21,128	0	0	0
Interest on loans and advances	0	13	0	0
Rental expenses	0	0	602	0
Transaction processing fees	0	0	131,822	0
	<u>105,004</u>	<u>14</u>	<u>135,463</u>	<u>253</u>
Reimbursement from various expenses	<u>0</u>	<u>0</u>	<u>40,045</u>	<u>0</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

Bank	Holding Company	Subsidiary Companies	Other Related Companies	Key Management
	RM '000	RM '000	RM '000	RM '000
2008				
Amount due from :				
Current accounts	22,291	0	0	0
Deposits and placements	411,664	0	0	0
Interest / profit receivable	830	923	0	0
Subordinated Islamic bonds	0	200,000	0	0
Loans and advances	0	40,000	0	0
Others	0	26,734	0	0
	<u>434,785</u>	<u>267,657</u>	<u>0</u>	<u>0</u>
Amount due to :				
Current accounts and fixed deposits	7,984	14,236	143,060	10,211
Other deposits	0	0	0	576
Deposits and placements	1,897,408	0	53,676	0
Subordinated term loan / bonds	361,616	0	0	0
Loans and advances	0	45,946	0	0
Interest payable	5,455	0	0	0
	<u>2,272,463</u>	<u>60,182</u>	<u>196,736</u>	<u>10,787</u>
Commitments:				
Foreign exchange derivatives	641,716	0	505	0
Interest rate derivatives	2,426,101	0	0	0
Equity derivatives	16,120	0	0	0
	<u>3,083,937</u>	<u>0</u>	<u>505</u>	<u>0</u>
2007				
Income :				
Interest on deposits and placements	15,873	0	0	0
Commission income	0	0	3,674	0
Rental income	0	0	5,160	0
	<u>15,873</u>	<u>0</u>	<u>8,834</u>	<u>0</u>
Expenditure :				
Interest on fixed deposits	0	332	1,870	209
Interest on other deposits	0	0	0	46
Interest on deposits and placements	61,910	0	1,552	0
Interest on subordinated term loans	29,160	0	0	0
Interest on loans and advances	0	20	0	0
Management fees	0	0	47	0
Rental expenses	0	0	603	0
Transaction processing fees	0	0	120,623	0
	<u>91,070</u>	<u>352</u>	<u>124,695</u>	<u>255</u>
Reimbursement from various expenses	0	0	45,532	0

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

<u>Bank</u>	Holding Company	Subsidiary Companies	Other Related Companies	Key Management
	RM '000	RM '000	RM '000	RM '000
Amount due from :				
Current accounts	115,487	0	0	0
Deposits and placements	603,495	0	0	0
Interest receivable	3,901	0	0	0
	<u>722,883</u>	<u>0</u>	<u>0</u>	<u>0</u>
Amount due to :				
Current accounts and fixed deposits	9,137	14,655	102,199	7,897
Other deposits	0	0	0	1,323
Deposits and placements	981,535	0	43,386	0
Subordinated term loan / bonds	489,135	0	0	0
Loans and advances	0	198	0	0
Interest payable	7,572	0	0	0
	<u>1,487,379</u>	<u>14,853</u>	<u>145,585</u>	<u>9,220</u>
Commitments:				
Foreign exchange derivatives	183,597	0	3,671	0
Interest rate derivatives	1,371,382	0	0	0
Equity derivatives	29,650	0	0	0
	<u>1,584,629</u>	<u>0</u>	<u>3,671</u>	<u>0</u>

Interest rates on all related party transactions arising from the ordinary course of business 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 2008 (continued)**27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

ii) Credit exposure arising from credit transactions with connected parties

The following disclosure information are made pursuant to the revised BNM "Guidelines on Credit Transactions and Exposures with Connected Parties":

<u>Group</u>	Credit facility and leasing (except guarantee) RM'000	Off balance sheet exposures# RM'000	Total RM'000
Aggregate value of outstanding credit exposure with connected parties [^]	<u>76,297</u>	<u>2,647,380</u>	<u>2,723,677</u>
Total exposure to connected parties as a proportion of total credit exposures			<u>6.51%</u>
Percentage of outstanding credit exposure with connected parties which is non-performing or in default			<u>0.00%</u>
<u>Bank</u>	Credit facility and leasing (except guarantee) RM'000	Off balance sheet exposures# RM'000	Total RM'000
Aggregate value of outstanding credit exposure with connected parties [^]	<u>76,038</u>	<u>2,647,380</u>	<u>2,723,418</u>
Total exposure to connected parties as a proportion of total credit exposures			<u>6.94%</u>
Percentage of outstanding credit exposure with connected parties which is non-performing or in default			<u>0.00%</u>

[^] Comprise of total outstanding balance and unutilised limit

[#] Off balance sheet transactions that give rise to credit and/or counterparty risk.

iii) Key management personnel compensation

	<u>Group</u>		<u>Bank</u>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Short-term employee benefits	11,533	12,782	11,400	12,782
Post employment benefits	0	131	0	131
Other long-term benefits	2	3	2	3
Termination benefits	0	232	0	232
Share-based benefits	547	1,237	546	1,237
	<u>12,082</u>	<u>14,385</u>	<u>11,948</u>	<u>14,385</u>

Key management personnel comprise persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly, including Directors of the Bank. Included in the above are Directors' remuneration which is disclosed in Note 25.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**28 TAXATION (continued)**

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax				
- current year	236,595	202,260	236,676	202,183
- overprovision in prior year	(9,072)	0	(9,072)	0
Deferred taxation :				
- relating to originating and reversal of temporary differences	(15,798)	(4,295)	(15,201)	(4,289)
- relating to changes in tax rates	2,881	8,457	4,550	8,478
- underprovision in prior year	7,822	0	7,822	0
Total charged to income statements (Note 14)	(5,095)	4,162	(2,829)	4,189
	<u>222,428</u>	<u>206,422</u>	<u>224,775</u>	<u>206,372</u>

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

	Group		Bank	
	2008	2007	2008	2007
	%	%	%	%
Malaysian tax rate of 26% (2007: 27%)	26.0	27.0	26.0	27.0
Tax effects of:				
Expenses not deductible for tax purposes	0.0	0.7	0.5	0.7
Income not subject to tax	(0.1)	(0.2)	(0.3)	(0.2)
Deferred tax relating to changes in tax rate	0.7	1.2	0.5	1.2
Prior year (over)/under provision				
- income tax	(0.3)	0.0	(1.1)	0.0
- deferred taxation	0.2	0.0	0.9	0.0
Average effective tax rate	<u>26.5</u>	<u>28.7</u>	<u>26.5</u>	<u>28.7</u>

With effect from year of assessment 2008, corporate tax rate is at 26%. (2007: 27%) The Malaysian Budget 2009 also announced the reduction of corporate tax rate to 25% with effect from year of assessment 2009. The computation of deferred tax as at 31 December 2008 has reflected these changes.

29 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 RM598,485,000 and RM605,540,000 respectively (2007: RM493,996,000 and RM493,897,000) and on the 287,500,000 (2007: 287,500,000) ordinary shares of RM1.00 each in issue during the financial year.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**30 DIVIDENDS**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
In respect of previous financial year:				
Final dividend of 20.0 sen (2007: 95.0 sen)				
less income tax at 26% (2007: 27%)	42,550	199,381	42,550	199,381
Interim dividend of 20.0 sen less income tax				
at 27%	0	41,975	0	41,975
Dividends paid on preference shares	18,090	18,040	18,090	18,040

The net cash dividend of 4.51% (on the issue price) amounting to RM8.95 million to the preference shareholders in respect of the financial year ended 31 December 2008 will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2009 when declared by the Board of Directors and approved by Bank Negara Malaysia.

31 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 18), no material losses are anticipated as a result of these transactions.

Group	31 December 2008			31 December 2007		
	Principal	Credit	Risk	Principal	Credit	Risk
	Amount RM'000	Equivalent Amount* RM'000	Weighted Amount RM'000	Amount RM'000	Equivalent Amount* RM'000	Weighted Amount RM'000
Direct credit substitutes	861,930	861,930	858,654	1,119,803	1,119,803	1,114,337
Transaction-related contingent items	1,471,531	735,766	703,771	1,172,085	586,042	559,760
Short-term self-liquidating trade-related contingencies	207,425	41,485	41,427	413,645	82,729	82,618
Obligations under underwriting agreement	116,000	58,000	58,000	76,000	38,000	38,000
Irrevocable commitments to extend credit:						
- maturity exceeding one year	8,553,412	0	0	8,835,582	4,417,791	4,417,791
- maturity not exceeding one year	9,744,501	4,872,251	4,872,251	7,894,166	0	0
Foreign exchange related contracts						
- less than one year	17,959,119	598,281	192,371	12,726,356	239,586	66,171
- one year to less than five years	1,557,177	204,498	64,995	467,519	64,310	17,762
- five years and above	813,476	145,027	46,632	97,763	14,665	4,050
Interest rate contracts						
- less than one year	8,976,652	37,642	10,202	5,859,413	16,664	4,352
- one year to less than five years	20,840,496	994,719	269,590	19,237,098	535,190	139,777
- five years and above	1,395,113	118,046	31,993	1,177,772	95,811	25,023
Equity and commodity related contracts	1,042,586	125,602	31,546	358,023	74,853	41,453
Miscellaneous	76,290	0	0	133,602	0	0
Total	73,615,708	8,793,247	7,181,432	59,568,827	7,285,444	6,511,094

*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 2008 (continued)**31 COMMITMENTS AND CONTINGENCIES (continued)**

	31 December 2008			31 December 2007		
	Principal Amount RM'000	Credit	Risk	Principal Amount RM'000	Credit	Risk
		Equivalent Amount* RM'000	Weighted Amount RM'000		Equivalent Amount* RM'000	Weighted Amount RM'000
Bank						
Direct credit substitutes	811,860	811,860	808,584	1,119,803	1,119,803	1,114,337
Transaction-related contingent items	1,404,722	702,361	670,366	1,172,085	586,042	559,760
Short-term self-liquidating trade-related contingencies	159,439	31,888	31,830	413,645	82,729	82,618
Obligations under underwriting agreement	116,000	58,000	58,000	76,000	38,000	38,000
Irrevocable commitments to extend credit:						
- maturity exceeding one year	8,449,200	0	0	8,835,582	4,417,791	4,417,791
- maturity not exceeding one year	9,402,265	4,701,133	4,701,133	7,894,166	0	0
Foreign exchange related contracts						
- less than one year	17,959,119	598,281	192,371	12,726,356	239,586	66,171
- one year to less than five years	1,452,458	198,051	63,681	467,519	64,310	17,762
- five years and above	813,476	145,027	46,632	97,763	14,665	4,050
Interest rate contracts						
- less than one year	8,976,652	37,642	10,202	5,859,413	16,664	4,352
- one year to less than five years	20,840,496	994,719	269,590	19,237,098	535,190	139,777
- five years and above	1,395,113	118,046	31,993	1,177,772	95,811	25,023
Equity and commodity related contracts	964,868	122,111	29,800	358,023	74,853	41,453
Miscellaneous	76,290	0	0	133,602	0	0
Total	72,821,958	8,519,119	6,914,182	59,568,827	7,285,444	6,511,094

*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 2008 (continued)**32 LEASE COMMITMENTS**

The Group and the Bank have 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 :-

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Less than one year	9,905	3,691	9,376	3,691
One to five years	11,426	3,373	10,585	3,373
	<u>21,331</u>	<u>7,064</u>	<u>19,961</u>	<u>7,064</u>

33 CAPITAL COMMITMENTS

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Capital expenditure in respect of property, plant and equipment:-				
- authorised and contracted for	24,081	24,437	19,775	24,437
- authorised but not contracted for	25,623	63,000	10,391	63,000
	<u>49,704</u>	<u>87,437</u>	<u>30,166</u>	<u>87,437</u>

34 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 Group. Oversight of the credit risk is the responsibility of the Credit Risk Management function within the Group, 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 Department at Head Office whilst retail and consumer NPLs are overseen by the Collections Department at Head Office.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market Risk Management

Market risk is defined as the uncertainty in the future values of the Group'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, the Board Risk Committee and the CEO in discharging their market risk management oversight responsibilities. The ALCO includes senior representatives from both the business, risk and support units, and is responsible for developing the Group'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 Group'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 operationalising the market risk management framework as endorsed by ALCO and Board Risk Committee.

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, Board Risk Committee and the CEO, the policies and procedures provide guidance on the oversight and management of the Group's market risk. Controls and clear communications are in place to ensure that all business activities conform to the Group'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 – The Value-at-Risk ("VaR") methodology is the primary market risk measure for the Group's trading activities. The Board Risk Committee agrees on an aggregate market risk appetite based on VaR. VaR is measured and monitored by 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 Group adopts the historical simulation approach to measuring the VaR, applied against a 1-day holding-period at a 99% confidence level. The Group prefers historical simulation as it involves fewer assumptions on the distribution of trading profitability compared to other approaches. As VaR is a statistical measure based on historical market fluctuations, it might not accurately predict forward-looking market conditions. Furthermore, VaR only reflects the potential risk of loss arising from normal market conditions, based on recent market experience.

Stress Testing

To augment VaR, the Group performs stress testing and scenario analysis to better quantify and assess potential losses arising from low probability but plausible extreme market conditions. Stress tests and scenario analyses provide insights into the impact on the Group's portfolio as a result of abnormal market conditions. The stress scenarios are continually reviewed and fine-tuned to ensure they stay relevant to the Group's risk profile and the prevailing economic conditions. The main objective of these analyses is to determine if potential losses from such extreme market are within the Group's risk tolerance and capital level.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market Risk Management (continued)

Other Risk Measures

As the Group's main market risk is interest rate fluctuations, Present Value of a Basis Point ("PV01"), which measures the change in value of interest rate sensitive exposures resulting from one basis point increase across the entire yield curve, is an additional measure monitored on a daily basis.

Other than VaR and PV01, the Group also utilises other risk metrics such as notional amounts and derivative greeks for specific exposure types, where appropriate, to supplement its risk measurements. Limits are set based on the above-mentioned risk measures at various levels (business unit, trading desk, etc.), and are all monitored independently.

Back-Testing

To ensure the continual integrity of the VaR model, the Group conducts back-testing to confirm the consistency of actual daily trading profits and losses ("P&L") against the statistical assumptions of the model. To enhance the back-testing process, theoretical P&L are also computed by marking to market the same set of positions as used for the VaR calculations.

Independent Model Review

The Group trades financial instruments that require statistical pricing models for valuation, for which no quoted market prices are readily available. These models are used for the purposes of marking-to-market as well as risk reporting. The Group ensures the accuracy, appropriateness and consistency of the models using an independent review process, which is supported by a team of quantitative analysts from the holding company. The review process involves verifying the parameters, assumptions and robustness associated with each model before it can be commissioned for use.

Asset and Liability Management (ALM)

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

Asset and Liability Management Framework

The Group's Asset Liability Management framework consists of 3 components:

1. Interest Rate Risk Management
2. Liquidity Risk Management
3. Currency Risk Management

Interest Rate Risk

The main market risk faced by the Group 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 Group's assets and liabilities and the PV01 reports identify the parts of the yield curve where the Group is most vulnerable to changes in interest rates.

The Group does Net Interest Income (NII) simulation based on various interest rate scenarios and periodically backtest the projections against actual results to ascertain the reasonability in underlying scenario assumptions.

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Asset and Liability Management (ALM) (continued)

Liquidity Risk

The objective of liquidity management is to ensure that the Group has sufficient funds to meet its contractual and regulatory financial obligations at all times. The Group'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 Group frequently accesses the wholesale financial markets to ensure the availability of funds.

The liquidity management process includes projecting cash flows via Maximum Cash Outflow model ("MCO") by major currencies; monitoring liquidity ratios (e.g. Loans to 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 Group 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 Group exposes itself to foreign exchange risk. Foreign exchange ("FX") 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.

Financial Derivatives

Financial derivatives are off-balance sheet financial instruments, which include Interest Rate Swap and Interest Rate Option, Currency Options and Forward, Equity Option and Exchange Traded Futures Contracts. These instruments allow the Group and its customers to transfer, modify or reduce their foreign exchange, equity 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 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.

Currency options are offered to customer in the forms of various Forex option strategies, such as Ratio Forwards, Enhanced Spot and Forward, Rebate Forwards and Range Forwards. These strategies allows customer to better manage their Foreign Exchange Risk exposures.

Currency options are also used to create Structured Investment products.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial Derivatives (continued)

Interest Rate Derivatives are interest rate related contracts undertaken by the Group, which include interest rate swaps, caps, floors, cross currency interest rate swap 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.

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.

Cross Currency Interest Rate Swap are used to hedge currency risk of long term liabilities or asset denominated in foreign currencies.

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.

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.

Equity Derivatives comprise of options of equity indices or option on single stocks. The options are usually embedded in Structured Investment Products. Principal Protected products enable investors to participate in upward movement equity indices, while maintaining 100% principal protection.

Non principal protected Equity linked Products are shorter dated product which can potentially gives the investors a very high yield in the short term, in return for the higher risk of such products.

In addition the Group also trades in OTC Equity Options with interbank counterparties.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**35 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 interest sensitivity 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.

<u>Group</u>	← Non Trading Book →						Non-interest sensitive	Trading Book	Total	Average interest rate
	Up to 1 month	>1-3 months	>3-12 months	>1-5 years	Over 5 years					
As at 31 December 2008	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Assets										
Cash and short-term funds	4,192,299	0	0	0	0	181,765	0	4,374,064	3.59	
Deposits and placements with banks and other financial institutions	86,584	1,083,737	60,292	0	0	0	0	1,230,613	3.59	
Held-for-trading securities	0	0	0	0	0	0	581,784	581,784	4.62	
Available-for-sale securities	79,210	2,297,177	733,277	3,213,187	2,145,312	109,606 [^]	0	8,577,769	3.93	
Loans, advances and Financing										
- performing	24,427,833	1,218,777	917,954	1,124,856	311,942	1,564,383 [*]	0	29,565,745	6.08	
- non-performing	0	0	0	0	0	608,688 [#]	0	608,688	-	
Other assets	0	0	0	0	0	661,584	984,837	1,646,421	-	
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	937,608	0	937,608	-	
Property, plant and equipment	0	0	0	0	0	255,933	0	255,933	-	
Investment property	0	0	0	0	0	12,358	0	12,358	-	
Prepaid lease payment	0	0	0	0	0	2,929	0	2,929	-	
Non-current assets held for sale	0	0	0	0	0	0	0	0	-	
Deferred taxation asset	0	0	0	0	0	78,980	0	78,980	-	
Total assets	28,785,926	4,599,691	1,711,523	4,338,043	2,457,254	4,413,834	1,566,621	47,872,892		
Liabilities										
Deposits from customers	19,208,144	5,180,761	7,699,985	1,016,575	0	3,583,520	0	36,688,985	2.86	
Deposits and placements of banks and other financial institutions	3,508,477	112,386	4,989	87,263	146,831	0	0	3,859,946	2.54	
Bills and acceptances payable	14,102	0	0	0	0	1,431,979	0	1,446,081	-	
Amount due to Cagamas	0	45,457	22,683	367,187	0	0	0	435,327	4.13	
Subordinated term loan / bonds	0	0	76,232	304,930	600,000	0	0	981,162	5.12	
Other liabilities	0	0	0	0	0	588,770	685,043	1,273,813	-	
Taxation and zakat	0	0	0	0	0	61,340	0	61,340	-	
Total liabilities	22,730,723	5,338,604	7,803,889	1,775,955	746,831	5,665,609	685,043	44,746,654		
On-balance sheet interest sensitivity gap	6,055,203	(738,913)	(6,092,366)	2,562,088	1,710,423	(1,251,775)	881,578	3,126,238		
Off-balance sheet interest sensitivity gap	0	(746,338)	69,268	677,070	0	0	0	0		
Total interest sensitivity gap	6,055,203	(1,485,251)	(6,023,098)	3,239,158	1,710,423	(1,251,775)	881,578	3,126,238		

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**35 INTEREST / PROFIT RATE RISK (continued)****Bank**

As at 31 December 2008	Non Trading Book					Non-interest sensitive	Trading Book	Total	Average interest rate
	Up to 1 Month	>1-3 months	>3-12 months	>1-5 years	Over 5 years				
Assets	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Cash and short-term funds	3,539,229	0	0	0	0	178,200	0	3,717,429	3.61
Deposits and placements with banks and other financial institutions	86,584	1,083,737	60,292	0	0	0	0	1,230,613	3.61
Held-for-trading securities	0	0	0	0	0	0	581,784	581,784	4.62
Available-for-sale securities	4,927	2,227,151	673,185	2,903,411	1,826,361	109,606 [^]	0	7,744,641	3.96
Loans, advances and Financing									
- performing	24,093,812	867,880	492,179	349,935	41,986	1,598,045 [*]	0	27,443,837	6.06
- non-performing	0	0	0	0	0	600,333 [#]	0	600,333	-
Other assets	0	0	0	0	0	914,761	983,960	1,898,721	-
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	853,608	0	853,608	-
Investment in subsidiary companies	0	0	0	0	0	196,611	0	196,611	-
Property, plant and equipment	0	0	0	0	0	253,994	0	253,994	-
Investment property	0	0	0	0	0	12,358	0	12,358	-
Prepaid lease payment	0	0	0	0	0	2,929	0	2,929	-
Non-current assets held for sale	0	0	0	0	0	0	0	0	-
Deferred taxation asset	0	0	0	0	0	66,627	0	66,627	-
Total assets	27,724,552	4,178,768	1,225,656	3,253,346	1,868,347	4,787,072	1,565,744	44,603,485	
Liabilities									
Deposits from customers	17,405,770	4,667,435	7,424,816	916,443	0	3,552,810	0	33,967,274	2.88
Deposits and placements of banks and other financial institutions	3,254,677	52,387	4,989	87,263	146,830	0	0	3,546,146	2.45
Bills and acceptances payable	0	0	0	0	0	1,431,979	0	1,431,979	-
Amount due to Cagamas	0	45,457	22,683	367,187	0	0	0	435,327	4.13
Subordinated term loan / bonds	0	0	76,232	304,930	600,000	0	0	981,162	5.06
Other liabilities	0	0	0	0	0	383,930	684,166	1,068,096	-
Taxation and zakat	0	0	0	0	0	61,325	0	61,325	-
Total liabilities	20,660,447	4,765,279	7,528,720	1,675,823	746,830	5,430,044	684,166	41,491,309	
On-balance sheet interest sensitivity gap	7,064,105	(586,511)	(6,303,064)	1,577,523	1,121,517	(642,972)	881,578	3,112,176	
Off-balance sheet interest sensitivity gap	0	(746,338)	69,268	677,070	0	0	0	0	
Total interest sensitivity gap	7,064,105	(1,332,849)	(6,233,796)	2,254,593	1,121,517	(642,972)	881,578	3,112,176	

[^] The amount includes allowance for diminution in value of investment securities in accordance with the Group's accounting policy amounting to RM759,000 for Group and Bank.

^{*} The amount includes general allowance for loans, advances and financing in accordance with the Group's accounting policy amounting to RM460,009,000 for Group and RM426,477,000 for Bank.

[#] The amount includes specific allowance for loans, advances and financing in accordance with the Group's accounting policy amounting to RM449,277,000 for Group and RM413,155,000 for Bank.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**35 INTEREST / PROFIT RATE RISK (continued)****Group**

As at 31 December 2007	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			
Assets	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Cash and short-term funds	5,540,690	0	0	0	0	95,425	0	5,636,115	4.08
Securities purchased under resale agreements	181,828	176,516	0	0	0	0	0	358,344	3.55
Deposits and placements with banks and other financial institutions	0	142,990	87,409	0	0	0	0	230,399	4.08
Held-for-trading securities	0	0	0	0	0	0	1,872,798	1,872,798	4.20
Available-for-sale securities	200,000	593,670	364,153	3,870,549	682,323	139,328 [^]	0	5,850,023	4.02
Loans, advances and financing									
- performing	20,713,714	1,600,222	538,835	1,228,642	222,505	1,618,465 [*]	0	25,922,383	6.02
- non-performing	0	0	0	0	0	689,547 [#]	0	689,547	-
Other assets	0	0	0	0	0	179,790	261,512	441,302	-
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	843,608	0	843,608	-
Property, plant and equipment	0	0	0	0	0	226,039	0	226,039	-
Investment property	0	0	0	0	0	10,066	0	10,066	-
Prepaid lease payment	0	0	0	0	0	2,981	0	2,981	-
Non-current assets held for sale	0	0	0	0	0	2,092	0	2,092	-
Deferred taxation asset	0	0	0	0	0	100,056	0	100,056	-
Total assets	26,636,232	2,513,398	990,397	5,099,191	904,828	3,907,397	2,134,310	42,185,753	
Liabilities									
Deposits from customers	15,404,972	5,428,247	6,243,058	552,199	0	3,839,490	0	31,467,966	2.94
Deposits and placements of banks and other financial institutions	3,799,498	57,401	34,763	60,659	111,947	0	0	4,064,268	3.98
Bills and acceptances payable	0	0	0	0	0	1,682,232	0	1,682,232	-
Amount due to Cagamas	0	0	144,644	440,454	43,582	0	0	628,680	4.30
Subordinated term loan / bonds	0	0	0	358,754	730,456	0	0	1,089,210	5.59
Other liabilities	0	0	0	0	0	483,970	218,407	702,377	-
Taxation and zakat	0	0	0	0	0	65,637	0	65,637	-
Total liabilities	19,204,470	5,485,648	6,422,465	1,412,066	885,985	6,071,329	218,407	39,700,370	
On-balance sheet interest sensitivity gap	7,431,762	(2,972,250)	(5,432,068)	3,687,125	18,843	(2,163,932)	1,915,903	2,485,383	
Off-balance sheet interest sensitivity gap	(90,000)	(165,346)	(330,693)	453,762	132,277	0	0	0	
Total interest sensitivity gap	7,341,762	(3,137,596)	(5,762,761)	4,140,887	151,120	(2,163,932)	1,915,903	2,485,383	

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**35 INTEREST / PROFIT RATE RISK (continued)****Bank**

As at 31 December 2007	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			
Assets	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Cash and short-term funds	5,540,690	0	0	0	0	95,425	0	5,636,115	4.08
Securities purchased under resale agreements	181,828	176,516	0	0	0	0	0	358,344	3.55
Deposits and placements with banks and other financial institutions	0	142,990	87,409	0	0	0	0	230,399	4.08
Held-for-trading securities	0	0	0	0	0	0	1,872,798	1,872,798	4.20
Available-for-sale securities	200,000	593,670	364,153	3,870,549	682,323	139,328 [^]	0	5,850,023	4.02
Loans, advances and Financing									
- performing	20,713,714	1,600,222	538,835	1,228,466	222,484	1,618,479 [*]	0	25,922,200	6.02
- non-performing	0	0	0	0	0	689,547 [#]	0	689,547	-
Other assets	0	0	0	0	0	179,788	261,512	441,300	-
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	843,608	0	843,608	-
Investment in subsidiary companies	0	0	0	0	0	1,611	0	1,611	-
Property, plant and equipment	0	0	0	0	0	226,031	0	226,031	-
Investment property	0	0	0	0	0	10,066	0	10,066	-
Prepaid lease payment	0	0	0	0	0	2,981	0	2,981	-
Non-current assets held for sale	0	0	0	0	0	2,092	0	2,092	-
Deferred taxation asset	0	0	0	0	0	100,345	0	100,345	-
Total assets	26,636,232	2,513,398	990,397	5,099,015	904,807	3,909,301	2,134,310	42,187,460	
Liabilities									
Deposits from customers	15,404,972	5,428,247	6,243,078	552,199	0	3,854,125	0	31,482,621	2.94
Deposits and placements of banks and other financial institutions	3,799,498	57,401	34,763	60,659	111,947	0	0	4,064,268	3.98
Bills and acceptances payable	0	0	0	0	0	1,682,232	0	1,682,232	-
Amount due to Cagamas	0	0	144,644	440,454	43,582	0	0	628,680	4.30
Subordinated term loan / bonds	0	0	0	358,754	730,456	0	0	1,089,210	5.59
Other liabilities	0	0	0	0	0	483,833	218,407	702,240	-
Taxation and zakat	0	0	0	0	0	65,556	0	65,556	-
Total liabilities	19,204,470	5,485,648	6,422,485	1,412,066	885,985	6,085,746	218,407	39,714,807	
On-balance sheet interest sensitivity gap	7,431,762	(2,972,250)	(5,432,088)	3,686,949	18,822	(2,176,445)	1,915,903	2,472,653	
Off-balance sheet interest sensitivity gap	(90,000)	(165,346)	(330,693)	453,762	132,277	0	0	0	
Total interest sensitivity gap	7,341,762	(3,137,596)	(5,762,781)	4,140,711	151,099	(2,176,445)	1,915,903	2,472,653	

[^] The amount includes allowance for diminution in value of investment securities in accordance with the Group's accounting policy amounting to RM6,421,000 for Group and Bank.

^{*} The amount includes general allowance for loans, advances and financing in accordance with the Group's accounting policy amounting to RM402,112,000 for Group and RM402,097,000 for Bank.

[#] The amount includes specific allowance for loans, advances and financing in accordance with the Group's accounting policy amounting to RM418,833,000 for Group and RM418,305,000 for Bank.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)

35 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 Group'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 RM746.3 million (2007: RM586.0 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 Group's fixed rate borrowings at balance sheet date was 5.1% (2007: 5.5%) per annum. After the interest rate swap, the Group's weighted average interest rate at balance sheet date was 4.9% (2007: 7.2%) per annum.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**36 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

As at 31 December 2008	Up to 3 Months	> 3-6 Months	>6-12 Months	>1-3 Years	>3-5 Years	Over 5 Years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets							
Cash and short-term funds	4,374,064	0	0	0	0	0	4,374,064
Securities purchased under resale agreements	0	0	0	0	0	0	0
Deposits and placements with banks and other financial institutions	1,170,322	60,291	0	0	0	0	1,230,613
Held-for-trading securities	76,055	107,691	10,033	122,374	46,324	219,307	581,784
Available-for-sale securities	2,376,386	267,358	465,919	1,763,298	1,449,836	2,254,972	8,577,769
Loans, advances and financing	8,628,874	1,582,164	1,755,728	5,139,771	2,428,584	10,639,312	30,174,433
Other assets	855,850	78,744	88,459	623,368	0	0	1,646,421
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	937,608	937,608
Property, plant and equipment	0	0	0	0	0	255,933	255,933
Investment property	0	0	0	0	0	12,358	12,358
Prepaid lease payments	0	0	0	0	0	2,929	2,929
Non-current assets held for sale	0	0	0	0	0	0	0
Deferred taxation asset	0	0	0	78,980	0	0	78,980
Total assets	17,481,551	2,096,248	2,320,139	7,727,791	3,924,744	14,322,419	47,872,892
Liabilities							
Deposits from customers	27,972,424	2,750,294	4,949,691	689,917	326,659	0	36,688,985
Deposits and placements of banks and other financial institutions	3,620,863	1,713	3,277	18,303	68,960	146,830	3,859,946
Bills and acceptances payable	1,344,080	103,001	0	(1,000)	0	0	1,446,081
Amount due to Cagamas	45,457	7,484	15,199	303,216	63,971	0	435,327
Subordinated term loan / bonds	0	69,268	34,824	138,535	138,535	600,000	981,162
Other liabilities	347,661	359,117	82,542	484,316	177	0	1,273,813
Taxation and zakat	0	0	0	61,340	0	0	61,340
Total liabilities	33,330,485	3,290,877	5,085,533	1,694,627	598,302	746,830	44,746,654
Net Liquidity gap	(15,848,934)	(1,194,629)	(2,765,394)	6,033,164	3,326,442	13,575,589	3,126,238

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**36 LIQUIDITY RISK (continued)****Bank**

As at 31 December 2008	Up to 3 Months	>3 -6 Months	>6-12 Months	>1-3 Years	>3-5 Years	Over 5 Years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets							
Cash and short term-funds	3,717,429	0	0	0	0	0	3,717,429
Securities purchased under resale agreements	0	0	0	0	0	0	0
Deposits and placements with banks and other financial institutions	1,170,322	60,291	0	0	0	0	1,230,613
Held-for-trading securities	76,055	107,691	10,033	122,374	46,323	219,308	581,784
Available-for-sale securities	2,232,077	227,382	445,803	1,742,720	1,160,638	1,936,021	7,744,641
Loans, advances and financing	7,969,118	1,408,215	1,503,922	4,708,243	2,085,316	10,369,356	28,044,170
Other assets	920,695	78,517	88,169	611,340	0	200,000	1,898,721
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	853,608	853,608
Investment in subsidiary companies	0	0	0	0	0	196,611	196,611
Property, plant and equipment	0	0	0	0	0	253,994	253,994
Investment property	0	0	0	0	0	12,358	12,358
Prepaid lease payments	0	0	0	0	0	2,929	2,929
Non-current assets held for sale	0	0	0	0	0	0	0
Deferred taxation asset	0	0	0	66,627	0	0	66,627
Total assets	16,085,696	1,882,096	2,047,927	7,251,304	3,292,277	14,044,185	44,603,485
Liabilities							
Deposits from customers	25,626,014	2,584,452	4,840,364	601,145	315,299	0	33,967,274
Deposits and placements of banks and other financial institutions	3,307,063	1,713	3,277	18,303	68,960	146,830	3,546,146
Bills and acceptances payable	1,329,978	103,001	(1,000)	0	0	0	1,431,979
Amount due to Cagamas	45,457	7,484	15,199	303,216	63,971	0	435,327
Subordinated term loan / bonds	0	69,268	34,824	138,535	138,535	600,000	981,162
Other liabilities	409,913	138,115	75,745	444,146	177	0	1,068,096
Taxation and zakat	0	0	0	61,325	0	0	61,325
Total liabilities	30,718,425	2,904,033	4,968,409	1,566,670	586,942	746,830	41,491,309
Net Liquidity gap	(14,632,729)	(1,021,937)	(2,920,482)	5,684,634	2,705,335	13,297,355	3,112,176

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**36 LIQUIDITY RISK (continued)****Group**

As at 31 December 2007	Up to 3 Months	> 3 -6 Months	>6-12 Months	>1-3 Years	>3-5 Years	Over 5 Years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets							
Cash and short term-funds	5,636,115	0	0	0	0	0	5,636,115
Securities purchased under resale agreements	358,344	0	0	0	0	0	358,344
Deposits and placements with banks and financial institutions	142,990	87,409	0	0	0	0	230,399
Held-for-trading securities	100,424	229,667	113,492	133,257	396,521	899,437	1,872,798
Available-for-sale securities	793,670	96,166	267,987	1,861,528	2,008,968	821,704	5,850,023
Loans, advances and financing	7,732,134	1,526,259	1,448,662	4,899,542	2,160,318	8,845,015	26,611,930
Other assets	155,557	28,211	15,771	237,436	26	4,301	441,302
Statutory deposits with							
Bank Negara Malaysia	0	0	0	0	0	843,608	843,608
Property, plant and equipment	0	0	0	0	0	226,039	226,039
Investment property	0	0	0	0	0	10,066	10,066
Prepaid lease payments	0	0	0	0	0	2,981	2,981
Non-current assets held for sale	0	0	0	0	0	2,092	2,092
Deferred taxation asset	0	0	0	100,056	0	0	100,056
Total assets	14,919,234	1,967,712	1,845,912	7,231,819	4,565,833	11,655,243	42,185,753
Liabilities							
Deposits from customers	24,672,710	2,745,644	3,594,262	287,224	168,126	0	31,467,966
Deposits and placements of banks and other financial institutions	3,856,899	31,154	3,609	6,602	54,057	111,947	4,064,268
Bills and acceptances payables	1,534,272	147,960	0	0	0	0	1,682,232
Amount due to Cagamas	0	144,644	0	98,559	341,895	43,582	628,680
Subordinated term loan / bonds	0	0	0	163,070	195,684	730,456	1,089,210
Other liabilities	405,518	65,806	51,485	179,568	0	0	702,377
Taxation and zakat	0	0	0	65,637	0	0	65,637
Total liabilities	30,469,399	3,135,208	3,649,356	800,660	759,762	885,985	39,700,370
Net Liquidity gap	(15,550,165)	(1,167,496)	(1,803,444)	6,431,159	3,806,071	10,769,258	2,485,383

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**36 LIQUIDITY RISK (continued)****Bank**

As at 31 December 2007	Up to 3 Months	>3 -6 Months	>6-12 Months	>1-3 Years	>3-5 Years	Over 5 Years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets							
Cash and short term-funds	5,636,115	0	0	0	0	0	5,636,115
Securities purchased under resale agreements	358,344	0	0	0	0	0	358,344
Deposits and placements with banks and other financial institutions	142,990	87,409	0	0	0	0	230,399
Held-for-trading securities	100,424	229,667	113,492	133,257	396,521	899,437	1,872,798
Available-for-sale securities	793,670	96,166	267,987	1,861,528	2,008,968	821,704	5,850,023
Loans, advances and financing	7,732,134	1,526,259	1,448,662	4,899,475	2,160,209	8,845,008	26,611,747
Other assets	155,557	28,211	15,769	237,436	26	4,301	441,300
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	843,608	843,608
Investment in subsidiary companies	0	0	0	0	0	1,611	1,611
Property, plant and equipment	0	0	0	0	0	226,031	226,031
Investment property	0	0	0	0	0	10,066	10,066
Prepaid lease payments	0	0	0	0	0	2,981	2,981
Non-current assets held for sale	0	0	0	0	0	2,092	2,092
Deferred taxation asset	0	0	0	100,345	0	0	100,345
Total assets	14,919,234	1,967,712	1,845,910	7,232,041	4,565,724	11,656,839	42,187,460
Liabilities							
Deposits from customers	24,687,345	2,745,664	3,594,262	287,224	168,126	0	31,482,621
Deposits and placements of banks and other financial institutions	3,856,899	31,154	3,609	6,602	54,057	111,947	4,064,268
Bills and acceptances payable	1,534,272	147,960	0	0	0	0	1,682,232
Amount due to Cagamas	0	144,644	0	98,559	341,895	43,582	628,680
Subordinated term loan / bonds	0	0	0	163,070	195,684	730,456	1,089,210
Other liabilities	405,518	65,806	51,367	179,549	0	0	702,240
Taxation and zakat	0	0	0	65,556	0	0	65,556
Total liabilities	30,484,034	3,135,228	3,649,238	800,560	759,762	885,985	39,714,807
Net Liquidity gap	(15,564,800)	(1,167,516)	(1,803,328)	6,431,481	3,805,962	10,770,854	2,472,653

The contractual maturity analysis often does not reflect the actual behavioural patterns. In particular, the Group and the 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 2008 (continued)**37 CREDIT RISKS**

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

<u>Group</u>	Cash and short term funds	Deposits and placements with banks and other financial institutions	Held-for- trading securities	Available- for-sale securities [^]	Loans, advances and financing*	Interest receivable	Commitments and contingencies
As at 31 December 2008	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	97,756	20,106	1,880,061	0	354,795
Mining and quarrying	0	0	5,041	0	307,953	0	40,687
Manufacturing	0	0	53,376	201,822	5,624,525	0	1,056,042
Electricity, gas and water	0	0	0	20,765	352,677	0	2,246
Construction	0	0	20,448	161,234	945,294	0	576,671
Real estate	0	0	0	0	3,818,470	0	772,797
Wholesale and retail trade and restaurant	0	0	63,907	76,330	4,620,135	0	899,788
Transport, storage and communication	0	0	34,145	98,773	697,485	0	237,342
Finance, insurance and business services	1,298,975	780,613	86,321	1,415,683	724,812	57,097	2,615,776
Community, social and personal services	0	0	0	0	557,004	0	142,118
Household sector, of which							
i. Purchase of residential properties	0	0	0	0	7,649,344	0	901,080
ii. Purchase of non- residential properties	0	0	0	0	1,186,296	0	201,694
iii. Others	0	0	0	0	2,358,552	0	914,934
Others	3,075,089	450,000	220,790	6,583,815	361,111	64,368	77,277
	<u>4,374,064</u>	<u>1,230,613</u>	<u>581,784</u>	<u>8,578,528</u>	<u>31,083,719</u>	<u>121,465</u>	<u>8,793,247</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**37 CREDIT RISKS (continued)**

<u>Bank</u>	Cash and short term funds	Deposits and placements with banks and other financial institutions	Held-for-trading securities	Available-for-sale securities [^]	Loans, advances and financing*	Interest receivable	Commitments and contingencies
As at 31 December 2008	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	97,756	20,106	1,393,752	0	278,313
Mining and quarrying	0	0	5,041	0	274,395	0	38,932
Manufacturing	0	0	53,376	99,783	4,943,751	0	989,621
Electricity, gas and water	0	0	0	15,676	352,677	0	2,246
Construction	0	0	20,448	161,234	830,410	0	537,583
Real estate	0	0	0	0	3,650,272	0	753,281
Wholesale and retail trade and restaurant	0	0	63,907	76,330	4,470,113	0	883,252
Transport, storage and communication	0	0	34,145	49,362	562,904	0	232,888
Finance, insurance and business services	643,927	780,613	86,321	1,286,397	694,873	57,946	2,598,447
Community, social and personal services	0	0	0	0	516,696	0	140,832
Household sector, of which							
i. Purchase of residential properties	0	0	0	0	7,576,412	0	882,063
ii. Purchase of non-residential properties	0	0	0	0	1,184,577	0	196,316
iii. Others	0	0	0	0	2,079,134	0	914,934
Others	3,073,502	450,000	220,790	6,036,512	353,836	56,966	70,411
	<u>3,717,429</u>	<u>1,230,613</u>	<u>581,784</u>	<u>7,745,400</u>	<u>28,883,802</u>	<u>114,912</u>	<u>8,519,119</u>

[^] Excludes allowance for diminution in value of available-for-sale securities amounting to RM759,000 (Group and Bank).

* Excludes allowances for bad and doubtful debts and financing amounting to RM909,286,000 (Group) and RM839,632,000 (Bank).

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 31.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**37 CREDIT RISKS (continued)**

<u>Group</u>	Cash and short term funds	Deposits and placements with banks and other financial institutions	Held-for-trading securities	Available-for-sale securities [^]	Loans, advances and financing*	Interest receivable	Commitments and contingencies
As at 31 December 2007	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	59,981	35,849	1,651,442	0	386,208
Mining and quarrying	0	0	23,918	0	275,747	0	108,977
Manufacturing	0	0	49,547	74,301	5,089,382	0	1,063,483
Electricity, gas and water	0	0	26,687	16,012	230,974	0	44,041
Construction	0	0	115,380	182,066	1,326,049	0	690,039
Real estate	0	0	0	0	2,821,911	0	649,919
Wholesale and retail trade and restaurant	0	0	59,796	66,839	3,661,773	0	798,465
Transport, storage and communication	0	0	339,320	69,896	609,475	0	120,121
Finance, insurance and business services	1,709,076	130,399	80,175	728,963	734,952	55,478	1,267,257
Community, social and personal services	0	0	0	0	462,357	0	77,440
Household sector, of which							
i. Purchase of residential properties	0	0	0	0	6,817,604	0	869,290
ii. Purchase of non-residential properties	0	0	0	0	863,765	0	167,506
iii. Others	0	0	0	0	2,088,470	0	894,220
Others	3,927,039	100,000	1,117,994	4,682,518	798,974	41,704	148,478
	<u>5,636,115</u>	<u>230,399</u>	<u>1,872,798</u>	<u>5,856,444</u>	<u>27,432,875</u>	<u>97,182</u>	<u>7,285,444</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**37 CREDIT RISKS (continued)**

<u>Bank</u>	Cash and short term funds	Deposits and placements with banks and other financial institutions	Held-for-trading securities	Available-for-sale securities [^]	Loans, advances and financing*	Interest receivable	Commitments and contingencies
As at 31 December 2007	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	59,981	35,849	1,651,442	0	386,208
Mining and quarrying	0	0	23,918	0	275,747	0	108,977
Manufacturing	0	0	49,547	74,301	5,089,382	0	1,063,483
Electricity, gas and water	0	0	26,687	16,012	230,974	0	44,041
Construction	0	0	115,380	182,066	1,325,700	0	690,039
Real estate	0	0	0	0	2,821,911	0	649,919
Wholesale and retail trade and restaurant	0	0	59,796	66,839	3,661,396	0	798,465
Transport, storage and communication	0	0	339,320	69,896	609,475	0	120,121
Finance, insurance and business services	1,709,076	130,399	80,175	728,963	734,952	55,478	1,267,257
Community, social and personal services	0	0	0	0	462,357	0	77,440
Household sector, of which							
i. Purchase of residential properties	0	0	0	0	6,817,604	0	1,347,504
ii. Purchase of non-residential properties	0	0	0	0	863,765	0	170,724
iii. Others	0	0	0	0	2,088,470	0	412,788
Others	3,927,039	100,000	1,117,994	4,682,518	798,974	41,704	148,478
	<u>5,636,115</u>	<u>230,399</u>	<u>1,872,798</u>	<u>5,856,444</u>	<u>27,432,149</u>	<u>97,182</u>	<u>7,285,444</u>

[^] Excludes allowance for diminution in value of available-for-sale securities amounting to RM6,421,000 (Group and Bank).

* Excludes allowances for bad and doubtful debts and financing amounting to RM820,945,000 (Group) and RM820,402,000 (Bank).

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 31.

38 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 Group'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 2008 (continued)**38 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 and the Bank'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 and the Bank 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 and the Bank 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 FRS 132 which requires fair value information to be disclosed. These include property, plant and equipment, investment property, prepaid lease payment and interests in subsidiaries.

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

Group	2008		2007	
	Fair value RM'000	Carrying value RM'000	Fair value RM'000	Carrying value RM'000
Financial Assets				
Assets for which fair value approximates carrying value	4,374,064	4,374,064	5,636,115	5,636,115
Securities purchased under resale agreements	0	0	358,344	358,344
Deposits and placements with financial institutions	1,230,613	1,230,613	230,399	230,399
Held-for-trading securities	581,784	581,784	1,872,798	1,872,798
Available-for-sale securities	8,577,769	8,577,769	5,850,023	5,850,023
Loans, advances and financing	30,115,158	30,174,433	26,630,670	26,611,930
Statutory deposits with Bank Negara Malaysia	937,608	937,608	843,608	843,608
Financial Liabilities				
Deposits from customers	36,692,309	36,688,985	31,468,326	31,467,966
Deposits and placements of banks and other financial institutions	3,850,179	3,859,946	4,064,268	4,064,268
Liabilities for which fair value approximates carrying value	1,446,081	1,446,081	1,682,232	1,682,232
Amount due to Cagamas	428,292	435,327	629,810	628,680
Subordinated term loan / bonds	977,382	981,162	1,113,060	1,089,210

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**38 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

	2008		2007	
	Fair value RM'000	Carrying value RM'000	Fair value RM'000	Carrying value RM'000
Bank				
Financial Assets				
Assets for which fair value approximates carrying value	3,717,429	3,717,429	5,636,115	5,636,115
Unquoted Islamic Subordinated Bonds of subsidiary	196,840	200,000	0	0
Securities purchased under resale agreements	0	0	358,344	358,344
Deposits and placements with banks and other financial institutions	1,230,613	1,230,613	230,399	230,399
Held-for-trading securities	581,784	581,784	1,872,798	1,872,798
Available-for-sale securities	7,744,641	7,744,641	5,850,023	5,850,023
Loans, advances and financing	28,044,170	28,044,170	26,630,487	26,611,747
Statutory deposits with Bank Negara Malaysia	853,608	853,608	843,608	843,608
Financial Liabilities				
Deposits from customers	33,967,274	33,967,274	31,482,981	31,482,621
Deposits and placements of banks and other financial institutions	3,536,379	3,546,146	4,064,268	4,064,268
Liabilities for which fair value approximates carrying value	1,431,979	1,431,979	1,682,232	1,682,232
Amount due to Cagamas	428,292	435,327	629,810	628,680
Subordinated term loan / bonds	977,382	981,162	1,113,060	1,089,210

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**38 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

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	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<u>Financial Assets</u>				
Cash and short term funds	4,374,064	5,636,115	3,717,429	5,636,115
<u>Financial liabilities</u>				
Bills and acceptances payable	1,446,081	1,682,232	1,431,979	1,682,232

Securities purchased under resale agreements

The estimated fair values of securities purchased under resale agreements with maturity of less than six months approximate the carrying amounts. For securities purchased under resale 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.

Deposits and placements with / from banks and other 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 unquoted equity instruments classified under available-for-sale portfolio is estimated using internal valuation technique.

Loans, advances and financing

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.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)

38 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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 / bonds

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 which the Group or the Bank would receive or pay to terminate the contracts at the balance sheet date. The fair value of the financial derivatives are disclosed in Note 7(a).

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**39 CAPITAL ADEQUACY**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
The capital adequacy ratios of the Group and the Bank are as follows:-				
Tier-1 capital	2,857,388	2,303,164	2,863,477	2,290,145
Eligible Tier-2 capital	1,404,588	1,334,284	1,171,056	1,334,269
Total capital	4,261,976	3,637,448	4,034,533	3,624,414
Less : Investment in subsidiaries and holding of other financial institution's capital	0	0	(196,617)	(1,611)
Total capital base	4,261,976	3,637,448	3,837,916	3,622,803

Capital Ratios

Excluding proposed final dividend :

Core-capital ratio	7.76%	6.92%	8.40%	6.92%
Risk-weighted capital ratio	11.58%	11.00%	11.27%	10.95%
Including proposed final dividend :				
Core-capital ratio	7.74%	6.78%	8.38%	6.77%
Risk-weighted capital ratio	11.56%	10.81%	11.24%	10.80%

i) Components of Tier-1 and Tier-2 capital are as follows:

Tier-1 capital

Paid-up share capital	287,500	287,500	287,500	287,500
Paid-up non-cumulative perpetual preference shares	4,000	4,000	4,000	4,000
Share premium	858,500	858,500	858,500	858,500
Retained profits	1,442,012	886,077	1,492,956	929,966
Other reserves	322,000	322,000	322,000	322,000
Capital reserve	56,619	56,619	0	0
	2,970,631	2,414,696	2,964,956	2,401,966
Less: Deferred tax assets	(113,243)	(111,532)	(101,479)	(111,821)
Total Tier-1 capital	2,857,388	2,303,164	2,863,477	2,290,145

Tier-2 capital

General allowance for bad and doubtful debts and financing	460,009	402,112	426,477	402,097
Subordinated term loan / bonds	944,579	932,172	744,579	932,172
Total Tier-2 capital	1,404,588	1,334,284	1,171,056	1,334,269
Total capital	4,261,976	3,637,448	4,034,533	3,624,414
Less : Investment in subsidiaries	0	0	(196,617)	(1,611)
Capital base	4,261,976	3,637,448	3,837,916	3,622,803

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

Group	2008		2007	
	Principal RM'000	Risk- Weighted RM'000	Principal RM'000	Risk- Weighted RM'000
Risk Weighted Assets for Credit Risk :				
0 %	12,007,835	0	9,870,082	0
10%	0	0	835	84
20%	4,580,814	916,163	4,005,433	801,087
50%	8,084,912	4,042,456	6,703,462	3,351,731
100%	30,594,431	30,594,431	26,984,692	26,984,692
	55,267,992	35,553,050	47,564,504	31,137,594
Risk Weighted Assets for Market Risk	1,223,080	1,223,080	1,912,384	1,912,384
Large Exposure Risk Requirement Risk Weighted Assets	9,233	9,233	7,786	7,786
	56,500,305	36,785,363	49,484,674	33,057,764

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**39 CAPITAL ADEQUACY (continued)**

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

Bank	2008		2007	
	Principal RM'000	Risk- Weighted RM'000	Principal RM'000	Risk- Weighted RM'000
Risk Weighted Assets for Credit Risk :				
0 %	10,810,330	0	9,870,082	0
10%	0	0	835	84
20%	4,499,850	899,970	4,005,433	801,086
50%	8,016,197	4,008,098	6,703,462	3,351,731
100%	27,913,506	27,913,506	26,984,484	26,984,484
	<u>51,239,883</u>	<u>32,821,574</u>	<u>47,564,296</u>	<u>31,137,385</u>
Risk Weighted Assets for Market Risk	1,220,488	1,220,488	1,912,384	1,912,384
Large Exposure Risk Requirement Risk Weighted Assets	9,233	9,233	7,786	7,786
	<u>52,469,604</u>	<u>34,051,295</u>	<u>49,484,466</u>	<u>33,057,555</u>

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.

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 recognised in equity is also excluded from the computation of Tier 1 capital in accordance to Revised BNM/GP8 dated 5 October 2004.

Pursuant to Bank Negara Malaysia's circular "Guidelines on Investment in Shares and Interest-In-Shares" dated 12 February 2007, capital charge for Large Exposure Risk Requirements (LERR) is introduced to ensure banks that have substantial exposure to a single counter are sufficiently capitalised to mitigate adverse movement in the price of a particular counter. Banks are subjected to LERR capital charge on an on-going basis if an exposure to a single counter exceeds either 15% of the Group's and Bank's capital base or 10% of the issuer's paid-up capital, whichever is lower.

40 CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Cash and short-term funds	<u>4,374,064</u>	<u>5,636,115</u>	<u>3,717,429</u>	<u>5,636,115</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**41 COMPARATIVE FIGURES**

Certain comparative figures have been restated to conform with the current year's presentation as follows:

	Group		Bank	
	As previously reported RM'000	As restated RM'000	As previously reported RM'000	As restated RM'000
Balance Sheet as at 31 December 2007:				
Property, plant and equipment				
Opening balances:				
Cost	393,074	398,359	392,968	398,253
Accumulated depreciation	156,921	157,789	156,828	157,696
Carrying amount	228,461	232,878	228,448	232,865
Closing balances:				
Cost	408,960	419,544	408,857	419,441
Accumulated depreciation	179,585	185,813	179,490	185,718
Carrying amount	221,683	226,039	221,675	226,031
Other assets	445,658	441,302	445,656	441,300
Income statement for the financial year ended 31 December 2007:				
Depreciation of property, plant and equipment	25,859	31,219	25,856	31,216

In previous years, renovation of rented premises were previously presented as part of other assets and are now reclassified as part of property, plant and equipment of the Group and the Bank.

The changes in presentation of the above assets have no effect on the income statement of the Group and the Bank in the previous year, other than the reclassification of related depreciation expenses.

42 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 17 February 2009.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB)**

BALANCE SHEETS AS AT 31 DECEMBER 2008

	Note	Group		Bank	
		2008 RM'000	2007 (restated) RM'000	2008 RM'000	2007 (restated) RM'000
ASSETS					
Cash and short-term funds	(2)	656,635	1,165,604	0	1,165,604
Available-for-sale securities	(3)	833,128	556,500	0	556,500
Financing and other advances	(4)	2,130,278	1,825,661	0	1,825,661
Other assets	(6)	15,285	23,571	0	23,571
Statutory deposits with Bank Negara Malaysia		84,000	91,913	0	91,913
Property, plant and equipment	(7)	1,934	0	0	0
Deferred taxation assets	(21)	12,642	14,695	0	14,695
TOTAL ASSETS		3,733,902	3,677,944	0	3,677,944
LIABILITIES AND ISLAMIC BANKING FUNDS					
Deposits from customers	(8)	2,735,947	2,817,443	0	2,817,443
Deposits and placements of banks and other financial institutions	(9)	313,800	270,000	0	270,000
Bills and acceptances payable		14,102	3,999	0	3,999
Subordinated bonds	(10)	200,000	200,000	0	200,000
Other liabilities	(11)	272,421	203,838	0	203,838
Taxation and zakat		15	8,512	0	8,512
Total Liabilities		3,536,285	3,503,792	0	3,503,792
Share capital/Capital funds		195,000	85,000	0	85,000
Reserves		2,617	89,152	0	89,152
Islamic Banking Funds	(12)	197,617	174,152	0	174,152
TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS		3,733,902	3,677,944	0	3,677,944
COMMITMENTS AND CONTINGENCIES	(22)	1,093,750	1,249,213	0	1,249,213

The accompanying notes on pages 109 to 131 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Income derived from investment of depositors' funds	(13)	197,854	157,713	188,422	157,713
Allowance for losses on financing and other advances	(14)	(34,947)	(23,444)	(25,138)	(23,444)
Transfer (to) / from profit equalisation reserve (net)		(1,089)	4,083	(4,708)	4,083
Total attributable income		161,818	138,352	158,576	138,352
Income attributable to depositors	(15)	(103,981)	(92,661)	(97,285)	(92,661)
Income attributable to shareholders		57,837	45,691	61,291	45,691
Income derived from the investment of Islamic Banking funds	(16)	20,353	12,429	19,303	12,429
Total net income		78,190	58,120	80,594	58,120
Personnel expenses	(17)	(5,599)	(2,720)	(4,503)	(2,720)
Other overhead expenses	(18)	(51,725)	(33,940)	(47,189)	(33,940)
Profit before zakat and taxation		20,866	21,460	28,902	21,460
Zakat	(19)	(15)	784	(15)	784
Taxation	(20)	(5,679)	(6,620)	(7,945)	(6,620)
Net profit for the financial year		15,172	15,624	20,942	15,624

The accompanying notes on pages 109 to 131 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**STATEMENT OF CHANGES IN ISLAMIC BANKING FUNDS FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2008

	Share Capital/ Capital Funds	Fair Value Reserves	Retained Profits	Total
	RM'000	RM'000	RM'000	RM'000
Group				
Balance at 1 January 2008	85,000	(762)	89,914	174,152
Issuance of share capital in Islamic subsidiary	195,000	0	0	195,000
Revaluation of available-for-sale securities (net)	0	12,212	0	12,212
Deferred tax on revaluation of available-for-sale securities	0	(3,063)	0	(3,063)
Net gains recognised directly in equity	0	9,149	0	9,149
Net profit attributable to shareholders	0	0	15,172	15,172
Total recognised income and expense for the year	0	9,149	15,172	24,321
Transfer to head office pursuant to business vesting to Islamic subsidiary	(85,000)	0	(110,856)	(195,856)
Balance at 31 December 2008	<u>195,000</u>	<u>8,387</u>	<u>(5,770)</u>	<u>197,617</u>
Balance at 1 January 2007 (restated)	85,000	1,469	74,290	160,759
Revaluation of available-for-sale securities (net)	0	(3,069)	0	(3,069)
Deferred tax on revaluation of available-for-sale securities	0	838	0	838
Net loss recognised directly in equity	0	(2,231)	0	(2,231)
Net profit attributable to shareholders	0	0	15,624	15,624
Total recognised income and expense for the year	0	(2,231)	15,624	13,393
Balance at 31 December 2007 (restated)	<u>85,000</u>	<u>(762)</u>	<u>89,914</u>	<u>174,152</u>

The accompanying notes on pages 109 to 131 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**STATEMENTS OF CHANGES IN ISLAMIC BANKING FUNDS FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2008 (continued)

	Capital Funds	Fair Value Reserves	Retained Profits	Total
	RM'000	RM'000	RM'000	RM'000
Bank				
Balance at 1 January 2008	85,000	(762)	89,914	174,152
Revaluation of available-for-sale securities (net)	0	7,799	0	7,799
Deferred tax on revaluation of available-for-sale Securities	0	(1,960)	0	(1,960)
Realised gain on available-for-sale securities reclassified to the income statement upon disposal	0	(5,077)	0	(5,077)
Net gains recognised directly in equity	0	762	0	762
Net profit attributable to shareholders	0	0	20,942	20,942
Total recognised income and expense for the year	0	762	20,942	21,704
Transfer to head office pursuant to business vesting to Islamic subsidiary	(85,000)	0	(110,856)	(195,856)
Balance at 31 December 2008	0	0	0	0
Balance at 1 January 2007 (restated)	85,000	1,469	74,290	160,759
Revaluation of available-for-sale securities (net)	0	(3,069)	0	(3,069)
Deferred tax on revaluation of available-for-sale securities	0	838	0	838
Net loss recognised directly in equity	0	(2,231)	0	(2,231)
Net profit attributable to shareholders	0	0	15,624	15,624
Total recognised income and expense for the year	0	(2,231)	15,624	13,393
Balance at 31 December 2007 (restated)	85,000	(762)	89,914	174,152

The accompanying notes on pages 109 to 131 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

	Note	Group		Bank	
		2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before zakat and taxation		20,866	21,460	28,902	21,460
Adjustments for:-					
Gain on disposal of available-for-sale securities		(2,355)	0	(9,124)	0
Allowance for losses on financing and other advances		34,947	23,444	25,138	23,444
Depreciation of property, plant and equipment		36	0	0	0
Profit equalisation reserve		1,089	(4,083)	4,708	(4,083)
Amortisation of premium less accretion of discount		302	41	123	41
Unrealised loss on revaluation (net)		118	0	238	0
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		55,003	40,862	49,985	40,862
(Increase) / Decrease in Operating Assets :					
Loans, advances and financing		(339,564)	(210,766)	(307,379)	(210,766)
Deposits and placements with banks and other financial institutions		0	200,000	(834,840)	200,000
Other assets and statutory deposits with Bank Negara Malaysia		16,199	(44,906)	20,494	(44,906)
Increase / (Decrease) in Operating Liabilities :					
Deposits from customers		(81,496)	181,660	(386,699)	181,660
Bills and acceptances payable		10,103	3,632	(698)	3,632
Other liabilities		51,319	63,983	292,951	63,983
Deposits and placements of banks and other financial institutions		43,800	270,000	170,536	270,000
Cash (utilised in) / generated from operations		(244,636)	504,465	(995,650)	504,465
Income tax and zakat paid		0	(17,667)	0	(17,667)
NET CASH (UTILISED IN) / GENERATED FROM OPERATING ACTIVITIES		(244,636)	486,798	(995,650)	486,798
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of sale of available-for-sale securities (net)		(262,363)	(253,692)	(167,877)	(253,692)
Purchase of property, plant and equipment		(1,970)	0	0	0
Subscription of ordinary shares of Islamic subsidiary		0	0	(165,000)	0
Subscription of Islamic subordinated bonds of Islamic subsidiary		0	0	(200,000)	0
Net cash received pursuant to business vesting to Islamic subsidiary		0	0	362,923	0
NET CASH UTILISED IN INVESTING ACTIVITIES		(264,333)	(253,692)	(169,954)	(253,692)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(508,969)	233,106	(1,165,604)	233,106
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		1,165,604	932,498	1,165,604	932,498
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	(26)	656,635	1,165,604	0	1,165,604

The accompanying notes on pages 109 to 131 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (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 Group's IB activities and their main duties and responsibilities are as follows: -

- a) To advise the Group's Board of Directors on Syariah matters in its business operations;
- b) To endorse the Group's Syariah Compliance Manuals which are to specify the manner in which a submission or request for advice be made to the Group's SC, the conduct of the Group'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 Group;
- d) To assist related parties of the Group 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 Group'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.

(2) CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	3,565	9	0	9
Money at call and deposit placements maturing within one month	653,070	1,165,595	0	1,165,595
	<u>656,635</u>	<u>1,165,604</u>	<u>0</u>	<u>1,165,604</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(3) AVAILABLE-FOR-SALE SECURITIES**

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
<i>At fair value</i>				
Malaysian Government investment issues	451,642	194,871	0	194,871
Bank Negara Negotiable Notes	0	153,162	0	153,162
Sanadat Cagamas	0	35,281	0	35,281
Private debt securities	307,203	119,212	0	119,212
Malaysian Government Islamic treasury bills	0	28,974	0	28,974
Islamic negotiable instruments of deposits	74,283	25,000	0	25,000
	833,128	556,500	0	556,500

(4) FINANCING AND OTHER ADVANCES

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
i) By type of financing and other advances				
Cash financing	385,085	324,263	0	324,263
Term financing				
- Housing financing	119,451	131,272	0	131,272
- Syndicated term financing	217,705	235,536	0	235,536
- Hire purchase receivables	632,603	449,077	0	449,077
- Leasing receivables	0	23,714	0	23,714
- Other term financing	520,693	380,973	0	380,973
Bills receivables	10,242	0	0	0
Trust receipts	415	0	0	0
Revolving credits	364,599	323,357	0	323,357
Customer's liability under acceptance credits	245,594	241,548	0	241,548
Other financing	7,579	0	0	0
Unearned income	(304,579)	(238,281)	0	(238,281)
Gross financing	2,199,387	1,871,459	0	1,871,459
Allowance for bad and doubtful debts and financing				
- Specific	(35,592)	(17,986)	0	(17,986)
- General	(33,517)	(27,812)	0	(27,812)
Net financing	2,130,278	1,825,661	0	1,825,661

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

(4) FINANCING AND OTHER ADVANCES (continued)

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
ii) Financing analysed by concepts				
Bai' Bithaman Ajil	866,721	512,570	0	512,570
Qardhul-Hassan	450	46	0	46
Ijarah	0	23,714	0	23,714
Ijarah Thumma Al Bai	632,603	449,077	0	449,077
Bai' Inah	277,221	0	0	0
Other financing	422,392	886,052	0	886,052
	<u>2,199,387</u>	<u>1,871,459</u>	<u>0</u>	<u>1,871,459</u>
iii) Financing by type of customer				
Domestic non-bank financial institutions	0	353	0	353
Domestic business enterprises				
- Small medium enterprises	394,410	307,366	0	307,366
- Others	1,448,009	1,238,119	0	1,238,119
Individuals	355,564	324,166	0	324,166
Foreign entities	1,404	1,455	0	1,455
	<u>2,199,387</u>	<u>1,871,459</u>	<u>0</u>	<u>1,871,459</u>
iv) Financing by profit rate sensitivity				
Fixed rate:				
- House financing	71,516	78,618	0	78,618
- Hire purchase receivables	573,460	406,605	0	406,605
- Other financing	1,245,139	827,343	0	827,343
Variable rate:				
- Other financing	309,272	558,893	0	558,893
	<u>2,199,387</u>	<u>1,871,459</u>	<u>0</u>	<u>1,871,459</u>
v) Financing according to economic sector				
Agriculture	486,309	479,339	0	479,339
Mining and quarrying	33,558	19,608	0	19,608
Manufacturing	680,774	572,187	0	572,187
Construction	114,534	94,749	0	94,749
Real estate	168,198	103,678	0	103,678
Wholesale and retail trade and restaurants and hotels	149,842	118,062	0	118,062
Transport, storage and communication	134,581	107,052	0	107,052
Finance, insurance and business services	29,939	16,730	0	16,730
Community, social and personal services	40,308	15,413	0	15,413
Households of				
i. Purchase of residential properties	72,932	83,856	0	83,856
ii. Purchase of non-residential properties	1,719	1,606	0	1,606
iii. Others	279,418	240,159	0	240,159
Others	7,275	19,020	0	19,020
	<u>2,199,387</u>	<u>1,871,459</u>	<u>0</u>	<u>1,871,459</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(5) NON-PERFORMING FINANCING AND OTHER ADVANCES**

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

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	27,410	23,221	27,410	23,221
Non-performing during the year	48,881	28,231	45,461	28,231
Reclassified as performing during the year	(9,465)	(6,075)	(8,648)	(6,075)
Amount recovered	(6,172)	(3,423)	(5,543)	(3,423)
Amount written off	(15,708)	(14,544)	(14,475)	(14,544)
Transfer pursuant to business vesting to Islamic subsidiary	0	0	(43,206)	0
Transfer to head office in relation to Ijarah leasing	(999)	0	(999)	0
Balance at 31 December	43,947	27,410	0	27,410
Specific allowance	(35,592)	(17,986)	0	(17,986)
Net non-performing financing and other advances	<u>8,355</u>	<u>9,424</u>	<u>0</u>	<u>9,424</u>
Ratio of net non-performing financing and other advances to net financing and other advances	<u>0.39%</u>	<u>0.51%</u>	<u>N/A</u>	<u>0.51%</u>

ii) Movements in the allowance for losses on financing and other advances are as follows :

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
<u>General allowance</u>				
Balance at 1 January	27,812	24,949	27,812	24,949
Allowance made during the year	5,983	2,863	5,367	2,863
Transfer pursuant to business vesting to Islamic subsidiary	0	0	(32,901)	0
Transfer to head office in relation to Ijarah leasing	(278)	0	(278)	0
Balance at 31 December	<u>33,517</u>	<u>27,812</u>	<u>0</u>	<u>27,812</u>
(as % of total financing and other advances less specific allowance)	<u>1.55%</u>	<u>1.50%</u>	<u>N/A</u>	<u>1.50%</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(5) NON-PERFORMING FINANCING AND OTHER ADVANCES (continued)**

ii) Movements in the allowance for losses on financing and other advances are as follows :

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<u>Specific allowance</u>				
Balance at 1 January	17,986	10,960	17,986	10,960
Allowance made during year	41,237	26,017	30,825	26,017
Amount recovered	(9,851)	(4,447)	(8,924)	(4,447)
Amount written off	(15,707)	(14,544)	(14,474)	(14,544)
Transfer from head office	2,492	0	2,492	0
Transfer pursuant to business vesting to Islamic subsidiary	0	0	(27,340)	0
Transfer to head office in relation to Ijarah leasing	(565)	0	(565)	0
Balance at 31 December	<u>35,592</u>	<u>17,986</u>	<u>0</u>	<u>17,986</u>

iii) Non-performing financing and other advances according to economic sector are as follows:-

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Agriculture	252	561	0	561
Manufacturing	21,082	8,296	0	8,296
Construction	4,255	918	0	918
Real estate	109	169	0	169
Wholesale and retail trade and restaurants and hotels	3,395	2,202	0	2,202
Transport, storage and communication	680	1,871	0	1,871
Community, social and personal services	227	227	0	227
Households of				
i. Purchase of residential properties	4,375	4,199	0	4,199
ii. Purchase of non-residential properties	3	0	0	0
iii. Others	9,569	8,967	0	8,967
	<u>43,947</u>	<u>27,410</u>	<u>0</u>	<u>27,410</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(6) OTHER ASSETS**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Income receivable	7,482	7,669	0	7,669
Derivative assets (a)	877	4,263	0	4,263
Other debtors, deposits and prepayments	6,926	11,639	0	11,639
	15,285	23,571	0	23,571

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

Group	2008			2007		
	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
Financial derivatives						
Trading:						
Foreign exchange derivatives						
- currency option	104,719	873	873	101,972	1,748	1,748
Equity and commodity related contracts	77,718	4	4	73,718	2,515	2,515
	182,437	877	877	175,690	4,263	4,263

Bank	2008			2007		
	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
Financial derivatives						
Trading:						
Foreign exchange derivatives						
- currency option	0	0	0	101,972	1,748	1,748
Equity and commodity related contracts	0	0	0	73,718	2,515	2,515
	0	0	0	175,690	4,263	4,263

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(7) PROPERTY, PLANT AND EQUIPMENT**

Group 2008	Balance at 1 January	Additions	Disposal/ written off	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000
<u>Cost</u>				
Office equipment and furniture	0	631	0	631
Computer equipment	0	700	0	700
Renovations	0	639	0	639
	<u>0</u>	<u>1,970</u>	<u>0</u>	<u>1,970</u>
	Balance at 1 January	Charge for the year	Reversed on disposal/ written off	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000
<u>Accumulated depreciation</u>				
Office equipment and furniture	0	5	0	5
Computer equipment	0	13	0	13
Renovations	0	18	0	18
	<u>0</u>	<u>36</u>	<u>0</u>	<u>36</u>
<u>Carrying amounts</u>				
Office equipment and furniture				626
Computer equipment				687
Renovations				621
				<u>1,934</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(8) DEPOSITS FROM CUSTOMERS**

i) By type of deposits

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Non-Mudharabah Fund:				
Demand deposits	578,640	324,201	0	324,201
Savings deposits	280,710	269,502	0	269,502
Negotiable Islamic Debt Certificate	355,821	47,446	0	47,446
Structured investment	98,366	88,232	0	88,232
Others	44,926	33,223	0	33,223
	<u>1,358,463</u>	<u>762,604</u>	<u>0</u>	<u>762,604</u>
Mudharabah Fund:				
General investment deposits	1,161,907	1,523,335	0	1,523,335
Islamic short term Mudharabah Investment	<u>215,577</u>	<u>531,504</u>	<u>0</u>	<u>531,504</u>
	<u>1,377,484</u>	<u>2,054,839</u>	<u>0</u>	<u>2,054,839</u>
Total deposits from customers	<u>2,735,947</u>	<u>2,817,443</u>	<u>0</u>	<u>2,817,443</u>

ii) The deposits are sourced from the following customers:-

Government and statutory bodies	16	19,011	0	19,011
Business enterprises	1,460,636	1,220,178	0	1,220,178
Individuals	433,116	387,463	0	387,463
Others	842,179	1,190,791	0	1,190,791
	<u>2,735,947</u>	<u>2,817,443</u>	<u>0</u>	<u>2,817,443</u>

(9) DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Non-Mudharabah Fund:				
Licensed banks	34,540	0	0	0
Mudharabah Fund:				
Licensed banks	105,000	30,000	0	30,000
Other financial institutions	174,260	240,000	0	240,000
	<u>313,800</u>	<u>270,000</u>	<u>0</u>	<u>270,000</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(10) SUBORDINATED BONDS**

On 24 November 2006, the Bank issued RM200 million redeemable Islamic subordinated bonds on a 15-year non-callable 10-year basis under the principle of Mudharabah (profit sharing contract) at a projected constant rate of 5.40% for the first 10 years and a step up of 100 basis point commencing from the beginning of the 11th year from the issue date and ending on the date of full redemption of the subordinated bonds, subject to the availability of profits and the investors' entitlement under the profit sharing ratio. Unless the call option is exercised by the Bank, the subordinated bonds shall be redeemed in full by five equal and consecutive annual payments. The call option is subject to prior approval from Bank Negara Malaysia and Monetary Authority of Singapore (MAS), be redeemable in whole but not in part on 24 November 2016 and on every Profit Payment Date thereafter. The subordinated bonds, rated AA2 by Rating Agency Malaysia Berhad, which previously qualified as Tier 2 capital, have been offset against the Restricted Subordinated Bonds held by the Bank as disclosed in Note 9, for the purpose of determining the capital adequacy ratio of the Bank. The subordinated bonds however qualified as Tier 2 capital for the purpose of determining the capital adequacy ratio of the Group.

(11) OTHER LIABILITIES

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Other accruals and charges	255,383	184,503	0	184,503
Derivative liabilities [Note 43(6a)]	877	4,263	0	4,263
Profit equalisation reserve	16,161	15,072	0	15,072
	<u>272,421</u>	<u>203,838</u>	<u>0</u>	<u>203,838</u>
<u>Profit equalisation reserve (PER)</u>				
Balance at 1 January	15,072	19,155	15,072	19,155
Amount provided during the year	17,777	5,339	14,772	5,339
Amount written back during the year	(16,688)	(9,422)	(10,064)	(9,422)
Transfer pursuant to business vesting to Islamic subsidiary	0	0	(19,780)	0
Balance at 31 December	<u>16,161</u>	<u>15,072</u>	<u>0</u>	<u>15,072</u>

(12) ISLAMIC BANKING FUNDS

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Share capital/Capital funds	195,000	85,000	0	85,000
Reserves :				
Net unrealised gains / (losses) on available-for-sale securities	8,387	(762)	0	(762)
(Accumulated loss) / Retained profits	(5,770)	89,914	0	89,914
	<u>197,617</u>	<u>174,152</u>	<u>0</u>	<u>174,152</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(13) INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS**

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Income derived from investment of:				
(i) General investment deposits	58,257	77,816	54,069	77,816
(ii) Other funds	139,597	79,897	134,353	79,897
	<u>197,854</u>	<u>157,713</u>	<u>188,422</u>	<u>157,713</u>

2008	Group		Bank	
	General Investment Deposits	Investment of other Funds	General Investment Deposits	Investment of other Funds
	RM'000	RM'000	RM'000	RM'000
<u>Finance income and hibah:</u>				
Financing and other advances	39,386	94,041	34,935	86,809
Available-for-sale securities	6,262	14,759	5,331	13,246
Money at call and deposit with financial institutions	12,074	29,414	11,389	28,300
	<u>57,722</u>	<u>138,214</u>	<u>51,655</u>	<u>128,355</u>
Amortisation of premium less accretion of discounts	(97)	(186)	(33)	(82)
	<u>57,625</u>	<u>138,028</u>	<u>51,622</u>	<u>128,273</u>
<u>Other held-for-trading income:</u>				
Net gain from disposal of available-for-sale securities	632	1,569	2,447	6,080
	<u>58,257</u>	<u>139,597</u>	<u>54,069</u>	<u>134,353</u>

2007	Group		Bank	
	General Investment Deposits	Investment of other Funds	General Investment Deposits	Investment of other Funds
	RM'000	RM'000	RM'000	RM'000
<u>Finance income and hibah:</u>				
Financing and other advances	55,122	56,597	55,122	56,597
Available-for-sale securities	6,850	7,033	6,850	7,033
Money at call and deposit with financial institutions	15,863	16,287	15,863	16,287
	<u>77,835</u>	<u>79,917</u>	<u>77,835</u>	<u>79,917</u>
Amortisation of premium less accretion of discounts	(19)	(20)	(19)	(20)
	<u>77,816</u>	<u>79,897</u>	<u>77,816</u>	<u>79,897</u>
<u>Other held-for-trading income:</u>				
Net gain from disposal of available-for-sale securities	0	0	0	0
	<u>77,816</u>	<u>79,897</u>	<u>77,816</u>	<u>79,897</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(14) ALLOWANCE FOR LOSSES ON FINANCING AND OTHER ADVANCES**

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Allowance for losses on financing and other advances:				
Specific allowance (net)				
- Made in the financial year	41,237	26,017	30,825	26,017
- Written back	(9,851)	(4,447)	(8,924)	(4,447)
General allowance				
- Made in the financial year	5,983	2,863	5,367	2,863
Bad debts and financing				
- Written off	0	16	0	16
- Recovered	(2,422)	(1,005)	(2,130)	(1,005)
	<u>34,947</u>	<u>23,444</u>	<u>25,138</u>	<u>23,444</u>

(15) INCOME ATTRIBUTABLE TO DEPOSITORS

	Group		Bank	
	2008	2007	2008	2007
	RM'000	RM'000	RM'000	RM'000
Deposits from customers				
- Mudharabah Fund	77,788	76,301	73,621	76,301
- Non-Mudharabah Fund	11,239	8,894	10,209	8,894
Deposits and placements of banks and other financial institutions				
- Mudharabah Fund	11,884	3,982	11,192	3,982
- Non-Mudharabah Fund	3,070	3,484	2,263	3,484
	<u>103,981</u>	<u>92,661</u>	<u>97,285</u>	<u>92,661</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 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(16) INCOME DERIVED FROM THE INVESTMENT OF ISLAMIC BANKING FUNDS (IBF)**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
<u>Finance income and hibah:</u>				
Financing and other advances	9,275	5,952	8,520	5,952
Money at call and deposits with financial institutions	2,935	1,713	2,777	1,713
Available-for-sale securities	1,416	740	1,300	740
	<u>13,626</u>	<u>8,405</u>	<u>12,597</u>	<u>8,405</u>
Amortisation of premium less accretion of discounts	(19)	(2)	(8)	(2)
	<u>13,607</u>	<u>8,403</u>	<u>12,589</u>	<u>8,403</u>
<u>Other operating income:</u>				
Unrealised (loss) / gains on revaluation of derivatives (net)	(169)	133	(289)	133
Gain / (Loss) arising from dealing in foreign currency (net)	171	(80)	290	(80)
Net gain from disposal of available-for-sale securities	154	0	597	0
<u>Fee and commission income:</u>				
Commission	4,455	1,607	4,234	1,607
Service charges and fees	2,135	2,366	1,882	2,366
	<u>20,353</u>	<u>12,429</u>	<u>19,303</u>	<u>12,429</u>

(17) PERSONNEL EXPENSES

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Salaries and wages	2,375	1,457	1,782	1,457
Allowance and bonuses	893	510	764	510
Equity compensation benefit (deferred share plan)	33	18	30	18
Defined contribution plan (EPF)	522	314	407	314
Others	1,776	421	1,520	421
Total	<u>5,599</u>	<u>2,720</u>	<u>4,503</u>	<u>2,720</u>

The number of employees at the end of the financial year amounted to 110 (2007: 24) employees.

(18) OTHER OVERHEAD EXPENSES

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Establishment costs (i)	557	76	437	76
Marketing expenses (ii)	1,783	1,851	2,247	1,851
Administration and general expenses (iii)	49,385	32,013	44,505	32,013
	<u>51,725</u>	<u>33,940</u>	<u>47,189</u>	<u>33,940</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

(18) OTHER OVERHEAD EXPENSES (continued)

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
(i) Establishment costs				
Depreciation of property, plant and equipment	36	0	0	0
Rental of premises	438	0	361	0
Repair and maintenance	36	43	32	43
Others	47	33	44	33
	<u>557</u>	<u>76</u>	<u>437</u>	<u>76</u>
(ii) Marketing expenses				
Transport and travelling	61	36	37	36
Advertisement and business promotion	1,673	1,805	2,172	1,805
Others	49	10	38	10
	<u>1,783</u>	<u>1,851</u>	<u>2,247</u>	<u>1,851</u>
(iii) Administration and general expenses				
Printing and stationery	78	35	63	35
Postage and courier	34	6	30	6
Telephone, telex and fax	51	25	48	25
Legal and consultancy fees	281	201	254	201
Allocated costs	48,581	31,643	43,945	31,643
Other administrative and general expenses	360	103	165	103
	<u>49,385</u>	<u>32,013</u>	<u>44,505</u>	<u>32,013</u>

Remuneration paid to the Syariah Committee for the financial year ended 31 December 2008 by the Group and the Bank amounted to RM67,600 (2007: RM64,800) and RM60,400 (2007: RM64,800) respectively. No remuneration was paid to the Directors in 2008 (2007: RM Nil).

(19) ZAKAT

The Bank only pays zakat on its business. The Bank does not pay zakat on behalf of depositors or shareholders. In the previous year, the Bank had written back RM784,000 in respect of overprovision in prior years.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

(20) TAXATION

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Malaysian income tax – current year	10,815	5,449	10,815	5,449
Deferred taxation :				
- relating to originating and reversal of temporary differences	(5,828)	69	(3,562)	69
- relating to changes in tax rates	692	1,102	692	1,102
Total charged to income statement [Note 43(21)]	(5,136)	1,171	(2,870)	1,171
	<u>5,679</u>	<u>6,620</u>	<u>7,945</u>	<u>6,620</u>

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

	Group		Bank	
	2008 %	2007 %	2008 %	2007 %
Malaysian tax rate of 26% (2007: 27%)	26.0	27.0	26.0	27.0
Tax effects of:				
Expenses not deductible for tax purposes	(1.8)	(1.3)	(0.9)	(1.3)
Deferred tax relating to changes in tax rate	2.4	5.1	2.4	5.1
Average effective tax rate	<u>27.2</u>	<u>30.8</u>	<u>27.5</u>	<u>30.8</u>

(21) 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:

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Deferred tax assets (before offsetting)	13,744	14,893	0	14,893
Deferred tax liabilities (before offsetting)	(1,102)	(198)	0	(198)
Deferred tax assets after offsetting	<u>12,642</u>	<u>14,695</u>	<u>0</u>	<u>14,695</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(21) DEFERRED TAXATION (continued)**

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

	Temporary differences arising from leasing business	General allowance on financing and other advances	Unrealised gain / loss on revaluation of financial instruments	Excess of capital allowance over depreciation	Other temporary differences	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group						
2008						
Balance at 1 January	3,312	7,231	233	0	3,919	14,695
Credited to fair value reserve	0	0	(3,063)	0	0	(3,063)
Credited to income statement [Note 43(20)]	745	1,217	1,727	1	1,446	5,136
Transfer to head office in relation to Ijarah leasing	(4,057)	(69)	0	0	0	(4,126)
Balance at 31 December	0	8,379	(1,103)	1	5,365	12,642
Bank						
2008						
Balance at 1 January	3,312	7,231	233	0	3,919	14,695
Credited to fair value reserve	0	0	(1,960)	0	0	(1,960)
Credited to income statement [Note 43(20)]	745	1,064	35	0	1,026	2,870
Reversal upon disposal of available-for-sale securities	0	0	1,692	0	0	1,692
Transfer pursuant to business vesting to Islamic subsidiary	0	(8,226)	0	0	(4,945)	(13,171)
Transfer to head office in relation to Ijarah leasing	(4,057)	(69)	0	0	0	(4,126)
Balance at 31 December	0	0	0	0	0	0

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

(21) DEFERRED TAXATION (continued)

	Temporary differences arising from leasing business RM'000	General allowance on financing and other advances RM'000	Unrealised gain / loss on revaluation of financial instruments RM'000	Excess of capital allowance over depreciation RM'000	Other temporary differences RM'000	Total RM'000
Group						
2007						
Balance at 1 January	3,250	6,986	(571)	0	5,363	15,028
Debited to fair value reserve	0	0	838	0	0	838
Credited/(debited) to income statement [Note 43(20)]	62	245	(34)	0	(1,444)	(1,171)
Balance at 31 December	3,312	7,231	233	0	3,919	14,695
Bank						
2007						
Balance at 1 January	3,250	6,986	(571)	0	5,363	15,028
Debited to fair value reserve	0	0	838	0	0	838
Credited/(debited) to income statement [Note 43(20)]	62	245	(34)	0	(1,444)	(1,171)
Balance at 31 December	3,312	7,231	233	0	3,919	14,695

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(22) COMMITMENTS AND CONTINGENCIES**

Group	2008			2007		
		Credit	Risk		Credit	Risk
	Principal Amount RM'000	Equivalent Amount* RM'000	Weighted Amount RM'000	Principal Amount RM'000	Equivalent Amount* RM'000	Weighted Amount RM'000
Direct credit substitute	50,070	50,070	50,070	107,700	107,700	107,700
Transaction-related contingent items	66,809	33,405	33,405	13,726	6,863	6,863
Short-term self-liquidating trade-related contingencies	47,986	9,597	9,597	24,215	4,843	4,843
Irrevocable commitments to extend credit:						
- maturity exceeding one year	342,236	171,118	171,118	381,774	190,887	190,887
- maturity not exceeding one year	404,212	0	0	546,108	0	0
Foreign exchange related contracts:						
- one year to less than five years	104,719	6,447	1,314	101,972	8,639	1,728
Equity and commodity related contracts	77,718	3,491	1,746	73,718	5,317	2,658
	1,093,750	274,128	267,250	1,249,213	324,249	314,679
Bank	2008			2007		
	Principal Amount RM'000	Credit Equivalent Amount* RM'000	Risk Weighted Amount RM'000	Principal Amount RM'000	Credit Equivalent Amount* RM'000	Risk Weighted Amount RM'000
Direct credit substitute	0	0	0	107,700	107,700	107,700
Transaction-related contingent items	0	0	0	13,726	6,863	6,863
Short-term self-liquidating trade-related contingencies	0	0	0	24,215	4,843	4,843
Irrevocable commitments to extend credit:						
- maturity exceeding one year	0	0	0	381,774	190,887	190,887
- maturity not exceeding one year	0	0	0	546,108	0	0
Foreign exchange related contracts:						
- one year to less than five years	0	0	0	101,972	8,639	1,728
Equity and commodity related contracts	0	0	0	73,718	5,317	2,658
	0	0	0	1,249,213	324,249	314,679

* 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 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

(23) MATURITIES OF ASSETS AND LIABILITIES BY CONTRACTUAL MATURITY PROFILE

Group

As at 31 December 2008	Up to 3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 Years RM'000	Total RM'000
Assets							
Cash and short-term funds	656,635	0	0	0	0	0	656,635
Available-for-sale securities	144,309	39,976	20,116	20,578	289,198	318,951	833,128
Financing and other advances	659,756	173,949	251,806	431,528	343,283	269,956	2,130,278
Other assets	2,740	227	290	12,028	0	0	15,285
Statutory deposits with							
Bank Negara Malaysia	0	0	0	0	0	84,000	84,000
Property, plant and maturity	0	0	0	0	0	1,934	1,934
Deferred taxation assets	0	0	0	12,642	0	0	12,642
Total assets	1,463,440	214,152	272,212	476,776	632,481	674,841	3,733,902
Liabilities							
Deposits from customers	2,360,626	165,862	109,327	88,772	11,360	0	2,735,947
Deposits and placements of banks and other financial institutions	313,800	0	0	0	0	0	313,800
Bills and acceptances payable	14,102	0	0	0	0	0	14,102
Subordinated bonds	0	0	0	0	0	200,000	200,000
Other liabilities	4,453	221,002	6,797	40,169	0	0	272,421
Taxation and zakat	0	0	0	15	0	0	15
Total liabilities	2,692,981	386,864	116,124	128,956	11,360	200,000	3,536,285
Net liquidity gap	(1,229,541)	(172,712)	156,088	347,820	621,121	474,841	197,617

The maturity analysis of assets and liabilities by contractual maturity profile of the Bank as at 31 December 2008 is no longer applicable and hence, not presented.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

(23) MATURITIES OF ASSETS AND LIABILITIES BY CONTRACTUAL MATURITY PROFILE (continued)

Group and Bank

As at 31 December 2007	Up to 3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 years RM'000	Total RM'000
Assets							
Cash and short-term funds	1,165,604	0	0	0	0	0	1,165,604
Deposits and placements with financial institutions	0	0	0	0	0	0	0
Available-for-sale securities	128,165	49,998	28,973	349,364	0	0	556,500
Financing and other advances	519,379	42,976	27,466	413,254	438,374	384,212	1,825,661
Other assets	5,448	949	506	16,668	0	0	23,571
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	91,913	91,913
Deferred tax assets	0	0	0	14,695	0	0	14,695
Total assets	1,818,596	93,923	56,945	793,981	438,374	476,125	3,677,944
Liabilities							
Deposits from customer	2,088,370	477,617	160,048	91,408	0	0	2,817,443
Deposits and placements of banks and other financial institutions	270,000	0	0	0	0	0	270,000
Bills and acceptances payable	3,999	0	0	0	0	0	3,999
Subordinated bonds	0	0	0	0	0	200,000	200,000
Other liabilities	111,569	4,283	4,110	83,876	0	0	203,838
Taxation and zakat	0	0	0	8,512	0	0	8,512
Total liabilities	2,473,938	481,900	164,158	183,796	0	200,000	3,503,792
Net liquidity gap	(655,342)	(387,977)	(107,213)	610,185	438,374	276,125	174,152

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(24) CAPITAL ADEQUACY**

	Group		Bank	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
The capital adequacy ratios of the IB operations of the Bank are as follows:-				
Tier 1 capital	185,564	159,724	0	159,724
Eligible Tier 2 capital	123,264	149,812	0	149,812
Total capital base	<u>308,828</u>	<u>309,536</u>	<u>0</u>	<u>309,536</u>

Capital Ratios

Core-capital ratio	6.79%	7.03%	N/A	7.03%
Risk-weighted capital ratio	11.30%	13.63%	N/A	13.63%

i) Components of Tier-1 and Tier-2 capital are as follows:

Tier-1 capital

Share capital/Capital funds	195,000	85,000	0	85,000
Retained profits	2,617	89,152	0	89,152
	<u>197,617</u>	<u>174,152</u>	<u>0</u>	<u>174,152</u>
Less: Deferred tax assets	(12,053)	(14,428)	0	(14,428)
Total Tier-1 capital	<u>185,564</u>	<u>159,724</u>	<u>0</u>	<u>159,724</u>

Tier-2 capital

Approved capital instruments:

- Subordinated bonds	89,747	122,000	0	122,000
General allowance for losses on financing and other advances	<u>33,517</u>	<u>27,812</u>	<u>0</u>	<u>27,812</u>
Total Tier-2 capital	<u>123,264</u>	<u>149,812</u>	<u>0</u>	<u>149,812</u>

Total capital base

	<u>308,828</u>	<u>309,536</u>	<u>0</u>	<u>309,536</u>
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ii) Breakdown of the risk-weighted assets in the various categories of risk-weights are as follows:

<u>Group</u>	2008		2007	
	Principal RM'000	Risk- Weighted RM'000	Principal RM'000	Risk- Weighted RM'000
0 %	1,197,505	0	1,638,797	0
10%	0	0	835	84
20%	80,964	16,193	71,202	12,512
50%	68,716	34,358	77,697	36,190
100%	<u>2,680,848</u>	<u>2,680,848</u>	<u>2,222,518</u>	<u>2,222,518</u>
	<u>4,028,033</u>	<u>2,731,399</u>	<u>4,011,049</u>	<u>2,271,304</u>
Risk Weighted Assets for Market Risk	2,610	2,610	0	0
	<u>4,030,643</u>	<u>2,734,009</u>	<u>4,011,049</u>	<u>2,271,304</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

(24) CAPITAL ADEQUACY (continued)

<u>Bank</u>	2008		2007	
	Principal RM'000	Risk- Weighted RM'000	Principal RM'000	Risk- Weighted RM'000
0 %	0	0	1,638,797	0
10%	0	0	835	84
20%	0	0	71,202	12,512
50%	0	0	77,697	36,190
100%	0	0	2,222,518	2,222,518
	<u>0</u>	<u>0</u>	<u>4,011,049</u>	<u>2,271,304</u>

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 recognised in equity is also excluded from the computation of Tier 1 capital in accordance to Revised BNM/GP8 dated 5 October 2004.

(25) NET INCOME FROM ISLAMIC BANKING OPERATIONS

For consolidation with the conventional banking operations, net income from IB operations comprise the following items:

	<u>Group</u>		<u>Bank</u>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Income derived from investment of depositors' funds	197,854	157,713	188,422	157,713
Transfer from / (to) profit equalisation reserve (net)	<u>(1,089)</u>	<u>4,083</u>	<u>(4,708)</u>	<u>4,083</u>
Total attributable income	196,765	161,796	183,714	161,796
Income attributable to the depositors	<u>(103,981)</u>	<u>(92,661)</u>	<u>(97,285)</u>	<u>(92,661)</u>
Income attributable to the Bank	92,784	69,135	86,429	69,135
Income derived from the investment of Islamic Banking funds	20,353	12,429	19,303	12,429
Net income from Islamic Banking operations	<u>113,137</u>	<u>81,564</u>	<u>105,732</u>	<u>81,564</u>

(26) CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR

	<u>Group</u>		<u>Bank</u>	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Cash and short-term funds	<u>656,635</u>	<u>1,165,604</u>	<u>0</u>	<u>1,165,604</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)

43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)

(27) ESTABLISHMENT OF AN ISLAMIC BANKING SUBSIDIARY

BNM had given its approval on 10 July 2008 for the Bank to establish a subsidiary under the name OCBC Al-Amin Bank Berhad (“OCBC Al-Amin”) to undertake the IB business.

OCBC Al-Amin, a wholly owned subsidiary of the Bank, was incorporated on 21 May 2008, with an authorised share capital of RM500,000,000 divided into 500,000,000 ordinary shares of RM1 each and an issued and paid-up share capital of RM2 represented by 2 ordinary shares of RM1 each.

Pursuant to the Vesting Order from the High Court of Malaya on 10 October 2008 which gave full effect to a Business Transfer Agreement (“BTA”) executed between the Bank and OCBC Al-Amin for the transfer and vesting of its IB business in Malaysia to OCBC Al-Amin (“vesting”) subsisting as of 30 November 2008 (“cut off date”) for a total consideration equivalent to the net book value of the transferred assets less liabilities. In accordance with the terms and conditions of the BTA following BNM’s approval obtained in July 2008, the aforesaid transfer excludes the Excluded Asset and Excluded Liability, for which the Excluded Asset relates to the Islamic Ijarah leasing portfolio whilst the Excluded Liability relates to RM200 million Redeemable Islamic Subordinated Bonds issued by the Bank on 24 November 2006 (“Islamic Sub-Bonds”). The total net assets, apart from that Excluded Asset and Liability, that were transferred to OCBC Al-Amin from the Bank valued as at the cut off date amounted to RM395.4 million.

The Minister of Finance has granted a banking licence to OCBC Al-Amin dated 18 February 2008, pursuant to Section 3(4) of the Islamic Banking Act 1983, for OCBC Al-Amin to commence and transact IB business with effect from 1 December 2008.

On the vesting date of 1 December 2008, OCBC Al-Amin issued 54,999,998 ordinary shares of RM1 each, valued at RM3 per share to the Bank, totalling RM164,999,994 paid in cash. On the same date, OCBC Al-Amin also issued Non Tradeable Non Transferable Redeemable Islamic Subordinated Bonds (“Restricted Subordinated Bonds”) of RM200 million which was fully subscribed by the Bank by cash. The Restricted Subordinated Bonds issued by OCBC Al-Amin was structured under the principles of Mudharabah and backed by the same pool of identified assets currently funded by the Islamic Sub-Bonds.

The vesting took effect on 1 December 2008 and OCBC Al-Amin commenced its operations on the same date.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2008 (continued)

43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)

(28) COMPARATIVE FIGURES

With the transfer of the IB operations of the Bank into OCBC Al-Amin effective from 1 December 2008, the comparative amounts for the income statement, statement of changes in equity, cash flow statement and related notes of the Bank's IB operations shown in this note are not entirely comparable as the Bank only reported 11 month results of IB operations for the current year. Further, the financial position and results of Excluded Assets and Liabilities as explained in Note 43(27) were no longer reported as part of the IB operations of the Bank.

Certain comparative figures have been restated to exclude the allocated costs that were charged to IB operations for the year ended 31 December 2005, as the requirement for banks with IB operations to apportion overhead costs and other expenditure incurred when managing the IB portfolio in accordance to the BNM Circular dated 11 November 2005 "Measures to Further Strengthen Islamic Banking Operations" was effective from 3 January 2006. The comparative figures that were restated are as follows:

	Group and Bank	
	As previously reported RM'000	As restated RM'000
Balance Sheet as at 31 December 2007:		
Other liabilities	217,260	203,838
Taxation and zakat	4,754	8,512
Reserves	<u>79,488</u>	<u>89,152</u>

The restatements of comparative figures have no impact on the income statement of the IB operations for the year ended 31 December 2007. Retained profits were restated accordingly.