

Company No. 295400 W

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

**REPORTS AND FINANCIAL STATEMENTS**

**31 DECEMBER 2009**

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD  
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS – 31 DECEMBER 2009

CONTENTS	PAGE
DIRECTORS' REPORT	3 - 18
STATEMENT BY DIRECTORS	19
STATUTORY DECLARATION	19
INDEPENDENT AUDITORS' REPORT	20 - 21
BALANCE SHEETS	22
INCOME STATEMENTS	23
STATEMENTS OF CHANGES IN EQUITY	24 - 25
CASH FLOW STATEMENTS	26 - 27
NOTES TO THE FINANCIAL STATEMENTS	28 - 104

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD  
(Incorporated in Malaysia)

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009**

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 2009.

### **PRINCIPAL ACTIVITIES**

The principal activities of the Group and of the Bank are banking and related financial services. The principal activities of the subsidiary companies during the financial year are in the businesses of Islamic Banking ("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.

<b>FINANCIAL RESULTS</b>	<b>GROUP</b> 2009 RM'000	<b>BANK</b> 2009 RM'000
Profit before taxation and zakat	813,036	784,920
Taxation	(205,197)	(197,807)
Zakat	(10)	0
Net profit attributable to shareholders	<u>607,829</u>	<u>587,113</u>

### **DIVIDENDS**

Dividends paid by the Bank since the end of the previous financial year consist of dividend of 4.51% per annum (on total paid up amount) on 18 March 2009 and 18 September 2009 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 payable in March 2010 and a final gross dividend of 20.0 sen per share less tax in respect of the current financial year amounting to RM43.13 million on the fully issued and paid-up ordinary shares of the Bank which is subject to approval of members at the forthcoming Annual General Meeting of the Bank.

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD  
(Incorporated in Malaysia)

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (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 2009 (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 registered a net profit of RM608 million for the financial year ended 31 December 2009, a marginal (-1%) decline compared to the RM617 million of the previous year. The lower net profits are attributable mainly to an 80% increase in provisions from RM103 million in 2008 to RM185 million in 2009 result of the more challenging economic environment caused by the global financial crisis. This negative impact on profits was, however, cushioned by a strong 6% increase in operating profits from RM942 million to RM998 million.

Total income rose by RM55 million or 4% to RM1.6 billion as a result of an increase in net interest income by RM41 million to RM1 billion. This was offset by a drop in non-interest income by RM17 million or 4% to RM415 million mainly due to lower gains in revaluation of derivatives. Over the same time, Islamic banking income increased by RM31 million to RM144 million.

Overheads were marginally lower at RM597 million compared to the previous year's RM598 million, as the bank continued to invest in capability building activities and the opening of new Islamic banking branches.

Specific allowances rose 61% to RM185 million compared to RM115 million last year due to higher provisioning, while general allowance made for loans growth halved to RM29 million for 2009. The net NPL ratio increased to 2.42% compared with 1.99% in December 2008.

The Group's gross loans outstanding as at 31 December 2009 stood at RM32.6 billion, marking a RM1.6 billion or 5% increase for the full year. The increase came mainly from consumer and business loans of RM0.7 billion and RM0.9 billion respectively. Consequently total assets grew 11% from RM48 billion to RM53 billion.

Shareholders' funds strengthened to RM3.7 billion while the Bank's risk weighted capital ratio (RWCR) as at 31 December 2009 stood at 12.37%.

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (continued)**

### **ACTIVITIES & ACHIEVEMENTS**

OCBC Bank (Malaysia) Berhad ("OCBC Bank") has been operating in Malaysia for almost eight decades and is today among the country's largest foreign banks. It has a staff strength of over 4,000 employees and a network of 29 conventional banking branches and five Islamic ones, offering a range of specialist financial services that includes consumer, corporate, investment, premier and transaction banking, as well as global treasury services to meet the needs of its customers across communities.

OCBC Bank continues to cater to the needs of a wide range individuals of diverse demographic backgrounds and also corporate and SME ("Small Medium Enterprise") customers, sole proprietorships and partnerships. Of particular note today is the wide acknowledgement OCBC Bank has received as one of the leading banks for SMEs in Malaysia.

In 2009, OCBC Bank was, for the second year running, named Best Foreign Cash Management Bank in Malaysia by *AsiaMoney* in its Cash Management Poll involving large, medium and small corporates. OCBC Bank also gained top ranking in MYR Currency Vanilla & Derivatives and Interest Rate Vanilla & Derivatives for both 2008 and 2009 in *AsiaRisk's* annual poll. It was also named Best Corporate/Institutional Internet Bank in Malaysia by *Global Finance* magazine, having also won the accolade previously in 2005 and 2006 as well; and Top SMI supporter (Foreign Bank Category) by Credit Guarantee Corporation (CGC) for the third consecutive year. OCBC Bank also received a number of investment banking accolades, namely Benchmark Deal of the Year 2008 by Malaysian Rating Corporation (MARC), Country Deals of the Year 2008 by *AsiaMoney* and Blueprint Award for Outstanding Deal of the Year 2008 by RAM Rating Services Berhad (RAM Ratings).

Capping off this series of acknowledgements was the upgrading of OCBC Bank's long-term financial institution rating by RAM Ratings, from AA1 to the highest attainable level of AAA, an affirmation of the improving trend in the Bank's credit fundamentals and its commendable operating track record since inception.

Earlier in the year, OCBC Bank had increased its Tier 1 capital through the successful placement of its Innovative Tier 1 Capital Securities (IT1 Securities) totaling RM400 million, which is now rated AA2 – upgraded from AA3 – by RAM Ratings.

During the course of 2009, OCBC Bank continued its nationwide branch transformation exercise as part of a regional initiative aimed at offering customers enhanced levels of service, interaction and convenience. The sizeable Penang branch is among the most recent to showcase the new look, while the Subang Jaya branch was relocated to a more strategic area and also took on the new look.

Another highlight of the year was the roll-out of four new OCBC Al-Amin Bank Berhad ("OCBC Al-Amin") branches, following commencement of operations on 1 December 2008 and the opening of the first branch at Jaya One, Petaling Jaya. The flagship main branch of this wholly-owned Islamic banking subsidiary of OCBC Bank was duly opened in Kota Damansara in November 2009, complete with a SME Centre. The other three branches that opened during 2009 are located at Sungai Petani, Kedah; Skudai, Johor; and Wangsa Maju, Kuala Lumpur.

OCBC Al-Amin will continue to reinforce its existing strong distribution channels to acquire new customers and to offer innovative solutions to its existing client base. OCBC Al-Amin is also expected to leverage on infrastructure within OCBC Group and the strong OCBC brand name to broaden its customer base and retain its position as a provider of innovative products.

In business banking, OCBC Bank 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.

Despite the challenging market conditions, the treasury business performed well, capturing market opportunities through prudent risk management, the introduction of innovative products and new customer acquisition exercises.

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (continued)**

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

OCBC Bank also played a prominent role in supporting the Government's efforts to assist businesses experiencing tight cashflow during the economic slowdown. OCBC Bank was a top contributor among commercial banks, as evidenced by the efforts expended to reach out to businesses through various government-initiated funding schemes.

OCBC Bank set up a Trade Finance Academy to provide courses aimed at educating the staff of its business banking customers on the latest technical and practical skills required to engage effectively in international trade. OCBC Bank introduced an instant trade transaction update service called *Speedy Advice* through which businesses can now receive trade finance and services transaction advices via auto-fax as soon as OCBC Bank completes the transaction.

In transaction banking, OCBC Bank began to offer Shariah-compliant cash management solutions as well, to complement the conventional offering. OCBC Bank was also among the first to launch the provision of cross-border trade settlement in Renminbi with China. With this, corporate customers are now able to settle their trade transactions as well as perform telegraphic transfers in Renminbi to and from hundreds of companies in Mainland China that are eligible under the country's Renminbi trade settlement pilot programme.

Despite the challenging business environment, OCBC Bank's investment banking efforts topped the Thomson Reuters International Financial Review (IFR)'s Malaysia Loans Mandated Arranger league table for 2009 for lead arranging fund raising exercises in aggregate value of RM8 billion for corporate clients including government linked agencies.

To meet the banking needs of the country's rapidly growing base of mass affluent individuals, OCBC Bank continued to actively market *iQ*, an innovative cash flow management solution for mass affluent individuals and a special concierge service.

In the area of wealth management, OCBC Bank made significant progress in deposits growth and investment sales with *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. Wealth management fee income grew year-on-year by approximately 15% in 2009, driven by a robust bancassurance and structured investment business.

OCBC Bank also introduced the *OCBC Mighty Savers Weekend* programme as a way to offer basic banking products and services to children at selected branches every first weekend of the month.

In the area of secured lending, OCBC Bank launched a first-of-its-kind home loan package based on a unique mortgage lending rate (MLR). MLR-based packages, such as the inaugural *Ideal Mortgage*, are priced more competitively than BLR-based ones and are flexible enough for borrowers to make a significantly lower investment outlay on their loans during the lock in period.

During the year, OCBC Bank also reengineered the OCBC-Great Eastern co-branded credit card to enable policyholders to enjoy the highest rebates on insurance premiums in the market. OCBC Bank also forged a partnership with Great Eastern Life Assurance (Malaysia) Berhad (GELA) to market the latter's bancassurance products at all branches nationwide.

OCBC Bank continued to apply leverage on its strategic partnership with GELA to cross-sell more credit card, bancassurance and mortgage products to their combined customer bases.

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (continued)**

### **MAJOR BUSINESS PLANS & ACTIVITIES FOR YEAR 2010**

Moving into 2010, our business banking efforts will 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 whilst being the principal banker to the medium-sized corporates. We will also 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 continue to acquire new relationships with key or dominant industry players as well as to support export oriented customers and focus on acquiring regional trade oriented customers with cash management services and mobilising our resources in accordance with available opportunities. In retail commercial banking, we would continue to invest in process improvements to offer quicker turnaround time to achieve higher revenue generation.

For the consumer segment, we will continue to build our franchise with a strong focus on growing share in the mass affluent segment with focus on a comprehensive product suite of offerings to our customers. We will also solidify our partnership with Great Eastern Life Assurance and other business partners with the aim of widening our reach, product offering and acquisition capabilities.

New investments will be made to open new branches and transforming our existing ones to heighten our presence and brand awareness among consumers. Alongside these, we will continue to build our home loans and consumer deposits based, and build the unsecured loans business to optimise loan margins and sustain revenue growth. Structure investments and bancassurance related initiatives will be aimed at boosting our fee-based income.

In addition to improving financial performance for our consumer business we will also commit ourselves to raising our service deliverables across all delivery channels and customers touch points through simplified customer engagement models and improved delivery.

Our global treasury business will continue to act as a centre of excellence, an endeavour partly achieved by leveraging off our experience and expertise in Singapore for products, technology, management and customer service.

On the conventional treasury advisory business, we expect trade volumes to return and pick up for 2010, and we will work with our business partners to increase lines for customers, especially for FX and swaps.

On the structured products front, we have been focusing on short-dated FX-linked investments such as dual currency investments and with the FINIQ system resulting in increased volumes of transactions. We will also look towards increasing our credit investment portfolio to make up for the gapping slowdown, and also continue to fulfil our principal dealer requirements whilst forging closer collaboration with the internal investment banking team to grow JV Income.

We would also look to offer a variety of Shariah-compliant treasury products that OCBC Group could replicate where successful.

With the commencement of OCBC Al-Amin in December 2008, we have seen continued steady performance of the Islamic banking business for OCBC Group in 2009 where much effort and energy has gone into building our capacity and capability.

The Islamic banking entity's pioneering efforts during the year centred, among others, on opening new branches, and offering new products and services such as Islamic wealth management products (deposit products and unit trusts), personal and home financing for the consumer, Islamic cash management solutions for businesses, financing and trade services for businesses, and treasury and investment banking.

During 2010, we expect to leverage on the infrastructure within OCBC Group and strong OCBC brand name to broaden our customer base and retain our position as a leading provider of innovative products among foreign Islamic banks.



## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (continued)**

### **RATINGS BY EXTERNAL AGENCIES**

Having reaffirmed OCBC Bank's long-term rating of AA1 and P1 for short-term rating earlier in the year, RAM Rating Services Berhad ("RAM") upgraded OCBC Bank to AAA on 4 November 2009. The upgrade is an affirmation of OCBC Bank's improving credit fundamentals, supported by superior risk management, as reflected by the commendable operating track record that is underscored by strong profit performance and rigorous credit underwriting framework.

### **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, Ms Tan Siok Choo, Mr Soon Tit Koon, Mr David Wong Cheong Fook and Dr Raja Lope Bin Raja Shahrome.

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, Ms Tan Siok Choo, Mr David Wong Cheong Fook and Dr Raja Lope Bin Raja Shahrome.

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, Nominating Committee and 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 shareholder while taking into account the interest of the stakeholders.

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (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 Board Board 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 2009, the Board and Risk Management Committee held a total of six meetings each whilst the Nominating Committee and Board Board Audit Committee held a total of two and seven 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, the Bank's senior management and the company secretary. The Directors, in addition, could take independent professional advice at the Bank's expense.

The Directors receive appropriate structured training which includes introductory information, briefings by senior executives on their respective areas and attending 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 annual performance evaluation process was established to assess the effectiveness of the Board and Board committees with the formation of the Nominating Committee.

#### **Board Audit Committee**

The Board 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 Board 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 Board 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 Board 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 2009 (continued)**

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

#### **Board Audit Committee (continued)**

The Board 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 Board 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 Board 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 Board 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 Board 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 Board 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 Board 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 2009 (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 2009**

Name of Director	Number of Meetings attended in 2009							
	Board		Board Audit Committee		Nominating Committee		Risk Management Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Tan Sri Dato' Nasruddin Bin Bahari	6	6	7	7	2	2	6	6
David Conner	6	4	-	-	2	1	6	4
Ching Wei Hong	6	6	-	-	-	-	6	6
Soon Tit Koon	6	6	-	-	2	2	6	6
Tan Siok Choo	6	6	7	7	2	2	6	6
David Wong Cheong Fook	6	6	7	7	2	2	6	6
Dr Raja Lope Bin Raja Shahrome	6	5	-	-	-	-	6	5
Chew Sun Teong	6	6	-	-	-	-	-	-

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.

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (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, 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 Great Eastern Life Assurance (Malaysia) Berhad, 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 PT Bank OCBC NISP Tbk and a Director of several companies, including OCBC Al-Amin, 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 25 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, Network for Electronic Transfers (S) Pte Ltd (NETS), E2 Power Pte Ltd, E2 Power Sdn Bhd and OCBC Overseas Investment Pte Ltd.

###### **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 Bachelor of Science with Honours from the University of Singapore and a Master of Business Administration from the University of Chicago.

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (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 was 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, United Malacca Bhd and several other private companies. 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 of OCBC Al-Amin, 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 and Energy Market Company Pte Ltd. He also serves as a Member of the Casino Regulatory Authority of Singapore and the Board of the National Environment Agency. 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 of Singapore.

**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, PacificMas Berhad, First Nationwide Holdings Sdn Bhd, Standard London (Asia) Sdn Bhd and several other private companies.

**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, E2 Power Sdn Bhd, PacificMas Berhad, Pac Lease Sdn Bhd and SME Credit Bureau (M) 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 and risk management. Prior to joining OCBC Bank 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 2009 (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 Philbrick Conner

Ching Wei Hong

Soon Tit Koon

Tan Siok Choo (f)

David Wong Cheong Fook

Dr Raja Lope Bin Raja Shahrome

Chew Sun Teong

In accordance with Articles 106 and 107 of the Bank's Articles of Association, Mr Ching Wei Hong and Mr David Wong Cheong Fook shall retire at the forthcoming Annual General Meeting and being eligible, offered themselves for re-election.

In accordance with Section 129(6) 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

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

<u>Ordinary Shares</u>	<u>As at 1.1.2009</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2009</u>
David Conner	1,120,542	342,552	130,000	1,333,094
Ching Wei Hong	50,531	18,420	20,000	48,951
Soon Tit Koon	211,802	70,689	185,000	97,491
Tan Sri Dato' Nasruddin Bin Bahari	19,200	0	0	19,200
David Wong Cheong Fook	28,400	6,362	6,000	28,762
Chew Sun Teong	17,917	31,917	45,000	4,834

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (continued)****DIRECTORS AND THEIR INTEREST IN SHARES AND OPTIONS (continued)**Oversea-Chinese Banking Corporation LimitedShareholdings registered in the name of Directors or in which  
Directors have a direct interest (continued)

	<u>As at 1.1.2009</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2009</u>
<u>Class G Preference Shares</u>				
David Conner	50,000	0	0	50,000
<u>Class B Preference Shares</u>				
Ching Wei Hong	2,500	0	0	2,500

## Shareholdings in which Directors have deemed interest

	<u>As at 1.1.2009</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2009</u>
<u>OCBC Deferred Share Plan and OCBC Employee Share Purchase Plan</u>				
David Conner	401,493	483,794	106,320	778,967
Ching Wei Hong	65,792	53,498	15,548	103,742
Soon Tit Koon	226,244	136,798	67,022	296,020
Chew Sun Teong	38,525	37,593	6,823	69,295
<u>Ordinary Shares</u>				
Tan Siok Choo	3,530,550	155,923	0	3,686,473
<u>Class G Preference Shares</u>				
Tan Siok Choo	735,532	0	0	735,532

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

## Number of share options held by Directors in their own name

	<u>As at 1.1.2009</u>	<u>Offered</u>	<u>Exercised</u>	<u>As at 31.12.2009</u>	<u>Date option expire</u>
David Conner	3,845,000	0	792,000	3,053,000	8/4/2012 – 13/3/2018
Ching Wei Hong	252,280	75,000	0	327,280	14/3/2014 – 15/3/2019
Soon Tit Koon	848,000	100,000	0	948,000	8/4/2012 – 15/3/2019
Chew Sun Teong	102,000	40,000	25,000	117,000	13/3/2016 – 15/3/2019



Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD  
(Incorporated in Malaysia)

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (continued)**

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

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 1.1.2009</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2009</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	200	0	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 nor 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 2009 (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 02 March 2010.

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 104 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 2009 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 02 March 2010.

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 104 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 02 March 2010                             )     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 2009 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 104.

#### *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 2009 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: 02 March 2010

**BALANCE SHEETS AS AT 31 DECEMBER 2009**

	Note	Group		Bank	
		2009 RM'000	2008 (restated) RM'000	2009 RM'000	2008 RM'000
<b>ASSETS</b>					
Cash and short-term funds	2	11,211,535	4,374,064	9,945,874	3,717,429
Deposits and placements with banks and other financial institutions	3	2,019,784	1,230,613	2,459,784	1,230,613
Held-for-trading securities	4	367,148	581,784	367,148	581,784
Available-for-sale securities	4	6,519,318	8,577,769	5,577,667	7,744,641
Loans, advances and financing	5	31,688,667	30,174,433	29,576,545	28,044,170
Other assets	7	747,361	1,646,421	968,432	1,898,721
Statutory deposits with Bank Negara Malaysia	8	43,092	937,608	19,592	853,608
Investment in subsidiary companies	9	0	0	196,611	196,611
Property, plant and equipment	10	236,984	255,933	230,439	253,994
Investment property	11	11,250	12,358	11,250	12,358
Prepaid lease payments	12	2,877	2,929	2,877	2,929
Non-current assets held for sale	13	0	0	0	0
Deferred taxation asset	14	115,263	78,980	103,989	66,627
Taxation recoverable		133	0	0	0
<b>TOTAL ASSETS</b>		<b>52,963,412</b>	<b>47,872,892</b>	<b>49,460,208</b>	<b>44,603,485</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Deposits from customers	15	41,590,752	36,644,059	38,083,246	33,967,274
Deposits and placements of banks and other financial institutions	16	4,821,395	3,859,946	4,781,105	3,546,146
Bills and acceptances payable		244,983	1,446,081	225,309	1,431,979
Amount due to Cagamas		361,563	435,327	361,563	435,327
Subordinated term loan / bonds	17	1,295,098	981,162	1,295,098	981,162
Other liabilities	18	917,806	1,318,739	1,009,862	1,068,096
Taxation and zakat		42,459	61,340	42,459	61,325
<b>Total Liabilities</b>		<b>49,274,056</b>	<b>44,746,654</b>	<b>45,798,642</b>	<b>41,491,309</b>
Financed by :					
Share capital	19	291,500	291,500	291,500	291,500
Reserves	20	3,397,856	2,834,738	3,370,066	2,820,676
<b>Shareholders' Equity</b>		<b>3,689,356</b>	<b>3,126,238</b>	<b>3,661,566</b>	<b>3,112,176</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>52,963,412</b>	<b>47,872,892</b>	<b>49,460,208</b>	<b>44,603,485</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	31	<b>64,332,373</b>	<b>73,615,708</b>	<b>63,186,944</b>	<b>72,821,958</b>

The accompanying notes on pages 28 to 104 form an integral part of the financial statements.

**INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009**

	Note	Group		Bank	
		2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Interest income	21	1,952,561	2,133,875	1,970,543	2,134,947
Interest expense	22	(916,867)	(1,138,807)	(916,889)	(1,138,820)
Net interest income		<u>1,035,694</u>	<u>995,068</u>	<u>1,053,654</u>	<u>996,127</u>
Islamic Banking income		143,949	113,137	0	105,732
		<u>1,179,643</u>	<u>1,108,205</u>	<u>1,053,654</u>	<u>1,101,859</u>
Non-interest income	23	415,285	432,105	456,226	436,297
Net income		<u>1,594,928</u>	<u>1,540,310</u>	<u>1,509,880</u>	<u>1,538,156</u>
Staff costs and overhead expenses	24	(597,114)	(598,618)	(567,470)	(596,871)
Operating profit before allowances		<u>997,814</u>	<u>941,692</u>	<u>942,410</u>	<u>941,285</u>
Allowance for losses on loans, advances and financing	26	(184,678)	(106,033)	(157,390)	(96,224)
Provision for commitment and contingencies	18(b)	(100)	3,936	(100)	3,936
Impairment losses on investment property	24	0	(577)	0	(577)
Profit before taxation and zakat		<u>813,036</u>	<u>839,018</u>	<u>784,920</u>	<u>848,420</u>
Taxation	28	(205,197)	(222,428)	(197,807)	(224,775)
Zakat		(10)	(15)	0	(15)
Net profit attributable to shareholders		<u>607,829</u>	<u>616,575</u>	<u>587,113</u>	<u>623,630</u>
Basic earnings per share (sen)	29	<u>205.1</u>	<u>208.2</u>	<u>197.9</u>	<u>210.6</u>

The accompanying notes on pages 28 to 104 form an integral part of the financial statements.

**STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009**

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
<b>Group</b>							
Balance at 1 January 2009	291,500	858,500	322,000	56,619	155,607	1,442,012	3,126,238
Revaluation of available-for-sale securities (net)	0	0	0	0	(28,831)	0	(28,831)
Deferred tax on revaluation of available-for-sale securities (net)	0	0	0	0	29,003	0	29,003
Realised gain on available-for-sale securities reclassified to income statements upon disposal	0	0	0	0	(26,843)	0	(26,843)
Net losses recognised directly in equity	0	0	0	0	(26,671)	0	(26,671)
Net profit attributable to shareholders	0	0	0	0	0	607,829	607,829
Total recognised income and expense for the year	0	0	0	0	(26,671)	607,829	581,158
Transfer to statutory reserve	0	0	8,660	0	0	(8,660)	0
Dividends paid on preference shares	30	0	0	0	0	(18,040)	(18,040)
Balance at 31 December 2009	291,500	858,500	330,660	56,619	128,936	2,023,141	3,689,356
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	291,500	858,500	322,000	56,619	155,607	1,442,012	3,126,238



**STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009  
(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	
<b>Bank</b>							
Balance at 1 January 2009	291,500	858,500	322,000	147,220	1,492,956	3,112,176	
Revaluation of available-for-sale securities (net)	0	0	0	(16,012)	0	(16,012)	
Deferred tax on revaluation of available-for-sale securities (net)	0	0	0	27,810	0	27,810	
Realised gain on available-for-sale securities reclassified to income statement upon disposal	0	0	0	(31,481)	0	(31,481)	
Net losses recognised directly in equity	0	0	0	(19,683)	0	(19,683)	
Net profit attributable to shareholders	0	0	0	0	587,113	587,113	
Total recognised income and expense for the year	0	0	0	(19,683)	587,113	567,430	
Dividends paid on preference shares	30	0	0	0	(18,040)	(18,040)	
Balance at 31 December 2009	291,500	858,500	322,000	127,537	2,062,029	3,661,566	
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	291,500	858,500	322,000	147,220	1,492,956	3,112,176	

The accompanying notes on pages 28 to 104 form an integral part of the financial statements.

**CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009**

	Note	Group		Bank	
		2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit before taxation and zakat		813,036	839,018	784,920	848,420
Adjustments for:-					
Net losses/(gains) from sale of held-for-trading securities		2,773	(6,813)	2,773	(6,813)
Net gains from sale of available-for-sale securities		(30,345)	(25,314)	(31,481)	(36,791)
Dividends received		(3,128)	(7,075)	(3,128)	(7,075)
Depreciation of property, plant and equipment		43,735	32,749	42,340	32,710
Depreciation of investment property		839	601	839	601
Amortisation of prepaid lease payments		52	52	52	52
Impairment losses on investment property		0	577	0	577
Loss on disposal of property, plant and equipment (net)		144	132	93	132
Gain on disposal of non-current assets held for sale		(1,296)	(4,649)	(1,296)	(4,649)
Allowance for losses on loans, advances and financing		184,678	106,033	157,390	96,224
Profit equalisation reserve		(8,088)	1,089	0	4,708
Amortisation of premium less accretion of discount		22,770	23,190	22,770	23,011
Provision for/(Write back) of commitment and contingencies		100	(3,936)	100	(3,936)
Equity compensation benefits		5,199	6,115	5,199	6,115
Unrealised losses/(gains) on revaluation (net)		208,672	(193,848)	208,672	(193,728)
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>		<b>1,239,141</b>	<b>767,921</b>	<b>1,189,243</b>	<b>759,558</b>
<b>(Increase)/Decrease in Operating Assets :</b>					
Loans, advances and financing		(1,698,912)	(3,668,536)	(1,689,765)	(3,619,640)
Other assets and statutory deposits with Bank Negara Malaysia		1,792,398	1,745,020	1,763,665	1,712,307
Deposits and placements with banks and other financial institutions		(789,171)	(1,000,214)	(1,229,171)	(1,835,054)
Held-for-trading securities (net)		203,078	1,288,231	203,078	1,288,231
Securities purchased under resale agreements		0	358,344	0	358,344
<b>Increase/(Decrease) in Operating Liabilities :</b>					
Deposits from customers		4,946,693	5,221,019	4,115,972	4,915,396
Bills and acceptances payable		(1,201,098)	(236,151)	(1,206,670)	(246,952)
Amount due to Cagamas		(73,764)	(193,353)	(73,764)	(193,353)
Other liabilities		(583,193)	(2,230,874)	(248,582)	(1,938,826)
Deposits and placements of banks and other financial institutions		961,449	(204,322)	1,234,959	(77,586)
Cash generated from operations		4,796,621	1,847,085	4,058,965	1,122,425
Income tax and zakat paid		(230,365)	(231,835)	(226,225)	(231,835)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>4,566,256</b>	<b>1,615,250</b>	<b>3,832,740</b>	<b>890,590</b>

**CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009 (continued)**

	Note	Group		Bank	
		2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sale/(Purchase) of available-for-sale securities (net)		2,009,216	(2,614,531)	2,128,192	(2,516,399)
Purchase of property, plant and equipment		(25,045)	(62,997)	(19,532)	(61,510)
Purchase of investment property		(60)	(3,470)	(60)	(3,470)
Proceeds from sale of property, plant and equipment		99	222	100	705
Proceeds from sale of non-current assets held for sale		1,641	6,741	1,641	6,741
Dividends received		3,128	7,075	3,128	7,075
Subscription of ordinary shares of Islamic subsidiary		0	0	0	(195,000)
Subscription of Islamic subordinated bonds of Islamic subsidiary		0	0	0	(200,000)
Net cash received pursuant to business vesting to Islamic subsidiary		0	0	0	362,923
<b>NET CASH GENERATED FROM/(UTILISED IN) INVESTING ACTIVITIES</b>		<b>1,988,979</b>	<b>(2,666,960)</b>	<b>2,113,469</b>	<b>(2,598,935)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Dividends paid		(18,040)	(60,640)	(18,040)	(60,640)
Proceeds/(Repayment) from subordinated term loan/ bonds		300,276	(149,701)	300,276	(149,701)
<b>NET CASH GENERATED FROM/(UTILISED IN) FINANCING ACTIVITIES</b>		<b>282,236</b>	<b>(210,341)</b>	<b>282,236</b>	<b>(210,341)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>6,837,471</b>	<b>(1,262,051)</b>	<b>6,228,445</b>	<b>(1,918,686)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR</b>		<b>4,374,064</b>	<b>5,636,115</b>	<b>3,717,429</b>	<b>5,636,115</b>
<b>CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR</b>	2	<b>11,211,535</b>	<b>4,374,064</b>	<b>9,945,874</b>	<b>3,717,429</b>

The accompanying notes on pages 28 to 104 form an integral part of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009

### GENERAL INFORMATION

The principal activities of the Group and of the Bank are banking and related financial services which also include Islamic Banking (“IB”) business. 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. 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 3,012 (2008: 3,240) employees in the Group and 2,902 (2008: 3,170) employees in the Bank of which the number of employees seconded to E2 Power Sdn Bhd, a related company amounted to 397 (2008: 426), and to OCBC Al-Amin amounted to 135 (2008: 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 19<sup>th</sup> Floor, Menara OCBC, 18 Jalan Tun Perak, 50050 Kuala Lumpur.

## 1 SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES

### 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 (“BNM”) Guidelines, the provisions of the Companies Act, 1965 and Syariah requirements (operations of IB).

The financial statements incorporate all activities relating to 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 following FRS, amendments to FRSs and IC Interpretations have been issued by the MASB and are effective from 1 January 2010 with the exception of FRS 8 which is effective from 1 July 2009. FRS 8 is not applicable to the Group and the Bank in preparing the financial statements for the year ended 31 December 2009:

	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 101 Presentation of Financial Statements	On or after 1 January 2010	1 January 2010
FRS 123 Borrowing Costs	On or after 1 January 2010	1 January 2010
FRS 139 Financial Instruments: Recognition and Measurement	On or after 1 January 2010	1 January 2010
Amendments to FRS 2, Share-based Payment: Vesting Conditions and Cancellations	On or after 1 January 2010	Not applicable
Amendments to FRS 1, First-time Adoption of Financial Reporting Standards and FRS 127, Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	On or after 1 January 2010	1 January 2010
Amendments to FRS 132, Financial Instruments: Presentation and FRS 101, Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation	On or after 1 January 2010	1 January 2010
Amendments to FRS 139, Financial Instruments: Recognition and Measurement, FRS 7, Financial Instruments: Disclosures and IC Interpretation 9, Reassessment of Embedded Derivatives	On or after 1 January 2010	1 January 2010

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****1 SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)**

## A. Basis of preparation of the financial statements (continued)

	Effective Date	Date of adoption by the Group and Bank
Amendments to FRSs contained in the document entitled "Improvements to FRSs (2009)"	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
IC Interpretation 11 FRS 2 – Group and Treasury Share Transactions	On or after 1 January 2010	1 January 2010
IC Interpretation 13 Customer Loyalty Programmes	On or after 1 January 2010	1 January 2010
IC Interpretation 14 FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	On or after 1 January 2010	Not applicable

The impact of applying FRS 7 and FRS 139 on the financial statements upon first adoption as required by FRS 108.30(b), Accounting Policies, Changes in Accounting Estimates and Errors is not disclosed by virtue of the exemptions given in the respective FRSs.

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.

Subsequent to the end of the financial year, on 8 January 2010, the MASB issued the following FRSs, IC Interpretations and Amendments to FRSs:

	Effective Date	Date of adoption by the Group and Bank
FRS 1 (revised) First-time Adoption of Financial Reporting Standards	On or after 1 July 2010	1 July 2010
FRS 3 (revised) Business Combinations	On or after 1 July 2010	1 July 2010
FRS 127 (revised) Consolidated and Separate Financial Statements	On or after 1 July 2010	1 July 2010
IC Interpretation 12 Service Concession Arrangements	On or after 1 July 2010	Not applicable
IC Interpretation 15 Agreements for the Construction of Real Estate	On or after 1 July 2010	Not applicable
IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation	On or after 1 July 2010	Not applicable
IC Interpretation 17 Distributions of Non-cash Assets to Owners	On or after 1 July 2010	Not applicable
Amendments to FRS 2 Share-based Payment	On or after 1 July 2010	1 July 2010
Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations	On or after 1 July 2010	1 July 2010
Amendments to FRS 138 Intangible Assets	On or after 1 July 2010	1 July 2010
Amendments to FRS 139 Financial Instruments: Recognition and Measurement	On or after 1 January 2010	1 January 2010
Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives	On or after 1 July 2010	1 July 2010

The adoption of the applicable FRSs, amendments to FRSs and IC Interpretations is not expected to have a significant financial impact on the Group and the Bank, other than the Amendments to FRS 139.

The Amendments to FRS 139 include an additional transitional arrangement for entities in the financial services sector, whereby BNM may prescribe the use of an alternative basis for collective assessment of impairment for banking institutions. This transitional arrangement is prescribed in BNM's guidelines on Classification and Impairment Provisions for Loans/Financing issued on 8 January 2010, whereby banking institutions are required to maintain collective impairment provisions of at least 1.5% of total outstanding loans/financing, net of individual impairment provision. Subject to the prior written approval from BNM, banking institutions are allowed to maintain a lower collective impairment assessment provision.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)

### 1 SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES (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 2009. Subsidiary companies are those companies in which the Group has power to exercise control over the financial 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 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.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)

### 1 SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES (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 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 sheets.

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 sheets.

#### 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 statements. Reclassification of securities in and out of held-for-trading portfolio is disallowed.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)

### 1 SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

#### G. Securities (continued)

##### ii) Available-for-sale securities

Available-for-sale ("AFS") securities 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 statements. 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 statements. 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 statements, that portion of impairment loss may be reversed in income statements.

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

#### H. Investment in Subsidiary Companies

Subsidiary companies are those companies in which the Group has power to exercise control over the financial 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 any 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.



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)**

**1 SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES (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 statements 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 that 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 sheets.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)**

**1 SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES (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 statements.

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

	<u>2009</u>	<u>2008</u>
Foreign currency	RM	RM
1 US Dollar	3.42	3.46
1 Australian Dollar	3.08	2.40
1 Singapore Dollar	2.45	2.41
100 Japanese Yen	3.71	3.84

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 substantively 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.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)**

**1 SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES (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 statements.

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 statements.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)**

**1 SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES (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 statements 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 statements 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 1<sup>st</sup> anniversary of the respective dates of grant and expiring on the 10<sup>th</sup> anniversary of the respective dates of grant. One-third of the share options granted will vest each financial year after the 1<sup>st</sup> anniversary of the respective dates of grant and fully vested after the 3<sup>rd</sup> anniversary.

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 statements. 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 statements 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 statements 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 statements.

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)**

**1 SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)**

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.

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 BNM. 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).

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)

### 1 SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

#### X. Derivatives (continued)

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 statements.

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 statements 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 statements. 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 statements 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 is 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 statements in the period in which the hedge forecasted transaction affects the income statements.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****2 CASH AND SHORT-TERM FUNDS**

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Cash and balances with banks and other financial institutions	217,876	239,862	187,953	236,297
Money at call and deposit placements maturing within one month	10,993,659	4,134,202	9,757,921	3,481,132
	<u>11,211,535</u>	<u>4,374,064</u>	<u>9,945,874</u>	<u>3,717,429</u>

**3 DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Licensed banks	1,094,784	780,613	1,534,784	780,613
Bank Negara Malaysia	925,000	450,000	925,000	450,000
	<u>2,019,784</u>	<u>1,230,613</u>	<u>2,459,784</u>	<u>1,230,613</u>

Included in deposits and placements with banks and other financial institutions are exposures to Restricted Profit Sharing Investment Accounts (“RPSIA”) as part of an arrangement with OCBC Al-Amin Bank Berhad (“OCBC Al-Amin”). The RPSIA is a contract based on the Mudharabah principle to fund a specific business venture where the Bank solely provides capital and the business venture is managed solely by the entrepreneur. The profit of the business venture arrangement is shared based on a pre agreed ratio.

As at 31 December 2009, the RPSIA placements amounted to RM140,000,000 (2008: Nil) for a tenure of more than 1 year at profit rates ranging from 3.58% to 3.61% per annum.

**4 SECURITIES PORTFOLIO**

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
i) Held-for-trading securities				
<u>At fair value</u>				
Malaysian Government treasury bills	30,230	0	30,230	0
Malaysian Government securities	75,284	63,059	75,284	63,059
Government Investment Certificate	2,994	41,902	2,994	41,902
Bank Negara Malaysia bills	73,676	1,662	73,676	1,662
Bank Negara Malaysia negotiable notes	3,445	0	3,445	0
Cagamas bond and notes	10,148	0	10,148	0
Private debt securities	131,903	474,804	131,903	474,804
Quoted shares in Malaysia	39,468	357	39,468	357
	<u>367,148</u>	<u>581,784</u>	<u>367,148</u>	<u>581,784</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****4 SECURITIES PORTFOLIO (continued)**

	<b>Group</b>		<b>Bank</b>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
ii) Available-for-sale securities				
<u>At fair value</u>				
Malaysian Government treasury bills	29,446	0	29,446	0
Malaysian Government securities	1,985,050	4,136,832	1,985,050	4,136,832
Government Investment Certificate	823,053	1,444,231	648,470	992,589
Bank Negara Malaysia bills	0	84,252	0	84,252
Cagamas bonds / notes	126,133	0	106,037	0
Private debt securities	1,014,320	1,397,079	690,271	1,089,876
Negotiable instruments of deposit	2,421,825	1,224,283	1,998,902	1,150,000
Other government securities	0	173,343	0	173,343
Quoted shares in Malaysia	0	53,861	0	53,861
Unquoted shares in Malaysia	106,478	56,315	106,478	56,315
Unquoted shares outside Malaysia	13,582	8,142	13,582	8,142
Debentures	190	190	190	190
	<u>6,520,077</u>	<u>8,578,528</u>	<u>5,578,426</u>	<u>7,745,400</u>
Allowance for impairment losses in available-for-sale securities :				
- Unquoted shares in Malaysia	(109)	(109)	(109)	(109)
- Private debt securities	(638)	(638)	(638)	(638)
- Debentures	(12)	(12)	(12)	(12)
	<u>(759)</u>	<u>(759)</u>	<u>(759)</u>	<u>(759)</u>
	<u>6,519,318</u>	<u>8,577,769</u>	<u>5,577,667</u>	<u>7,744,641</u>

Included in Malaysian Government Securities are securities utilised to meet the statutory reserve requirement as referred to in Note 8. The nominal value of securities utilised as at 31 December 2009 is RM205,000,000.

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

	<b>Group</b>		<b>Bank</b>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	759	6,421	759	6,421
Amount written off	0	(5,662)	0	(5,662)
Balance at 31 December	<u>759</u>	<u>759</u>	<u>759</u>	<u>759</u>



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****5 LOANS, ADVANCES AND FINANCING**

## i) By type

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Overdrafts	3,436,809	3,791,580	3,103,268	3,406,495
Term loans/financing :				
Housing loans/financing	8,511,252	7,724,556	8,415,620	7,605,105
Syndicated term loan/financing	3,036,232	1,867,533	2,680,452	1,649,828
Hire purchase	546,579	632,743	128	140
Lease receivables	8,570	18,377	8,517	17,805
Other term loans	10,697,608	10,716,266	10,197,855	10,195,573
Credit/charge cards receivables	506,282	596,688	506,282	596,688
Bills receivable	87,764	106,383	73,623	96,141
Trust receipts	68,573	114,056	68,573	113,641
Claims on customers under acceptance credits	2,087,772	2,400,698	1,874,656	2,155,104
Block discounting	330	330	330	330
Loans to banks and other financial institutions	205,385	203,631	205,385	203,631
Revolving credit	1,863,930	1,973,320	1,498,484	1,608,721
Staff loans (of which RM Nil [2008 : RM Nil] to Directors)	117,182	116,362	117,182	116,362
Other loans	1,716,800	1,127,044	1,695,358	1,119,465
	<u>32,891,068</u>	<u>31,389,567</u>	<u>30,445,713</u>	<u>28,885,029</u>
Unearned interest and income	(255,720)	(305,848)	(469)	(1,227)
Gross loans, advances and financing	<u>32,635,348</u>	<u>31,083,719</u>	<u>30,445,244</u>	<u>28,883,802</u>
Allowance for bad and doubtful debts and financing :				
- Specific	(457,392)	(449,277)	(418,140)	(413,155)
- General	(489,289)	(460,009)	(450,559)	(426,477)
Net loans, advances and financing	<u>31,688,667</u>	<u>30,174,433</u>	<u>29,576,545</u>	<u>28,044,170</u>

As part of the arrangement with OCBC Al-Amin in relation to RPSIA, the Bank records as deposits and placements with banks and financial institutions, its exposure in the arrangement as referred to Note 3, whereas OCBC Al-Amin records as deposits and placement of financial institutions. The RPSIA exposes the Bank to the risk and rewards on the financing and accordingly, the Bank accounts for all specific allowances for bad and doubtful debts arising thereon whereas general allowance is borne by OCBC Al-Amin.

As at 31 December 2009, the gross exposure relating to RPSIA financing is RM140,000,000 (2008: Nil).

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****5 LOANS, ADVANCES AND FINANCING (continued)**

## ii) By type of customers

	<b>Group</b>		<b>Bank</b>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Domestic non-bank financial institutions				
- Others	243,832	244,475	233,778	244,475
Domestic business enterprises				
- Small medium enterprises ("SME")	5,630,718	5,797,370	5,286,507	5,402,780
- Non-SME	14,793,598	13,787,081	13,337,384	12,338,722
Government and statutory bodies	0	43,822	0	43,822
Individuals	11,790,595	11,110,959	11,481,090	10,755,395
Other domestic entities	1,577	2,319	1,577	2,319
Foreign entities	175,028	97,693	104,908	96,289
	<u>32,635,348</u>	<u>31,083,719</u>	<u>30,445,244</u>	<u>28,883,802</u>

## iii) By interest/profit rate sensitivity

	<b>Group</b>		<b>Bank</b>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Fixed rate				
Housing loans/financing	57,543	71,516	0	0
Hire purchase receivables	498,902	573,537	77	77
Other fixed rate loan/financing	1,995,606	2,378,696	1,083,096	1,133,027
Variable rate				
BLR plus	21,018,906	19,654,259	21,018,906	19,654,259
Cost-plus	3,343,754	3,819,013	3,343,754	3,819,013
Other variable rates	5,720,637	4,586,698	4,999,411	4,277,426
	<u>32,635,348</u>	<u>31,083,719</u>	<u>30,445,244</u>	<u>28,883,802</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****5 LOANS, ADVANCES AND FINANCING (continued)**

iv) By sector

	<b>Group</b>		<b>Bank</b>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Agriculture	2,370,946	1,880,061	1,794,485	1,393,752
Mining and quarrying	301,218	307,953	275,411	274,395
Manufacturing	5,007,796	5,624,525	4,405,750	4,943,751
Electricity, gas and water	1,147,820	352,677	1,147,820	352,677
Construction	908,924	945,294	765,480	830,410
Real estate	3,584,656	3,818,470	3,488,795	3,650,272
Wholesale and retail trade and restaurant	4,908,760	4,620,135	4,737,064	4,470,113
Transport, storage and communication	843,097	697,485	706,149	562,904
Finance, insurance and business services	764,810	724,812	722,392	694,873
Community, social and personal services	622,040	557,004	607,030	516,696
Household sector, of which				
i. Purchase of residential properties	8,383,815	7,649,344	8,323,331	7,576,412
ii. Purchase of non-residential properties	1,170,817	1,186,296	1,168,380	1,184,577
iii. Others	2,335,157	2,358,552	2,087,656	2,079,134
Others	285,492	361,111	215,501	353,836
	<u>32,635,348</u>	<u>31,083,719</u>	<u>30,445,244</u>	<u>28,883,802</u>

**6 NON-PERFORMING LOANS, ADVANCES AND FINANCING**

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

	<b>Group</b>		<b>Bank</b>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	1,057,965	1,108,380	1,013,488	1,107,852
Non-performing during the year (gross)	764,960	511,865	713,587	508,443
Reclassified as performing during the year	(153,437)	(226,848)	(142,300)	(226,031)
Amount recovered	(255,490)	(250,319)	(247,172)	(249,690)
Amount written off	(175,723)	(84,576)	(152,926)	(83,343)
Transfer pursuant to business vesting to Islamic subsidiary	0	0	0	(43,206)
Foreign exchange difference	(3,495)	(537)	(3,495)	(537)
Balance at 31 December	<u>1,234,780</u>	<u>1,057,965</u>	<u>1,181,182</u>	<u>1,013,488</u>
Specific allowance	<u>(457,392)</u>	<u>(449,277)</u>	<u>(418,140)</u>	<u>(413,155)</u>
Net non-performing loans, advances and financing	<u>777,388</u>	<u>608,688</u>	<u>763,042</u>	<u>600,333</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****6 NON-PERFORMING LOANS, ADVANCES AND FINANCING (continued)**

	<b>Group</b>		<b>Bank</b>	
	2009	2008	2009	2008
Ratio of net non-performing loans, advances and financing to gross loans, advances and financing less specific allowance	<u>2.42%</u>	<u>1.99%</u>	<u>2.54%</u>	<u>2.11%</u>

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

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
<u>General allowance</u>				
Balance at 1 January	460,009	402,112	426,477	402,097
Allowance made during the year	29,280	57,897	24,082	57,281
Transfer pursuant to business vesting to Islamic subsidiary	0	0	0	(32,901)
Balance at 31 December	<u>489,289</u>	<u>460,009</u>	<u>450,559</u>	<u>426,477</u>
As % of gross loans, advances and financing less specific allowance	<u>1.52%</u>	<u>1.50%</u>	<u>1.50%</u>	<u>1.50%</u>
<u>Specific allowance</u>				
Balance at 1 January	449,277	418,833	413,155	418,305
Allowance made during the year	316,769	257,990	275,745	247,581
Amount written back in respect of recoveries	(131,405)	(142,599)	(116,308)	(141,677)
Amount written off	(175,723)	(84,576)	(152,926)	(83,343)
Transfer pursuant to business vesting to Islamic subsidiary	0	0	0	(27,340)
Foreign exchange difference	(1,526)	(371)	(1,526)	(371)
Balance at 31 December	<u>457,392</u>	<u>449,277</u>	<u>418,140</u>	<u>413,155</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****6 NON-PERFORMING LOANS, ADVANCES AND FINANCING (continued)**

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

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Agriculture	19,432	7,638	19,229	7,386
Manufacturing	457,742	367,267	429,657	346,185
Electricity, gas and water	48	0	48	0
Construction	69,867	46,337	64,472	41,732
Real estate	91,125	104,754	91,029	104,645
Wholesale and retail trade and restaurant	190,219	136,018	186,358	132,443
Transport, storage and communication	5,649	3,850	4,955	3,170
Finance, insurance and business services	19,974	4,402	19,779	4,402
Community, social and personal services	2,392	2,363	2,119	2,136
Household sector, of which				
i. Purchase of residential properties	262,112	241,793	258,754	237,418
ii. Purchase of non-residential properties	19,238	14,520	19,174	14,517
iii. Others	82,980	97,112	71,606	87,543
Others	14,002	31,911	14,002	31,911
	<u>1,234,780</u>	<u>1,057,965</u>	<u>1,181,182</u>	<u>1,013,488</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)**

7 OTHER ASSETS	Group		Bank	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Interest receivable	77,993	121,465	74,652	114,912
Derivative assets (a)	547,154	1,021,420	543,171	1,020,543
Unquoted Islamic Subordinated Bonds of subsidiary (b)	0	0	200,000	200,000
Other debtors, deposits and prepayments	122,214	503,536	150,609	563,266
	<u>747,361</u>	<u>1,646,421</u>	<u>968,432</u>	<u>1,898,721</u>

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

Group	2009			2008		
	Contract or underlying principal amount RM'000	Fair value		Contract or underlying principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
<b>Financial derivatives</b>						
Trading:						
Foreign exchange derivatives						
- forward	2,630,133	27,232	17,806	2,759,888	76,996	43,013
- swaps	14,149,744	120,221	130,932	11,284,101	214,090	184,675
- currency option	2,070,117	39,343	21,879	6,285,783	162,559	40,795
Interest rate derivatives						
- swaps	25,474,363	323,548	248,310	28,958,574	492,720	385,884
- option	1,301,275	6,624	1,748	1,307,348	8,194	2,942
- swaption	0	0	0	200,000	2,796	252
Equity and commodity derivatives						
- swaps	0	0	0	176,700	450	450
- option	907,050	6,827	14,455	865,886	27,032	27,032
- commodity	5,919	0	0	0	0	0
	<u>46,538,601</u>	<u>523,795</u>	<u>435,130</u>	<u>51,838,280</u>	<u>984,837</u>	<u>685,043</u>
Hedging:						
Interest rate derivatives						
- swaps	673,934	23,359	0	746,339	36,583	0
	<u>47,212,535</u>	<u>547,154</u>	<u>435,130</u>	<u>52,584,619</u>	<u>1,021,420</u>	<u>685,043</u>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)

## 7 OTHER ASSETS (continued)

<u>Bank</u>	2009			2008		
	Contract or underlying principal amount RM'000	Fair value		Contract or underlying principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
<b>Financial derivatives</b>						
Trading:						
Foreign exchange derivatives						
- forward	2,630,133	27,232	17,806	2,759,888	76,996	43,013
- swaps	14,149,744	120,221	130,932	11,284,100	214,090	184,675
- currency option	1,626,238	35,364	17,562	6,181,065	161,686	39,922
Interest rate derivatives						
- swaps	25,474,363	323,548	248,310	28,958,574	492,720	385,884
- option	1,301,275	6,624	1,748	1,307,348	8,194	2,942
- swaption	0	0	0	200,000	2,796	252
Equity and commodity derivatives						
- swaps	0	0	0	176,700	450	450
- option	830,212	6,823	14,451	788,168	27,028	27,028
- commodity	5,919	0	0	0	0	0
	<u>46,017,884</u>	<u>519,812</u>	<u>430,809</u>	<u>51,655,843</u>	<u>983,960</u>	<u>684,166</u>
Hedging:						
Interest rate derivatives						
- swaps	<u>673,934</u>	<u>23,359</u>	<u>0</u>	<u>746,339</u>	<u>36,583</u>	<u>0</u>
	<u>46,691,818</u>	<u>543,171</u>	<u>430,809</u>	<u>52,402,182</u>	<u>1,020,543</u>	<u>684,166</u>

- b) The unquoted Islamic Subordinated Bonds relate to the Islamic subsidiary, OCBC Al-Amin, which the Bank subscribed in connection with the transfer and vesting of its IB business to OCBC Al-Amin.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (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.

Pursuant to BNM's circular "Statutory Reserve Requirement" and BNM's subsequent letter dated 10 July 2009 in regards to "Regulatory Treatment related to the Statutory Reserve Requirement (SRR) Incentive for Principal Dealers and Islamic Principal Dealers", the Bank has utilised Malaysian Government Securities instead of cash to meet a portion of the SRR requirement as allowed under the Principal Dealership granted to the Bank. The nominal value of securities utilised as at 31 December 2009 is RM205,000,000.

**9 INVESTMENT IN SUBSIDIARY COMPANIES**

	<b>Bank</b>	
	2009	2008
Unquoted shares at cost	RM'000	RM'000
- in Malaysia	396,617	396,617
Subscription of Islamic Subordinated Bonds	(200,000)	(200,000)
Less : Allowance for diminution in value	(6)	(6)
	<u>196,611</u>	<u>196,611</u>

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

Name	Principal activities	Percentage of equity held	
		2009	2008
		%	%
OCBC AI-Amin Bank Berhad	Islamic banking	100	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



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****10 PROPERTY, PLANT AND EQUIPMENT**

<b>Group</b> 2009	Balance at 1 January	Additions	Disposal/ written off	Reclassified to investment property	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Cost</u>					
Freehold land and buildings	196,764	2,188	(2)	(86)	198,864
Buildings on leasehold land:					
- less than 50 years	3,607	0	0	0	3,607
- 50 years or more	7,076	0	0	0	7,076
Office equipment and furniture	71,147	5,034	(1,303)	0	74,878
Computer equipment	171,144	12,401	(1,060)	0	182,485
Motor vehicles	2,313	0	(3)	0	2,310
Renovation	26,008	5,249	(50)	0	31,207
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	2,037	173	0	0	2,210
	<u>480,096</u>	<u>25,045</u>	<u>(2,418)</u>	<u>(86)</u>	<u>502,637</u>
	Balance at 1 January	Charge for the year	Disposal/ written off	Reclassified to investment property	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accumulated depreciation</u>					
Freehold land and buildings	36,424	8,869	0	(70)	45,223
Buildings on leasehold land:					
- less than 50 years	944	94	0	0	1,038
- 50 years or more	1,581	152	0	0	1,733
Office equipment and furniture	51,135	3,654	(1,258)	0	53,531
Computer equipment	113,561	22,776	(915)	0	135,422
Motor vehicles	1,528	274	(2)	0	1,800
Renovation	9,539	7,832	0	0	17,371
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	1,759	84	0	0	1,843
	<u>216,471</u>	<u>43,735</u>	<u>(2,175)</u>	<u>(70)</u>	<u>257,961</u>
	Balance at 1 January	Charge for the year	Disposal/ written off	Reclassified to investment property	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>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****10 PROPERTY, PLANT AND EQUIPMENT (continued)**

<b>Group (continued)</b> 2009	Balance at 31 December RM'000
<u>Carrying amounts</u>	
Freehold land and buildings	149,469
Buildings on leasehold land:	
- less than 50 years	1,484
- 50 years or more	4,615
Office equipment and furniture	19,640
Computer equipment	47,063
Motor vehicles	510
Renovation	13,836
<u>Assets under lease:-</u> Computer/office equipment and furniture	<u>367</u>
	<u>236,984</u>

<b>Bank</b> 2009	Balance at 1 January RM'000	Additions RM'000	Disposal/ Written off RM'000	Disposal to subsidiary RM'000	Reclassified to investment property RM'000	Balance at 31 December RM'000
<u>Cost</u>						
Freehold land and buildings	196,764	2,188	(2)	(66)	(86)	198,798
Buildings on leasehold land:						
- less than 50 years	3,607	0	0	0	0	3,607
- 50 years or more	7,076	0	0	0	0	7,076
Office equipment and furniture	70,463	3,815	(1,303)	(44)	0	72,931
Computer equipment	170,328	10,041	(1,060)	(22)	0	179,287
Motor vehicles	2,313	0	(3)	0	0	2,310
Renovation	25,369	3,315	0	(633)	0	28,051
<u>Assets under lease:-</u> Computer/office equipment and furniture	<u>2,037</u>	<u>173</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,210</u>
	<u>477,957</u>	<u>19,532</u>	<u>(2,368)</u>	<u>(765)</u>	<u>(86)</u>	<u>494,270</u>

<b>Accumulated depreciation</b>	Balance at 1 January RM'000	Charge for the year RM'000	Reversed on disposal/ Written off RM'000	Disposal to subsidiary RM'000	Reclassified to investment property RM'000	Balance at 31 December RM'000
Freehold land and buildings	36,424	8,869	0	(15)	(70)	45,208
Buildings on leasehold land:						
- less than 50 years	944	94	0	0	0	1,038
- 50 years or more	1,581	152	0	0	0	1,733
Office equipment and furniture	51,081	3,520	(1,258)	(14)	0	53,329
Computer equipment	113,433	22,341	(915)	(22)	0	134,837
Motor vehicles	1,528	274	(2)	0	0	1,800
Renovation	9,521	7,006	0	(176)	0	16,351
<u>Assets under lease:-</u> Computer/office equipment and furniture	<u>1,759</u>	<u>84</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,843</u>
	<u>216,271</u>	<u>42,340</u>	<u>(2,175)</u>	<u>(227)</u>	<u>(70)</u>	<u>256,139</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****10 PROPERTY, PLANT AND EQUIPMENT (continued)**

<b>Bank (continued)</b> 2009	Balance at 1 January RM'000	Charge for the year RM'000	Reversed on disposal/ Written off RM'000	Disposal to subsidiary RM'000	Reclassified to investment property RM'000	Balance at 31 December RM'000
<u>Impairment losses</u>						
Freehold land and buildings	4,172	0	0	0	0	4,172
Leasehold land and buildings:						
- less than 50 years	1,085	0	0	0	0	1,085
- 50 years or more	728	0	0	0	0	728
Office equipment and furniture	1,707	0	0	0	0	1,707
	<u>7,692</u>	<u>0</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	149,418
Buildings on leasehold land:	
- less than 50 years	1,484
- 50 years or more	4,615
Office equipment and furniture	17,895
Computer equipment	44,450
Motor vehicles	510
Renovation	11,700
<u>Assets under lease:-</u>	
Computer/office equipment and furniture	367
	<u>230,439</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****10 PROPERTY, PLANT AND EQUIPMENT (continued)**

<b>Group 2008</b>	Balance at 1 January (restated)	Additions	Disposal/ written off	Balance at 31 December
	RM'000	RM'000	RM'000	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)	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	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	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
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 2009 (continued)****10 PROPERTY, PLANT AND EQUIPMENT (continued)**

<b>Group (continued)</b> 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>

<b>Bank</b> 2008	Balance at 1 January (restated) RM'000	Additions RM'000	Disposal/ written off RM'000	Disposal to 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>

<b>Accumulated depreciation</b>	Balance at 1 January (restated) RM'000	Charge for the year RM'000	Reversed on disposal/ written off RM'000	Disposal to 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 2009 (continued)****10 PROPERTY, PLANT AND EQUIPMENT (continued)**

<b>Bank (continued)</b> 2008	Balance at 1 January	Charge for the year	Reversed on disposal/ written off	Disposal to 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	<u>278</u>
	<u>253,994</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****11 INVESTMENT PROPERTY**

	<b>Group and Bank</b>	
	2009	2008
	RM'000	RM'000
<u>Cost</u>		
Balance at 1 January	16,464	12,994
Reclassified to non-current assets held for sale (Note 13)	(443)	0
Additions	60	3,470
Transferred from Property, plant and equipment	86	0
Balance at 31 December	<u>16,167</u>	<u>16,464</u>
<u>Accumulated depreciation</u>		
Balance at 1 January	2,423	1,822
Reclassified to non-current assets held for sale (Note 13)	(98)	0
Transferred from Property, plant and equipment	70	0
Charge for the year	839	601
Balance at 31 December	<u>3,234</u>	<u>2,423</u>
<u>Impairment losses</u>		
Balance at 1 January	1,683	1,683
<u>Carrying amounts</u>		
Balance at 31 December	<u>11,250</u>	<u>12,358</u>
Fair value at 31 December	<u>55,525</u>	<u>55,160</u>
Included in carrying amounts are:		
Freehold land and buildings	<u>11,250</u>	<u>12,358</u>

The following are recognised in the income statement in respect of investment properties:

	<b>Group and Bank</b>	
	2009	2008
	RM'000	RM'000
Rental income	1,957	1,848
Direct operating expenses:		
- income generating investment properties	203	293
- non-income generating investment properties	4	17
	<u>207</u>	<u>310</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****12 PREPAID LEASE PAYMENTS**

<b>Group and Bank</b>	Leasehold land		Total RM'000
	Unexpired period less than 50 years RM'000	Unexpired period 50 years or more RM'000	
<b>2009</b>			
<u>Cost</u>			
Balance at 1 January / 31 December	3,047	3,745	6,792
<u>Accumulated amortisation</u>			
Balance at 1 January	421	281	702
Amortisation for the year	36	16	52
Balance at 31 December	457	297	754
<u>Impairment losses</u>			
Balance at 1 January / 31 December	1,554	1,607	3,161
<u>Carrying amounts</u>			
Balance at 31 December	1,036	1,841	2,877
<b>2008</b>			
<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	1,554	1,607	3,161
<u>Carrying amounts</u>			
Balance at 31 December	1,072	1,857	2,929



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****13 NON-CURRENT ASSETS HELD FOR SALE**

	<b>Group and Bank</b>	
	2009	2008
	RM'000	RM'000
Balance at 1 January	0	2,092
Amount reclassified from investment property (Note 11) :		
- Cost	443	0
- Accumulated depreciation	(98)	0
Disposal	(345)	(2,092)
Balance at 31 December	<u>0</u>	<u>0</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:

	<b>Group</b>		<b>Bank</b>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets (before offsetting)	139,399	132,070	127,326	118,326
Deferred tax liabilities (before offsetting)	(24,136)	(53,090)	(23,337)	(51,699)
Deferred tax assets after offsetting	<u>115,263</u>	<u>78,980</u>	<u>103,989</u>	<u>66,627</u>

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

<b>Group</b>	Balance at	Credit to reserves	Credit /	Reversal upon disposal of available-for-sale securities	Balance at
	1 January 2009		(charged) to income statements (Note 28)		31 December 2009
	RM'000	RM'000	RM'000	RM'000	RM'000
Allowance for impairment loss in available-for-sale securities	190	0	0	0	190
Temporary differences arising from leasing business	3,785	0	(251)	0	3,534
Excess of capital allowance over depreciation	(14,032)	0	(202)	0	(14,234)
General allowance on loans, advances and financing	115,006	0	7,317	0	122,323
Unrealised (gains) / losses on revaluation of financial instruments	(35,955)	29,003	(1,136)	1,136	(6,952)
Other temporary differences	9,986	0	416	0	10,402
Total	<u>78,980</u>	<u>29,003</u>	<u>6,144</u>	<u>1,136</u>	<u>115,263</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****14 DEFERRED TAXATION (continued)**

	Balance at 1 January 2009 RM'000	Credit to reserves RM'000	Credit / (charged) to income statements (Note 28) RM'000	Reversal upon disposal of available-for- sale securities RM'000	Balance at 31 December 2009 RM'000
<b>Bank</b>					
Allowance for impairment loss in available-for-sale securities	190	0	0	0	190
Temporary differences arising from leasing business	4,082	0	(522)	0	3,560
Excess of capital allowance over depreciation	(14,033)	0	576	0	(13,457)
General allowance on loans, advances and financing	106,619	0	6,021	0	112,640
Unrealised (gains) / losses on revaluation of financial instruments	(34,852)	27,810	0	0	(7,042)
Other temporary differences	4,621	0	3,477	0	8,098
<b>Total</b>	<b>66,627</b>	<b>27,810</b>	<b>9,552</b>	<b>0</b>	<b>103,989</b>

	Balance at 1 January 2008 RM'000	Debit to reserves RM'000	Credit / (charged) to income statements (Note 28) RM'000	Balance at 31 December 2008 RM'000
<b>Group</b>				
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
<b>Total</b>	<b>100,056</b>	<b>(26,171)</b>	<b>5,095</b>	<b>78,980</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****14 DEFERRED TAXATION (continued)**

	Balance at 1 January 2008	Debit to reserves	Credit / (charged) to income statements (Note 28)	Transfer pursuant to 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
<b>Bank</b>						
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
<b>Total</b>	<b>100,345</b>	<b>(25,068)</b>	<b>2,829</b>	<b>(13,171)</b>	<b>1,692</b>	<b>66,627</b>

**15 DEPOSITS FROM CUSTOMERS**

## i) By type of deposits

	Group		Bank	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Demand deposits	5,546,072	4,779,724	4,859,491	4,215,300
Savings deposits	2,583,132	2,083,575	2,272,653	1,802,865
Fixed deposits	26,898,390	21,171,298	25,393,430	20,009,411
Negotiable instruments of deposits	704,180	649,999	36,062	294,178
Short-term money market deposits	4,843,437	6,798,750	4,639,832	6,583,173
Structured investments	1,002,020	1,150,375	868,257	1,052,009
Others	13,521	10,338	13,521	10,338
	<b>41,590,752</b>	<b>36,644,059</b>	<b>38,083,246</b>	<b>33,967,274</b>

## ii) By type of customers

Government and statutory bodies	288,465	4,585	1,558	4,569
Business enterprises	20,016,546	16,750,153	18,805,917	15,299,199
Individuals	18,073,785	16,663,350	17,618,121	16,230,234
Foreign Entities	10,257	9,682	0	0
Others	3,201,699	3,216,289	1,657,650	2,433,272
	<b>41,590,752</b>	<b>36,644,059</b>	<b>38,083,246</b>	<b>33,967,274</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****16 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<b>Group</b>		<b>Bank</b>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Licensed banks	4,324,075	3,293,458	4,283,785	3,153,918
Other financial institutions	497,320	566,488	497,320	392,228
	<u>4,821,395</u>	<u>3,859,946</u>	<u>4,781,105</u>	<u>3,546,146</u>

**17 SUBORDINATED TERM LOAN / BONDS**

		<b>Group</b>		<b>Bank</b>	
		2009	2008	2009	2008
		RM'000	RM'000	RM'000	RM'000
USD 100 million	Due 2003/2013 (a)	283,638	361,617	283,638	361,617
RM 200 million	Due 2006/2021 (b)	200,000	200,000	200,000	200,000
RM 400 million	Due 2007/2017 (c)	411,460	419,545	411,460	419,545
RM 400 million	Due 2009 (d)	400,000	0	400,000	0
		<u>1,295,098</u>	<u>981,162</u>	<u>1,295,098</u>	<u>981,162</u>

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

On 28 May 2009, the Bank repaid USD20 million of the USD100 million subordinated term loan obtained from Oversea-Chinese Banking Corporation Limited, Labuan Branch, as required to be repaid in full by 5 equal and consecutive annual instalments commencing from the 6<sup>th</sup> anniversary year from the date of disbursement.

- b) On 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 11<sup>th</sup> 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, now rated AA1 (upgraded from 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)**

**17 SUBORDINATED TERM LOAN / BONDS (continued)**

- c) 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 5<sup>th</sup> 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 5<sup>th</sup> 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 AA1 (upgraded from AA2) by Rating Agency Malaysia Berhad, qualify as Tier 2 capital for the purpose of determining the capital adequacy ratio of the Bank.

- d) On 17 April 2009, the Bank issued RM400 million Innovative Tier 1 ("IT1") Capital Securities with permanent tenure but redeemable at the Bank's option (subject to prior approval of BNM and MAS), 10 years after the issue date or on each coupon payment date thereafter or upon occurrence of tax or regulatory events. In addition, if the IT1 Capital Securities is still outstanding after 30 years from issue date, the Bank shall, subject to the prior approval of BNM and MAS, issue sufficient number of preference shares, the proceeds of which shall be utilised to redeem the IT1 Capital Securities. The IT1 Capital Securities bear an initial coupon rate of 6.75% per annum payable semi-annually for the first 10 years and, thereafter, at a rate per annum equal to the 6-month KLIBOR plus 3.32% with effect from (and including) the 10<sup>th</sup> anniversary date onward.

The IT1 Capital Securities, rated AA2 (upgraded from AA3) by RAM Rating Services Berhad, qualify as Tier 1 capital for the purpose of determining the capital adequacy ratio of the Bank.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****18 OTHER LIABILITIES**

	<b>Group</b>		<b>Bank</b>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Accruals for personnel costs *	62,475	59,845	62,422	59,799
Equity compensation benefits (a)	11,533	9,838	11,533	9,838
Obligations under finance lease	0	0	354	259
Provision for commitments and contingencies (b)	100	0	100	0
Interest payable	199,872	227,563	188,519	215,260
Other accruals and charges	200,623	320,289	316,125	98,774
Derivatives liabilities [Note 7(a)]	435,130	685,043	430,809	684,166
Profit equalisation reserve (c)	8,073	16,161	0	0
	<u>917,806</u>	<u>1,318,739</u>	<u>1,009,862</u>	<u>1,068,096</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 statements on a straight-line basis over the vesting period.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (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 1<sup>st</sup> anniversary of the respective dates of grant and expiring on the 10<sup>th</sup> anniversary of the respective dates of grant. One-third of the share options granted will vest each financial year after the 1<sup>st</sup> anniversary of the respective dates of grant and fully vested after the 3<sup>rd</sup> anniversary.

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:

	2009		2008	
	Number of share options	Weighted average acquisition price S\$	Number of shares options	Weighted average acquisition price S\$
At 1 January	7,509,891	5.438	8,271,876	5.131
Granted	244,100	4.138	384,490	7.520
Exercised	(1,299,190)	5.004	(1,066,885)	4.747
Lapsed	(115,352)	5.704	(79,590)	4.690
At 31 December	<u>6,339,449</u>		<u>7,509,891</u>	
Exercisable options at end of financial year	<u>6,100,549</u>	5.654	<u>7,131,901</u>	5.438
Weighted average share price for options exercised (S\$)		7.605		7.826

Details of the options outstanding as at 31 December 2009 are as follows:

Grant year	Grant date	Exercise period	Acquisition price (S\$)	2009	
				Outstanding	Exercisable
2001	05/03/2001	05/12/2003 to 04/12/2010	5.367	1,131,041	1,131,041
2002	08/04/2002	09/04/2003 to 08/04/2012	5.742	2,032,185	2,032,185
2003	27/03/2003	28/03/2004 to 26/03/2013	4.067	951,637	951,637
2004	15/03/2004	16/03/2005 to 14/03/2014	5.142	668,253	668,253
2005	14/03/2005	15/03/2006 to 13/03/2015	5.767	313,774	313,774
2006	14/03/2006	15/03/2007 to 13/03/2016	6.820	339,084	339,084
2007	14/03/2007	15/03/2008 to 13/03/2017	8.590	303,442	303,442
2008	14/03/2008	15/03/2009 to 13/03/2018	7.520	361,133	361,133
2009	16/03/2009	17/03/2010 to 15/03/2019	4.138	238,900	0
				<u>6,339,449</u>	<u>6,100,549</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****18 OTHER LIABILITIES (continued)**a) Equity compensation benefits (continued)

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>

2) Share option expenses

The fair value of share options granted during the financial year ended 31 December 2009 determined using the binomial valuation model was S\$360,506 (2008 : S\$688,000). The significant inputs into the model were average share price, calculated from grant date to acceptance date, of S\$4.97 (2008: S\$8.16), expected volatility based on Bloomberg's 250-day historical price volatility as of acceptance date of 40.43% (2008: 25.23%), expected dividend yield of 5.63% (2008: 3.43%), exercise multiple of 1.57 times (2008: 1.57 times) and annual risk-free interest rate based on SGS 10-year bond yield of 2.06% (2008: 2.27%). 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.

The fourth offering of the ESP Plan commenced on 1 July 2009 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:

	2009		2008	
	Number of acquisition rights	Weighted average acquisition price S\$	Number of acquisition rights	Weighted average acquisition price S\$
At 1 January	1,401,760	8.270	937,562	6.450
Acquisition	768,143	6.610	1,525,727	8.270
Lapsed	(1,009,473)	8.210	(116,581)	7.972
Exercised	(6,004)	8.270	(944,948)	6.450
At 31 December	<u>1,154,426</u>		<u>1,401,760</u>	



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****18 OTHER LIABILITIES (continued)**

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

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Balance at 1 January	0	3,936	0	3,936
Amount (reversed) / provided during the year (net)	100	(3,936)	100	(3,936)
Balance at 31 December	<u>100</u>	<u>0</u>	<u>100</u>	<u>0</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.

c) Profit equalisation reserve (PER)

	<b>Group</b>	
	2009 RM'000	2008 RM'000
Balance at 1 January	16,161	15,072
Amount provided during the year	28,820	17,777
Amount written back during the year	(36,908)	(16,688)
Balance at 31 December	<u>8,073</u>	<u>16,161</u>

**19 SHARE CAPITAL**

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 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	5,000	5,000	5,000	5,000
	<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	4,000	4,000	4,000	4,000
	<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 to 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 2009 (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 Section 15 of the Islamic Banking Act, 1983. It 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 statements upon disposal of the assets.

The Bank has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and tax exempt income to frank the payment of dividends out of its entire retained profits as at 31 December 2007. 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 2007 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**

	<b>Group</b>		<b>Bank</b>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Loans and advances				
- Interest income other than recoveries from NPL	1,456,499	1,552,931	1,456,499	1,552,934
- Recoveries from NPL	34,487	29,408	34,487	29,408
Money at call and deposit placements with financial institutions	223,347	280,883	223,347	280,883
Held-for-trading securities	22,202	49,606	22,202	49,606
Available-for-sale securities	230,214	241,111	230,214	241,111
Others	8,582	2,947	26,564	4,016
	<u>1,975,331</u>	<u>2,156,886</u>	<u>1,993,313</u>	<u>2,157,958</u>
Amortisation of premium less accretion of discount	(22,770)	(23,011)	(22,770)	(23,011)
	<u>1,952,561</u>	<u>2,133,875</u>	<u>1,970,543</u>	<u>2,134,947</u>

**22 INTEREST EXPENSE**

	<b>Group</b>		<b>Bank</b>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Deposits and placements of banks and other financial institutions	51,086	154,680	51,086	154,680
Deposits from other customers	784,185	921,720	784,185	921,720
Loans sold to Cagamas	15,614	21,418	15,614	21,418
Subordinated term loan / bonds	65,658	40,295	65,658	40,295
Others	324	694	346	707
	<u>916,867</u>	<u>1,138,807</u>	<u>916,889</u>	<u>1,138,820</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****23 NON-INTEREST INCOME**

	<b>Group</b>		<b>Bank</b>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Fee income:				
Commission	83,846	88,726	83,846	88,726
Service charges and fees	120,615	96,678	120,615	96,678
Guarantee fees	17,592	19,932	17,592	19,932
Other fee income	21,186	24,681	62,093	28,859
	<u>243,239</u>	<u>230,017</u>	<u>284,146</u>	<u>234,195</u>
Income from securities (net):				
Net (losses)/gains from sale of held-for-trading securities	(2,773)	6,813	(2,773)	6,813
Net gains from sale of available-for-sale securities	31,481	27,668	31,481	27,668
Unrealised gains/(losses) on revaluation of held-for-trading securities (net)	9,227	(9,596)	9,227	(9,596)
Gross dividends from Malaysia:				
- Available-for-sale securities	3,056	7,062	3,056	7,062
Gross dividends from outside Malaysia:				
- Available-for-sale securities	72	13	72	13
	<u>284,302</u>	<u>261,977</u>	<u>325,209</u>	<u>266,155</u>
Other income (net):				
Gains arising from dealing in foreign currency (net)	129,036	108,408	129,036	108,408
Gains arising from trading derivatives (net)	10,303	12,974	10,303	12,974
Unrealised (losses)/gains on revaluation of derivatives (net)	(16,805)	34,434	(16,805)	34,434
Rental income	6,551	6,127	6,585	6,141
Gain on disposal of property, plant and equipment	13	12	13	12
Gain on disposal of non-current assets held for sale	1,296	4,649	1,296	4,649
Others	589	3,524	589	3,524
	<u>130,983</u>	<u>170,128</u>	<u>131,017</u>	<u>170,142</u>
	<u>415,285</u>	<u>432,105</u>	<u>456,226</u>	<u>436,297</u>

**24 STAFF COSTS AND OVERHEAD EXPENSES**

	<b>Group</b>		<b>Bank</b>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Personnel costs (i)	274,530	297,369	260,589	296,023
Establishment costs (ii)	79,177	62,373	75,978	62,248
Marketing expenses (iii)	21,416	32,911	19,149	33,375
Administration and general expenses (iv)	221,991	205,965	211,754	205,225
	<u>597,114</u>	<u>598,618</u>	<u>567,470</u>	<u>596,871</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****24 STAFF COSTS AND OVERHEAD EXPENSES (continued)**

The above expenditure includes the following statutory disclosures:

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Directors' remuneration (Note 25)	3,041	3,464	2,260	3,377
Rental of premises	10,660	8,230	9,491	8,139
Auditors' remuneration	317	268	240	220
Depreciation of property, plant and equipment	43,735	32,749	42,340	32,710
Depreciation of investment property	839	601	839	601
Amortisation of prepaid lease payments	52	52	52	52
Impairment loss on investment property	0	577	0	577
Loss on disposal of property, plant and equipment	157	144	106	144

**i) Personnel costs**

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Wages, salaries and bonus	208,717	212,507	198,305	211,604
Defined contribution plan (EPF)	33,940	35,593	32,290	35,449
Equity compensation benefits	5,281	6,118	5,199	6,115
Employee benefits	(2,446)	1,015	(2,456)	1,008
Other personnel costs	29,038	42,136	27,251	41,847
	<u>274,530</u>	<u>297,369</u>	<u>260,589</u>	<u>296,023</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**

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Rental of premises	10,640	8,216	9,491	8,139
Rental of equipment	1,587	508	1,587	508
Depreciation of property, plant and equipment	43,735	32,749	42,340	32,710
Depreciation of investment property	839	601	839	601
Amortisation of prepaid lease payments	52	52	52	52
Repair and maintenance	6,142	6,836	6,106	6,832
Others	16,182	13,411	15,563	13,406
	<u>79,177</u>	<u>62,373</u>	<u>75,978</u>	<u>62,248</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****24 STAFF COSTS AND OVERHEAD EXPENSES (continued)****iii) Marketing expenses**

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Transport and travelling	4,599	8,388	4,280	8,364
Advertisement and business promotion	15,660	22,354	13,765	22,853
Others	1,157	2,169	1,104	2,158
	<u>21,416</u>	<u>32,911</u>	<u>19,149</u>	<u>33,375</u>

**iv) Administration and general expenses**

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Printing and stationery	7,413	9,798	6,999	9,782
Postage and courier	5,091	6,299	4,801	6,295
Telephone, telex and fax	9,259	8,482	8,785	8,478
Legal and consultancy fees	5,070	5,758	4,526	5,723
Transaction processing fees*	129,288	132,280	122,359	131,822
Other administration and general expenses	65,870	43,348	64,284	43,125
	<u>221,991</u>	<u>205,965</u>	<u>211,754</u>	<u>205,225</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 statements for the financial year are as follows:

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Directors of the Bank:				
Executive Director (CEO)^:				
- Salary	783	976	783	976
- Bonuses	510	563	510	563
- Gratuity	0	943	0	943
- Benefits-in-kind (BIK)	5	21	5	21
- Defined contribution retirement plan (EPF)	207	246	207	246
- Other employee benefits	282	178	282	178
Non-Executive Directors:				
- Fees	585	471	478	471
- Benefits-in-kind (BIK)	31	32	31	32
	<u>2,403</u>	<u>3,430</u>	<u>2,296</u>	<u>3,430</u>

^ Comparatives includes remuneration of previous Executive Director (CEO) who resigned in 2008.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****25 DIRECTORS' REMUNERATION (continued)**

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Directors of subsidiary companies:				
Executive Director (CEO):				
- Salary	567	47	0	0
- Defined contribution retirement plan (EPF)	90	8	0	0
- Benefits-in-kind (BIK)	4	0	0	0
- Other employee benefits	3	0	0	0
Non-Executive Directors:				
- Fees	14	32	0	0
	<u>678</u>	<u>87</u>	<u>0</u>	<u>0</u>
Total	<u>3,081</u>	<u>3,517</u>	<u>2,296</u>	<u>3,430</u>
Total excluding BIK	<u>3,041</u>	<u>3,464</u>	<u>2,260</u>	<u>3,377</u>

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

	<b>Group</b>		<b>Bank</b>	
	2009 Number of Directors	2008 Number of Directors	2009 Number of Directors	2008 Number of Directors
<u>Executive</u>				
More than RM50,000 but less than RM100,000	0	1	0	0
More than RM300,000 but less than RM350,000	0	1	0	1
More than RM650,000 but less than RM700,000	1	0	0	0
More than RM1,500,000 but less than RM1,550,000	0	1	0	1
More than RM1,750,000 but less than RM1,800,000	1	0	1	0
<u>Non-executive</u>				
Nil remuneration	7	8	3	3
Less than RM50,000	1	1	0	0
More than RM50,000 but less than RM100,000	1	3	3	3
More than RM100,000 but less than RM150,000	2	0	0	0
More than RM250,000 but less than RM300,000	0	1	1	1
More than RM300,000 but less than RM350,000	1	0	0	0

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****26 ALLOWANCE FOR LOSSES ON LOANS, ADVANCES AND FINANCING**

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Allowance for / (write back of) losses on loans, advances and financing:				
Specific allowance				
- Made in the financial year	316,769	257,990	275,745	247,581
- Written back	(131,405)	(142,599)	(116,308)	(141,677)
General allowance - Made in the financial year	29,280	57,897	24,082	57,281
Other allowance	907	1,222	907	1,224
Bad debts and financing				
- Written off	64	206	64	206
- Recovered	(30,937)	(68,683)	(27,100)	(68,391)
	<u>184,678</u>	<u>106,033</u>	<u>157,390</u>	<u>96,224</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:

<b>Group</b>	Holding Company RM '000	Other Related Companies RM '000	Key Management RM '000
2009			
Income :			
Interest on deposits and placements	19,608	0	0
Interest on loans and advances	0	12,958	8
Commission income	0	14,432	0
Other fee income	0	811	0
Rental income	0	4,554	0
	<u>19,608</u>	<u>32,755</u>	<u>8</u>
Expenditure :			
Interest on fixed deposits	0	1,524	492
Interest on other deposits	0	0	117
Interest on deposits and placements	27,418	3,149	0
Interest on subordinated term loans	17,499	0	0
Rental expenses	0	721	0
Transaction processing fees	0	129,288	0
	<u>44,917</u>	<u>134,682</u>	<u>609</u>
Reimbursement from various expenses	0	33,802	0

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

<b>Group (continued)</b>	Holding Company	Other Related Companies	Key Management
	RM '000	RM '000	RM '000
2009 (continued)			
Amount due from :			
Current accounts	61,267	8	0
Deposits and placements	363,610	1	0
Interest / profit receivable	2,620	0	0
Loans and advances	0	88,129	528
	<u>427,497</u>	<u>88,138</u>	<u>528</u>
Amount due to :			
Current accounts and fixed deposits	29,062	139,820	28,250
Other deposits	0	0	13,814
Deposits and placements	3,276,731	0	0
Subordinated term loan / bonds (Note 17a)	283,638	0	0
Transaction processing fees payable	0	647	0
Other liabilities	4,236	75,602	0
Interest payable	2,964	0	0
	<u>3,596,631</u>	<u>216,069</u>	<u>42,064</u>
Commitments:			
Foreign exchange derivatives	366,355	73,871	0
Interest rate derivatives	5,110,397	10,000	0
Equity derivatives	4,861	0	0
Transaction related contingent items	189,931	110,248	0
	<u>5,671,544</u>	<u>194,119</u>	<u>0</u>
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	0	40,045	0



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

<b><u>Group (continued)</u></b>	<b>Holding Company</b>	<b>Other Related Companies</b>	<b>Key Management</b>	
	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	
2008 (continued)				
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 (Note 17a)	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>	
<b><u>Bank</u></b>	<b>Holding Company</b>	<b>Subsidiary Companies</b>	<b>Other Related Companies</b>	<b>Key Management</b>
	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>	<b>RM '000</b>
2009				
Income :				
Interest on deposits and placements	19,608	5,340	0	0
Commission income	0	0	14,432	0
Interest on loans and advances	0	1,725	12,958	8
Interest on subordinated Islamic bonds	0	10,917	0	0
Other fee income	0	40,751	226	0
Rental income	0	191	4,554	0
	<u>19,608</u>	<u>58,924</u>	<u>32,170</u>	<u>8</u>
Expenditure :				
Interest on fixed deposits	0	1	954	447
Interest on other deposits	0	0	0	116
Interest on deposits and placements	27,418	0	3,149	0
Interest on subordinated term loans	17,499	0	0	0
Shared service fee paid/payable	0	237	0	0
Rental expenses	0	0	721	0
Other expenses	177	20	1,199	0
Transaction processing fees	0	0	122,359	0
	<u>45,094</u>	<u>258</u>	<u>128,382</u>	<u>563</u>
Reimbursement from various expenses	<u>0</u>	<u>0</u>	<u>33,802</u>	<u>0</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

<b>Bank (continued)</b>	Holding Company	Subsidiary Companies	Other Related Companies	Key Management
	RM '000	RM '000	RM '000	RM '000
2009 (continued)				
Amount due from :				
Cash and short-term funds	0	79,262	0	0
Current accounts	61,267	0	8	0
Deposits and placements	363,592	440,000	0	0
Available-for-sale securities	0	198,902	0	0
Interest / profit receivable	2,620	2,876	0	0
Subordinated Islamic bonds (Note 17b)	0	200,000	0	0
Loans and advances	0	40,000	88,129	428
Others	0	3,542	0	0
	<u>427,479</u>	<u>964,582</u>	<u>88,137</u>	<u>428</u>
Amount due to :				
Current accounts and fixed deposits	29,062	13,880	121,461	26,304
Other deposits	0	0	0	13,672
Deposits and placements	3,276,731	0	0	0
Subordinated term loan / bonds (Note 17a)	283,638	0	0	0
Other liabilities	4,236	208,108	75,602	0
Interest payable	2,964	0	0	0
	<u>3,596,631</u>	<u>221,988</u>	<u>197,063</u>	<u>39,976</u>
Commitments:				
Foreign exchange derivatives	366,355	122,507	69,146	0
Interest rate derivatives	5,110,397	0	10,000	0
Equity derivatives	4,861	0	0	0
Transaction related contingent items	189,753	0	110,248	0
	<u>5,671,366</u>	<u>122,507</u>	<u>189,394</u>	<u>0</u>
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 2009 (continued)****27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

<b>Bank (continued)</b>	Holding Company	Subsidiary Companies	Other Related Companies	Key Management
	RM '000	RM '000	RM '000	RM '000
2008 (continued)				
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 (Note 17b)	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 (Note 17a)	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>

## 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":

<b>Group</b>	2009 RM '000	2008 RM '000
Aggregate value of outstanding credit exposure with connected parties^ :		
Credit facility and leasing (except guarantee)	105,358	76,297
Off balance sheet exposures#	3,280,409	2,647,380
Total credit exposures	<u>3,385,767</u>	<u>2,723,677</u>
Percentage of outstanding credit exposures to connected parties		
- as a proportion of total credit exposures	8.68%	6.51%
- which is non-performing or in default	0.00%	0.00%

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

## ii) Credit exposure arising from credit transactions with connected parties (continued)

<b><u>Bank</u></b>	2009 RM '000	2008 RM '000
Aggregate value of outstanding credit exposure with connected parties <sup>^</sup> :		
Credit facility and leasing (except guarantee)	105,099	76,038
Off balance sheet exposures <sup>#</sup>	3,280,409	2,647,380
Total credit exposures	<u>3,385,508</u>	<u>2,723,418</u>
Percentage of outstanding credit exposures to connected parties		
- as a proportion of total credit exposures	9.37%	6.94%
- which is non-performing or in default	0.00%	0.00%

<sup>^</sup> Comprise of total outstanding balance and unutilised limit

<sup>#</sup> Off balance sheet transactions that give rise to credit and/or counterparty risk.

## iii) Key management personnel compensation

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Short-term employee benefits	11,713	11,533	11,188	11,400
Other long-term benefits	6	2	6	2
Termination benefits	195	0	195	0
Share-based benefits	1,799	547	1,728	546
	<u>13,713</u>	<u>12,082</u>	<u>13,117</u>	<u>11,948</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 2009 (continued)****28 TAXATION**

	<b>Group</b>		<b>Bank</b>	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax				
- current year	209,167	236,595	205,185	236,676
- under/(over)provision in prior year	2,174	(9,072)	2,174	(9,072)
Deferred taxation :				
- relating to originating and reversal of temporary differences	(2,482)	(15,798)	(5,819)	(15,201)
- relating to changes in tax rates	0	2,881	0	4,550
- (over)/underprovision in prior year	(3,662)	7,822	(3,733)	7,822
Total credit to income statements (Note 14)	(6,144)	(5,095)	(9,552)	(2,829)
	<u>205,197</u>	<u>222,428</u>	<u>197,807</u>	<u>224,775</u>

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

	<b>Group</b>		<b>Bank</b>	
	2009	2008	2009	2008
	%	%	%	%
Malaysian tax rate of 25% (2008: 26%)	25.00	26.0	25.00	26.0
Tax effects of:				
Expenses not deductible for tax purposes	0.2	0.0	0.5	0.5
Income not subject to tax	0.0	(0.1)	(0.1)	(0.3)
Deferred tax relating to changes in tax rate	0.0	0.7	0.0	0.5
Prior year (over)/under provision	0.1		0.3	
- income tax		(0.3)		(1.1)
- deferred taxation	(0.1)	0.2	(0.5)	0.9
Average effective tax rate	<u>25.2</u>	<u>26.5</u>	<u>25.2</u>	<u>26.5</u>

With effect from year of assessment 2009, corporate tax rate is at 25% (2008: 26%). The computation of deferred tax assets and deferred tax liabilities is based on a tax rate of 25%.

**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 RM589,789,000 and RM569,073,000 respectively (2008: RM598,485,000 and RM605,540,000) and on the 287,500,000 (2008: 287,500,000) ordinary shares of RM1.00 each in issue during the financial year.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)**

30 DIVIDENDS	Group		Bank	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
In respect of previous financial year:				
Final dividend of Nil sen (2008: 20.0 sen)				
less income tax at Nil% (2008: 26%)	0	42,550	0	42,550
Dividends paid on preference shares	<u>18,040</u>	<u>18,090</u>	<u>18,040</u>	<u>18,090</u>

A final gross dividend of 20.0 sen per share less tax amounting to RM43.13 million on the fully issued and paid up ordinary shares of the Bank in respect of the financial year ended 31 December 2009 will be proposed for shareholders' approval at the forthcoming Annual General Meeting. The financial statements for the current financial year do not reflect these proposed dividends. Such dividend will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2010 when approved by the shareholders.

The net cash dividend of 4.51% (on the issue price) amounting to RM8.95 million to the preference shareholders payable in March 2010 in respect of the financial year ended 31 December 2009 will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2010 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 incur 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 2009			31 December 2008		
	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 substitutes	496,006	496,006	495,805	861,930	861,930	858,654
Transaction-related contingent items	1,643,315	821,657	796,654	1,471,531	735,766	703,771
Short-term self-liquidating trade-related contingencies	211,611	42,322	42,263	207,425	41,485	41,427
Obligations under underwriting agreement	71,000	35,500	35,500	116,000	58,000	58,000
Irrevocable commitments to extend credit:						
- maturity not exceeding one year	9,458,461	0	0	8,553,412	0	0
- maturity exceeding one year	5,141,104	1,588,153	1,588,153	9,744,501	4,872,251	4,872,251
Foreign exchange related contracts						
- less than one year	16,436,336	295,137	85,623	17,959,119	598,281	192,371
- one year to less than five years	2,294,951	293,688	82,590	1,557,177	204,498	64,995
- five years and above	118,707	20,618	5,889	813,476	145,027	46,632
Interest rate contracts						
- less than one year	8,371,152	48,651	13,427	8,976,652	37,642	10,202
- one year to less than five years	18,464,830	715,114	197,365	20,840,496	994,719	269,590
- five years and above	613,590	53,427	14,747	1,395,113	118,046	31,993
Equity and commodity related contracts	907,050	108,999	25,759	1,042,586	125,602	31,546
Miscellaneous	104,260	0	0	76,290	0	0
Total	<u>64,332,373</u>	<u>4,519,272</u>	<u>3,383,775</u>	<u>73,615,708</u>	<u>8,793,247</u>	<u>7,181,432</u>

\*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 2009 (continued)****31 COMMITMENTS AND CONTINGENCIES (continued)**

	31 December 2009			31 December 2008		
	Principal Amount RM'000	Credit	Risk	Principal Amount RM'000	Credit	Risk
		Equivalent Amount*	Weighted Amount		Equivalent Amount*	Weighted Amount
<b>Bank</b>						
Direct credit substitutes	494,113	494,113	493,912	811,860	811,860	808,584
Transaction-related contingent items	1,543,266	771,633	746,630	1,404,722	702,361	670,366
Short-term self-liquidating trade-related contingencies	202,843	40,569	40,509	159,439	31,888	31,830
Obligations under underwriting agreement	71,000	35,500	35,500	116,000	58,000	58,000
Irrevocable commitments to extend credit:						
- maturity not exceeding one year	9,943,916	0	0	8,449,200	0	0
- maturity exceeding one year	4,141,647	1,580,674	1,580,674	9,402,265	4,701,133	4,701,133
Foreign exchange related contracts						
- less than one year	16,098,067	288,627	84,316	17,959,119	598,281	192,371
- one year to less than five years	2,189,341	287,557	81,362	1,452,458	198,051	63,681
- five years and above	118,707	20,618	5,889	813,476	145,027	46,632
Interest rate contracts						
- less than one year	8,371,152	48,651	13,427	8,976,652	37,642	10,202
- one year to less than five years	18,464,830	715,114	197,365	20,840,496	994,719	269,590
- five years and above	613,590	53,427	14,747	1,395,113	118,046	31,993
Equity and commodity related contracts	830,212	100,751	24,110	964,868	122,111	29,800
Miscellaneous	104,260	0	0	76,290	0	0
<b>Total</b>	<b>63,186,944</b>	<b>4,437,234</b>	<b>3,318,441</b>	<b>72,821,958</b>	<b>8,519,119</b>	<b>6,914,182</b>

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (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 :-

	<u>Group</u>		<u>Bank</u>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Less than one year	10,829	9,905	9,271	9,376
One to five years	5,693	11,426	4,625	10,585
	<u>16,522</u>	<u>21,331</u>	<u>13,896</u>	<u>19,961</u>

**33 CAPITAL COMMITMENTS**

	<u>Group</u>		<u>Bank</u>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Capital expenditure in respect of property, plant and equipment:-				
- authorised and contracted for	13,272	24,081	11,418	19,775
- authorised but not contracted for	39,910	25,623	20,243	10,391
	<u>53,182</u>	<u>49,704</u>	<u>31,661</u>	<u>30,166</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 2009 (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 2009 (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 2009 (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 2009 (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 2009 (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.

**Group**

As at 31 December 2009	← 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	11,092,153	0	0	0	0	119,382	0	11,211,535	2.04
Deposits and placements with banks and other financial institutions	0	1,791,089	228,695	0	0	0	0	2,019,784	2.04
Held-for-trading securities	0	0	0	0	0	0	367,148	367,148	2.83
Available-for-sale securities	1,073,021	1,490,030	643,607	2,536,159	627,288	149,213 <sup>^</sup>	0	6,519,318	3.22
Loans, advances and financing									
- performing	27,018,628	369,072	504,209	834,068	800,689	1,384,613 <sup>*</sup>	0	30,911,279	5.01
- non-performing	0	0	0	0	0	777,388 <sup>#</sup>	0	777,388	-
Other assets	0	0	0	0	0	200,207	547,154	747,361	-
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	43,092	0	43,092	-
Property, plant and equipment	0	0	0	0	0	236,984	0	236,984	-
Investment property	0	0	0	0	0	11,250	0	11,250	-
Prepaid lease payment	0	0	0	0	0	2,877	0	2,877	-
Deferred taxation asset	0	0	0	0	0	115,263	0	115,263	-
Tax recoverable	0	0	0	0	0	133	0	133	-
<b>Total assets</b>	<b>39,183,802</b>	<b>3,650,191</b>	<b>1,376,511</b>	<b>3,370,227</b>	<b>1,427,977</b>	<b>3,040,402</b>	<b>914,302</b>	<b>52,963,412</b>	
<b>Liabilities</b>									
Deposits from customers	20,313,803	5,594,761	10,719,505	766,428	0	4,196,255	0	41,590,752	1.89
Deposits and placements of banks and other financial institutions	4,294,065	150,000	337,040	0	0	40,290	0	4,821,395	1.35
Bills and acceptances payable	0	0	0	0	0	244,983	0	244,983	-
Amount due to Cagamas	2,305	4,676	21,440	333,142	0	0	0	361,563	4.11
Subordinated term loan / bonds	0	0	89,648	205,450	1,000,000	0	0	1,295,098	5.61
Other liabilities	0	0	0	40,000	0	442,676	435,130	917,806	-
Taxation and zakat	0	0	0	0	0	42,459	0	42,459	-
<b>Total liabilities</b>	<b>24,610,173</b>	<b>5,749,437</b>	<b>11,167,633</b>	<b>1,345,020</b>	<b>1,000,000</b>	<b>4,966,663</b>	<b>435,130</b>	<b>49,274,056</b>	
On-balance sheet interest sensitivity gap	14,573,629	(2,099,246)	(9,791,122)	2,025,207	427,977	(1,926,261)	479,172	3,689,356	
Off-balance sheet interest sensitivity gap	0	(673,934)	68,484	605,450	0	0	0	0	
<b>Total interest sensitivity gap</b>	<b>14,573,629</b>	<b>(2,773,180)</b>	<b>(9,722,638)</b>	<b>2,630,657</b>	<b>427,977</b>	<b>(1,926,261)</b>	<b>479,172</b>	<b>3,689,356</b>	

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****35 INTEREST / PROFIT RATE RISK (continued)****Bank**

As at 31 December 2009	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	9,863,427	0	0	0	0	82,447	0	9,945,874	2.04
Deposits and placements with banks and other financial institutions	0	2,091,089	228,695	140,000	0	0	0	2,459,784	2.04
Held-for-trading securities	0	0	0	0	0	0	367,148	367,148	2.83
Available-for-sale securities	1,062,852	1,027,134	598,511	2,149,821	593,807	145,542 <sup>^</sup>	0	5,577,667	3.30
Loans, advances and financing									
- performing	26,794,158	32,260	372,846	92,570	97,975	1,423,694 <sup>*</sup>	0	28,813,503	4.95
- non-performing	0	0	0	0	0	763,042 <sup>#</sup>	0	763,042	-
Other assets	0	0	0	0	0	425,261	543,171	968,432	-
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	19,592	0	19,592	-
Investment in subsidiary companies	0	0	0	0	0	196,611	0	196,611	-
Property, plant and equipment	0	0	0	0	0	230,439	0	230,439	-
Investment property	0	0	0	0	0	11,250	0	11,250	-
Prepaid lease payment	0	0	0	0	0	2,877	0	2,877	-
Deferred taxation asset	0	0	0	0	0	103,989	0	103,989	-
<b>Total assets</b>	<b>37,720,437</b>	<b>3,150,483</b>	<b>1,200,052</b>	<b>2,382,391</b>	<b>691,782</b>	<b>3,404,744</b>	<b>910,319</b>	<b>49,460,208</b>	
<b>Liabilities</b>									
Deposits from customers	18,519,988	4,613,315	10,270,100	712,606	0	3,967,237	0	38,083,246	1.88
Deposits and placements of banks and other financial institutions	4,444,065	0	337,040	0	0	0	0	4,781,105	1.24
Bills and acceptances payable	0	0	0	0	0	225,309	0	225,309	-
Amount due to Cagamas	2,305	4,676	21,440	333,142	0	0	0	361,563	4.11
Subordinated term loan / bonds	0	0	89,648	205,450	1,000,000	0	0	1,295,098	5.61
Other liabilities	0	0	0	0	0	579,053	430,809	1,009,862	-
Taxation and zakat	0	0	0	0	0	42,459	0	42,459	-
<b>Total liabilities</b>	<b>22,966,358</b>	<b>4,617,991</b>	<b>10,718,228</b>	<b>1,251,198</b>	<b>1,000,000</b>	<b>4,814,058</b>	<b>430,809</b>	<b>45,798,642</b>	
On-balance sheet interest sensitivity gap	14,754,079	(1,467,508)	(9,518,176)	1,131,193	(308,218)	(1,409,314)	479,510	3,661,566	
Off-balance sheet interest sensitivity gap	0	(673,934)	68,484	605,450	0	0	0	0	
<b>Total interest sensitivity gap</b>	<b>14,754,079</b>	<b>(2,141,442)</b>	<b>(9,449,692)</b>	<b>1,736,643</b>	<b>(308,218)</b>	<b>(1,409,314)</b>	<b>479,510</b>	<b>3,661,566</b>	

<sup>^</sup> 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.

<sup>\*</sup> The amount includes general allowance for loans, advances and financing in accordance with the Group's accounting policy amounting to RM489,289,000 for Group and RM450,559,000 for Bank.

<sup>#</sup> The amount includes specific allowance for loans, advances and financing in accordance with the Group's accounting policy amounting to RM457,392,000 for Group and RM418,140,000 for Bank.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****35 INTEREST / PROFIT RATE RISK (continued)****Group**

As at 31 December 2008	← 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	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 <sup>^</sup>	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 <sup>*</sup>	0	29,565,745	6.08
- non-performing	0	0	0	0	0	608,688 <sup>#</sup>	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	-
<b>Total assets</b>	<b>28,785,926</b>	<b>4,599,691</b>	<b>1,711,523</b>	<b>4,338,043</b>	<b>2,457,254</b>	<b>4,413,834</b>	<b>1,566,621</b>	<b>47,872,892</b>	
<b>Liabilities</b>									
Deposits from customers	19,208,144	5,180,761	7,699,985	1,016,575	0	3,538,594	0	36,644,059	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	40,000	593,696	685,043	1,318,739	-
Taxation and zakat	0	0	0	0	0	61,340	0	61,340	-
<b>Total liabilities</b>	<b>22,730,723</b>	<b>5,338,604</b>	<b>7,803,889</b>	<b>1,775,955</b>	<b>786,831</b>	<b>5,625,609</b>	<b>685,043</b>	<b>44,746,654</b>	
On-balance sheet interest sensitivity gap	6,055,203	(738,913)	(6,092,366)	2,562,088	1,670,423	(1,211,775)	881,578	3,126,238	
Off-balance sheet interest sensitivity gap	0	(746,338)	69,268	677,070	0	0	0	0	
<b>Total interest sensitivity gap</b>	<b>6,055,203</b>	<b>(1,485,251)</b>	<b>(6,023,098)</b>	<b>3,239,158</b>	<b>1,670,423</b>	<b>(1,211,775)</b>	<b>881,578</b>	<b>3,126,238</b>	

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (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				
<b>Assets</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>%</b>
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 <sup>^</sup>	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 <sup>*</sup>	0	27,443,837	6.06
- non-performing	0	0	0	0	0	600,333 <sup>#</sup>	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	-
<b>Total assets</b>	<b>27,724,552</b>	<b>4,178,768</b>	<b>1,225,656</b>	<b>3,253,346</b>	<b>1,868,347</b>	<b>4,787,072</b>	<b>1,565,744</b>	<b>44,603,485</b>	
<b>Liabilities</b>									
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	-
<b>Total liabilities</b>	<b>20,660,447</b>	<b>4,765,279</b>	<b>7,528,720</b>	<b>1,675,823</b>	<b>746,830</b>	<b>5,430,044</b>	<b>684,166</b>	<b>41,491,309</b>	
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	
<b>Total interest sensitivity gap</b>	<b>7,064,105</b>	<b>(1,332,849)</b>	<b>(6,233,796)</b>	<b>2,254,593</b>	<b>1,121,517</b>	<b>(642,972)</b>	<b>881,578</b>	<b>3,112,176</b>	

<sup>^</sup> 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.

<sup>\*</sup> 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.

<sup>#</sup> 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 2009 (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 RM673.9 million (2008: RM746.3 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 5.0% (2008: 5.1%) per annum. After the interest rate swap, the Group's weighted average interest rate at balance sheet date was 3.0% (2008: 4.9%) per annum.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (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**

<b>As at 31 December 2009</b>	<b>Up to 3 Months</b>	<b>&gt; 3 -6 Months</b>	<b>&gt;6-12 Months</b>	<b>&gt;1-3 Years</b>	<b>&gt;3-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>							
Cash and short-term funds	11,211,535	0	0	0	0	0	11,211,535
Securities purchased under resale agreements	0	0	0	0	0	0	0
Deposits and placements with banks and other financial institutions	1,791,089	228,695	0	0	0	0	2,019,784
Held-for-trading securities	77,121	9,948	20,282	95,005	7,984	156,808	367,148
Available-for-sale securities	2,563,051	190,116	453,490	2,058,623	502,947	751,091	6,519,318
Loans, advances and financing	8,864,838	1,728,055	1,563,636	7,654,192	2,585,604	9,292,342	31,688,667
Other assets	201,875	38,136	46,297	456,768	0	4,285	747,361
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	43,092	43,092
Property, plant and equipment	0	0	0	0	0	236,984	236,984
Investment property	0	0	0	0	0	11,250	11,250
Prepaid lease payments	0	0	0	0	0	2,877	2,877
Non-current assets held for sale	0	0	0	0	0	0	0
Deferred taxation asset	0	0	0	115,263	0	0	115,263
Tax recoverable	0	0	0	133	0	0	133
<b>Total assets</b>	<b>24,709,509</b>	<b>2,194,950</b>	<b>2,083,705</b>	<b>10,379,984</b>	<b>3,096,535</b>	<b>10,498,729</b>	<b>52,963,412</b>
<b>Liabilities</b>							
Deposits from customers	30,104,819	6,063,417	4,656,088	320,213	446,215	0	41,590,752
Deposits and placements of banks and other financial institutions	4,484,355	337,040	0	0	0	0	4,821,395
Bills and acceptances payable	244,983	0	0	0	0	0	244,983
Amount due to Cagamas	6,981	7,074	14,366	306,815	26,327	0	361,563
Subordinated term loan / bonds	0	68,484	21,164	136,967	68,483	1,000,000	1,295,098
Other liabilities	408,061	117,103	73,589	278,770	40,283	0	917,806
Taxation and zakat	0	0	0	42,459	0	0	42,459
<b>Total liabilities</b>	<b>35,249,199</b>	<b>6,593,118</b>	<b>4,765,207</b>	<b>1,085,224</b>	<b>581,308</b>	<b>1,000,000</b>	<b>49,274,056</b>
<b>Net Liquidity gap</b>	<b>(10,539,690)</b>	<b>(4,398,168)</b>	<b>(2,681,502)</b>	<b>9,294,760</b>	<b>2,515,227</b>	<b>9,498,729</b>	<b>3,689,356</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****36 LIQUIDITY RISK (continued)****Bank**

<b>As at 31 December 2009</b>	<b>Up to 3 Months</b>	<b>&gt;3 -6 Months</b>	<b>&gt;6-12 Months</b>	<b>&gt;1-3 Years</b>	<b>&gt;3-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>							
Cash and short term-funds	9,945,874	0	0	0	0	0	9,945,874
Securities purchased under resale agreements	0	0	0	0	0	0	0
Deposits and placements with banks and other financial institutions	2,091,089	228,695	0	140,000	0	0	2,459,784
Held-for-trading securities	77,121	9,948	20,282	95,005	7,984	156,808	367,148
Available-for-sale securities	2,089,986	170,020	428,490	1,853,791	321,441	713,939	5,577,667
Loans, advances and financing	8,317,044	1,651,305	1,497,132	7,290,100	2,194,060	8,626,904	29,576,545
Other assets	240,231	35,227	41,836	451,211	0	199,927	968,432
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	19,592	19,592
Investment in subsidiary companies	0	0	0	0	0	196,611	196,611
Property, plant and equipment	0	0	0	0	0	230,439	230,439
Investment property	0	0	0	0	0	11,250	11,250
Prepaid lease payments	0	0	0	0	0	2,877	2,877
Non-current assets held for sale	0	0	0	0	0	0	0
Deferred taxation asset	0	0	0	103,989	0	0	103,989
<b>Total assets</b>	<b>22,761,345</b>	<b>2,095,195</b>	<b>1,987,740</b>	<b>9,934,096</b>	<b>2,523,485</b>	<b>10,158,347</b>	<b>49,460,208</b>
<b>Liabilities</b>							
Deposits from customers	27,100,540	5,783,096	4,487,004	266,487	446,119	0	38,083,246
Deposits and placements of banks and other financial institutions	4,444,065	337,040	0	0	0	0	4,781,105
Bills and acceptances payable	225,309	0	0	0	0	0	225,309
Amount due to Cagamas	6,981	7,074	14,366	306,815	26,327	0	361,563
Subordinated term loan / bonds	0	68,484	21,164	136,967	68,483	1,000,000	1,295,098
Other liabilities	583,421	111,522	66,443	248,193	283	0	1,009,862
Taxation and zakat	0	0	0	42,459	0	0	42,459
<b>Total liabilities</b>	<b>32,360,316</b>	<b>6,307,216</b>	<b>4,588,977</b>	<b>1,000,921</b>	<b>541,212</b>	<b>1,000,000</b>	<b>45,798,642</b>
<b>Net Liquidity gap</b>	<b>(9,598,971)</b>	<b>(4,212,021)</b>	<b>(2,601,237)</b>	<b>8,933,175</b>	<b>1,982,273</b>	<b>9,158,347</b>	<b>3,661,566</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****36 LIQUIDITY RISK (continued)****Group**

<b>As at 31 December 2008</b>	<b>Up to 3 Months</b>	<b>&gt; 3 -6 Months</b>	<b>&gt;6-12 Months</b>	<b>&gt;1-3 Years</b>	<b>&gt;3-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>							
Cash and short-term funds	4,374,064	0	0	0	0	0	4,374,064
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
<b>Total assets</b>	<b>17,481,551</b>	<b>2,096,248</b>	<b>2,320,139</b>	<b>7,727,791</b>	<b>3,924,744</b>	<b>14,322,419</b>	<b>47,872,892</b>
<b>Liabilities</b>							
Deposits from customers	27,927,498	2,750,294	4,949,691	689,917	326,659	0	36,644,059
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	392,587	359,117	82,542	484,316	177	0	1,318,739
Taxation and zakat	0	0	0	61,340	0	0	61,340
<b>Total liabilities</b>	<b>33,330,485</b>	<b>3,290,877</b>	<b>5,085,533</b>	<b>1,694,627</b>	<b>598,302</b>	<b>746,830</b>	<b>44,746,654</b>
<b>Net Liquidity gap</b>	<b>(15,848,934)</b>	<b>(1,194,629)</b>	<b>(2,765,394)</b>	<b>6,033,164</b>	<b>3,326,442</b>	<b>13,575,589</b>	<b>3,126,238</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****36 LIQUIDITY RISK (continued)****Bank**

<b>As at 31 December 2008</b>	<b>Up to 3 Months</b>	<b>&gt;3 -6 Months</b>	<b>&gt;6-12 Months</b>	<b>&gt;1-3 Years</b>	<b>&gt;3-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>							
Cash and short term-funds	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
<b>Total assets</b>	<b>16,085,696</b>	<b>1,882,096</b>	<b>2,047,927</b>	<b>7,251,304</b>	<b>3,292,277</b>	<b>14,044,185</b>	<b>44,603,485</b>
<b>Liabilities</b>							
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
<b>Total liabilities</b>	<b>30,718,425</b>	<b>2,904,033</b>	<b>4,968,409</b>	<b>1,566,670</b>	<b>586,942</b>	<b>746,830</b>	<b>41,491,309</b>
<b>Net Liquidity gap</b>	<b>(14,632,729)</b>	<b>(1,021,937)</b>	<b>(2,920,482)</b>	<b>5,684,634</b>	<b>2,705,335</b>	<b>13,297,355</b>	<b>3,112,176</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (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 <sup>^</sup>	Loans, advances and financing*	Interest receivable	Commitments and contingencies
As at 31 December 2009	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	39	5,002	2,370,946	0	72,194
Mining and quarrying	0	0	243	0	301,218	0	43,885
Manufacturing	0	0	452	134,724	5,007,796	0	836,639
Electricity, gas and water	0	0	5,004	71,810	1,147,820	827	55,449
Construction	0	0	373	29,184	908,924	0	342,506
Real estate	0	0	248	0	3,584,656	0	173,687
Wholesale and retail trade and restaurant	0	0	0	71,453	4,908,760	0	325,243
Transport, storage and communication	0	0	23,607	127,220	843,097	454	169,620
Finance, insurance and business services	2,524,773	1,094,784	16,972	2,849,924	764,810	45,012	1,485,032
Community, social and personal services	0	0	0	0	622,040	0	354,146
Household sector, of which							
i. Purchase of residential properties	0	0	0	0	8,383,815	0	303,382
ii. Purchase of non-residential properties	0	0	0	0	1,170,817	0	26,900
iii. Others	0	0	0	0	2,335,157	0	304,762
Others	8,686,762	925,000	320,210	3,230,760	285,492	31,700	25,827
	<b>11,211,535</b>	<b>2,019,784</b>	<b>367,148</b>	<b>6,520,077</b>	<b>32,635,348</b>	<b>77,993</b>	<b>4,519,272</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (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 <sup>^</sup>	Loans, advances and financing*	Interest receivable	Commitments and contingencies
As at 31 December 2009	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	39	0	1,794,485	0	71,073
Mining and quarrying	0	0	243	0	275,411	0	43,167
Manufacturing	0	0	452	65,286	4,405,750	0	832,314
Electricity, gas and water	0	0	5,004	0	1,147,820	0	55,449
Construction	0	0	373	29,184	765,480	0	301,490
Real estate	0	0	248	0	3,488,795	0	173,683
Wholesale and retail trade and restaurant	0	0	0	71,453	4,737,064	0	315,731
Transport, storage and communication	0	0	23,607	40,616	706,149	0	167,405
Finance, insurance and business services	1,266,274	1,534,784	16,972	2,391,888	722,392	45,803	1,470,149
Community, social and personal services	0	0	0	0	607,030	0	353,443
Household sector, of which							
i. Purchase of residential properties	0	0	0	0	8,323,331	0	303,371
ii. Purchase of non- residential properties	0	0	0	0	1,168,380	0	26,715
iii. Others	0	0	0	0	2,087,656	0	304,748
Others	8,679,600	925,000	320,210	2,979,999	215,501	28,849	18,496
	<u>9,945,874</u>	<u>2,459,784</u>	<u>367,148</u>	<u>5,578,426</u>	<u>30,445,244</u>	<u>74,652</u>	<u>4,437,234</u>

<sup>^</sup> 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 RM946,681,000 (Group) and RM868,699,000 (Bank).

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (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 <sup>^</sup>	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 2009 (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 <sup>^</sup>	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>

<sup>^</sup> 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.

**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 2009 (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 :

<b>Group</b>	<b>2009</b>		<b>2008</b>	
	<b>Fair value RM'000</b>	<b>Carrying value RM'000</b>	<b>Fair value RM'000</b>	<b>Carrying value RM'000</b>
<b>Financial Assets</b>				
Assets for which fair value				
approximates carrying value	11,211,535	11,211,535	4,374,064	4,374,064
Deposits and placements with banks				
and other financial institutions	2,019,784	2,019,784	1,230,613	1,230,613
Held-for-trading securities	367,148	367,148	581,784	581,784
Available-for-sale securities	6,519,318	6,519,318	8,577,769	8,577,769
Loans, advances and financing	31,685,934	31,688,667	30,115,158	30,174,433
Statutory deposits with Bank Negara				
Malaysia	43,092	43,092	937,608	937,608
<b>Financial Liabilities</b>				
Deposits from customers	41,803,048	41,590,752	36,692,309	33,644,059
Deposits and placements of banks				
and other financial institutions	5,346,947	4,821,395	3,850,179	3,859,946
Liabilities for which fair value				
approximates carrying value	244,983	244,983	1,446,081	1,446,081
Amount due to Cagamas	367,853	361,563	428,292	435,327
Subordinated term loan / bonds	1,301,978	1,295,098	977,382	981,162

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****38 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

	2009		2008	
	Fair value RM'000	Carrying value RM'000	Fair value RM'000	Carrying value RM'000
<b>Bank</b>				
<b>Financial Assets</b>				
Assets for which fair value approximates carrying value	9,945,874	9,945,874	3,717,429	3,717,429
Unquoted Islamic Subordinated Bonds of subsidiary	202,840	200,000	196,840	200,000
Deposits and placements with banks and other financial institutions	2,459,784	2,459,784	1,230,613	1,230,613
Held-for-trading securities	367,148	367,148	581,784	581,784
Available-for-sale securities	5,577,667	5,577,667	7,744,641	7,744,641
Loans, advances and financing	29,576,545	29,576,545	28,044,170	28,044,170
Statutory deposits with Bank Negara Malaysia	19,592	19,592	853,608	853,608
<b>Financial Liabilities</b>				
Deposits from customers	38,083,246	38,083,246	33,967,274	33,967,274
Deposits and placements of banks and other financial institutions	4,787,395	4,781,105	3,536,379	3,546,146
Liabilities for which fair value approximates carrying value	225,309	225,309	1,431,979	1,431,979
Amount due to Cagamas	367,853	361,563	428,292	435,327
Subordinated term loan / bonds	1,301,978	1,295,098	977,382	981,162

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (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:

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
<u>Financial Assets</u>				
Cash and short term funds	11,211,535	4,374,064	9,945,874	3,717,429
<u>Financial liabilities</u>				
Bills and acceptances payable	244,983	1,446,081	225,309	1,431,979

**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 2009 (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 is disclosed in Note 7(a).

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****39 CAPITAL ADEQUACY**

	<b>Group</b>		<b>Bank</b>	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
The capital adequacy ratios of the Group and the Bank are as follows:-				
Tier-1 capital	3,838,205	2,857,388	3,822,998	2,863,477
Eligible Tier-2 capital	1,361,028	1,404,588	1,122,298	1,171,056
Total capital	5,199,233	4,261,976	4,945,296	4,034,533
Less : Investment in subsidiaries and holding of other financial institution's capital	(7,547)	0	(204,164)	(196,617)
Total capital base	<u>5,191,686</u>	<u>4,261,976</u>	<u>4,741,132</u>	<u>3,837,916</u>

Capital Ratios

Excluding proposed final dividend :

Core-capital ratio	11.55%	7.76%	12.37%	8.40%
Risk-weighted capital ratio	15.63%	11.58%	15.34%	11.27%
Including proposed final dividend :				
Core-capital ratio	11.40%	7.74%	12.20%	8.38%
Risk-weighted capital ratio	15.47%	11.56%	15.18%	11.24%

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	2,023,141	1,442,012	2,062,029	1,492,956
Other reserves	330,660	322,000	322,000	322,000
Innovative Tier 1 capital	400,000	0	400,000	0
Capital reserve	56,619	56,619	0	0
	<u>3,960,420</u>	<u>2,970,631</u>	<u>3,934,029</u>	<u>2,964,956</u>
Less: Deferred tax assets	(122,215)	(113,243)	(111,031)	(101,479)
Total Tier-1 capital	<u>3,838,205</u>	<u>2,857,388</u>	<u>3,822,998</u>	<u>2,863,477</u>

Tier-2 capital

General allowance for bad and doubtful debts and financing	489,289	460,009	450,559	426,477
Subordinated term loan / bonds	871,739	944,579	671,739	744,579
Total Tier-2 capital	<u>1,361,028</u>	<u>1,404,588</u>	<u>1,122,298</u>	<u>1,171,056</u>
Total capital	5,199,233	4,261,976	4,945,296	4,034,533
Less : Investment in subsidiaries and holding of other financial institution's capital	(7,547)	0	(204,164)	(196,617)
Capital base	<u>5,191,686</u>	<u>4,261,976</u>	<u>4,741,132</u>	<u>3,837,916</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)****39 CAPITAL ADEQUACY (continued)**

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

Group	2009		2008	
	Principal RM'000	Risk- Weighted RM'000	Principal RM'000	Risk- Weighted RM'000
Risk Weighted Assets for Credit Risk :				
0 %	14,736,682	0	12,007,835	0
10%	0	0	0	0
20%	6,307,655	1,261,531	4,580,814	916,163
50%	8,545,397	4,272,699	8,084,912	4,042,456
100%	26,704,070	26,704,070	30,594,431	30,594,431
	56,293,804	32,238,300	55,267,992	35,553,050
Risk Weighted Assets for Market Risk Large Exposure Risk Requirement Risk Weighted Assets	967,643	967,643	1,223,080	1,223,080
	0	0	9,233	9,233
	<u>57,261,447</u>	<u>33,205,943</u>	<u>56,500,305</u>	<u>36,785,363</u>
<b>Bank</b>				
Risk Weighted Assets for Credit Risk :				
0 %	13,279,810	0	10,810,330	0
10%	0	0	0	0
20%	6,097,459	1,219,492	4,499,850	899,970
50%	8,493,102	4,246,551	8,016,197	4,008,098
100%	24,481,536	24,481,536	27,913,506	27,913,506
	52,351,907	29,947,579	51,239,883	32,821,574
Risk Weighted Assets for Market Risk Large Exposure Risk Requirement Risk Weighted Assets	941,525	941,525	1,220,488	1,220,488
	0	0	9,233	9,233
	<u>53,293,432</u>	<u>30,889,104</u>	<u>52,469,604</u>	<u>34,051,295</u>

Pursuant to BNM'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 BNM'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 BNM'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.

In accordance with BNM guidelines on the Recognition and Measurement of Profit Sharing Investment Account (PSIA) as Risk Absorbent, the credit and market risks on the assets funded by the RPSIA are risk weighted at 100% for inclusion in the Bank's risk weighted capital ratio ("RWCR") calculation.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2009 (continued)**

**40 COMPARATIVE FIGURES**

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

	<b>Group</b>	
	As previously reported RM'000	As restated RM'000
Balance Sheet as at 31 December 2008		
Deposits from customers	36,688,985	36,644,059
Other liabilities	<u>1,273,813</u>	<u>1,318,739</u>

**41 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 02 March 2010.