

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD  
(Incorporated in Malaysia)

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(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS**

**31 DECEMBER 2004**

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD  
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS – 31 DECEMBER 2004

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Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD  
(Incorporated in Malaysia)

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004**

The directors have pleasure in submitting their report and the audited financial statements of the Bank and of the Group for the financial year ended 31 December 2004.

### **PRINCIPAL ACTIVITIES**

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

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

<b>FINANCIAL RESULTS</b>	<b>GROUP</b>	<b>BANK</b>
	2004	2004
	RM'000	RM'000
Profit before taxation and zakat	394,509	393,765
Taxation	(118,134)	(115,276)
Zakat	(24)	(24)
Net profit attributable to shareholders	<u>276,351</u>	<u>278,465</u>
Retained profits brought forward	201,699	280,708
Transfer from General Reserve	400,000	400,000
Dividends paid of 210 sen per share less tax at 28%	(434,700)	(434,700)
Retained profits carried forward	<u>443,350</u>	<u>524,473</u>

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)**

### **DIVIDENDS**

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

- i. a final gross dividend of 170 sen per share less tax on 1 April 2004 in respect of the previous financial year amounting to RM351.9 million;
- ii. An interim dividend of 40 sen per share less tax on 8 September 2004 in respect of the current financial year amounting to RM82.8 million

on the fully issued and paid-up ordinary shares of the Bank.

The directors now recommend a final gross dividend of 145 sen per share less tax in respect of the current financial year amounting to RM300.15 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.

### **RESERVES AND PROVISIONS**

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

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

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

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

### **CURRENT ASSETS**

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

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

### **VALUATION METHODS**

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

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## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)**

### **CONTINGENT AND OTHER LIABILITIES**

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

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

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

### **CHANGE OF CIRCUMSTANCES**

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

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

The results of the operations of the Bank and of the Group for the financial year were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

### **FINANCIAL PERFORMANCE**

The Bank and its subsidiaries recorded a stronger pre-tax profit of RM394.5 million for the financial year 2004, recording a 39% increase of RM110.6 million over the previous year's profit before taxation of RM283.9 million. The stronger performance was attributed to better operating profits of 7.5% to RM496.4 million and lower provisions of 42.1% to RM101.9 million.

The increase in the Group's operating profit was due primarily to record growth in non-interest income of 57% to RM204 million. This was achieved on the back of 53% increased in fees and commissions, contributed mainly by the wealth management, credit card and trade finance businesses. Other non-interest income also grew by 66%, due mainly to foreign exchange income and Treasury activities. Net interest income remained flat at RM551 million, as the increase in loans volume was offset by a 25 bps decrease in net interest margins. Overall, total income increased by 12.9% or RM89.9 million to RM784.2 million.

Overhead expenses increased by 23.8% to RM287.8 million due to the strengthening of sales capabilities and backroom operations support in building up capacity for growth and the increased marketing expenses in promotional campaigns.

Gross outstanding loans grew by a commendable 13.8% or RM2.43 billion to RM20.0 billion. The growth came mainly from the Consumer Financial Services and Business Banking divisions by RM1.17 billion and RM1.26 billion respectively.

Gross non-performing loans (NPL) fell by 6% or RM112.4 million to RM1.8 billion due to more aggressive recovery measures.

Shareholders funds stood at RM1.6 billion and the Bank's Risk Weighted Capital Ratio (RWCR) remained healthy at 11.71%.

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## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)**

### **ACTIVITIES & ACHIEVEMENTS**

OCBC Bank (Malaysia) Berhad has been operating in Malaysia for more than seven decades and is today one of the top three foreign banks in the country by total assets. With a network of 25 branches located across both the Peninsula and East Malaysia, it has a customer base of 400,000 individuals and more than 30,000 corporate and SME clients, including sole proprietorships and partnerships.

As at 31 December 2004, the Bank was staffed by 2,448 employees, and offers a range of specialist financial services in Malaysia that includes consumer, corporate, investment, premier and transaction banking, and global treasury services to meet the needs of its customers across communities.

During 2004, OCBC Bank implemented the next phase of its New Horizons strategy, strengthened its business, and further developed infrastructure to support various initiatives. (In February 2003, the OCBC Group began its three-year New Horizons strategy, through which it seeks to generate international growth via a build-and-transfer approach, and build a high performance bank.)

The partnership between OCBC and Great Eastern Life Assurance (Malaysia) Berhad (GE) – OCBC Bank's parent company now owns an 81% equity in GE – has placed the Bank in pole position to leverage on GE's massive sales force of 17,000 agents. OCBC Bank is thus able to expand its reach, without the need for substantial investment in recruitment and training.

The Bank continued with its efforts to promote Islamic Banking more aggressively and participated in several major exhibitions and forums both in Malaysia and Singapore, including the annual Islamic Banking & Takaful Expo. It was also co-sponsor for the Kuala Lumpur Islamic Finance Forum 2004. As with the last 9 years, OCBC faithfully contributed *zakat* (alms) on income arising from Islamic Banking activities in line with Syariah principles. And to ensure all Islamic Banking products comply with Syariah contracts, OCBC Bank has its own Syariah Advisory Committee that is responsible for supporting its Islamic Banking operations. The Bank also introduced new Islamic Banking House Financing-i packages with the flexibility of up to a 20-year repayment tenure, as well as Cash Financing-i, an unsecured personal financing facility under Islamic Banking.

OCBC Bank made major strides in the Credit Cards business with the launch of the 'OCBC Luxury Car Contest' in May 2004. The above-the-line activities created a buzz among industry players and customers alike, and the cards portfolio grew by more than 80%, with customers now enjoying many cross-border privileges as added bonus.

Alongside these, OCBC complied fully with Bank Negara Malaysia's directive on the EMV chip card conversion in September, well ahead of the deadline of January 2005 set by the central bank.

In Wealth Management, OCBC Bank's bancassurance products continued to do well, especially with the launch of the 'Annual CashBack Plan' (with GE) and 'MaxSave Enhanced' & 'Capital Plus 2' (with Malaysia National Insurance Berhad), as revenue more than doubled to RM26 million and sales volume grew to RM756 million during the year. The Bank's Unit Trust equity sales rose by 114%, chalking up a volume of more than RM700 million by the end of 2004. This rise led to a 121% increase in fee income, amounting to RM17.7 million.

In a strategic move to further expand its business in the Klang Valley, the Bank relocated its Jalan Hang Kasturi branch to Kepong in April 2004. The move received strong support and approval from the many new and existing customers located in the area. In the first seven months of operations, starting from zero-base, it achieved a customer base of over 6,000 customers, with loans and deposits of over RM50 million and RM60 million respectively.

OCBC Bank's centralisation efforts in hubbing processes and transactions in Malaysia to support the ideals of the New Horizons strategy saw the establishment of e2 Power Sdn Bhd on 21 July 2004. e2 Power Sdn Bhd, a subsidiary of e2 Power Pte Ltd Singapore (wholly-owned by Oversea-Chinese Banking Corporation Limited), was awarded 'Multimedia Super Corridor' (MSC) status by the Multimedia Development Corporation (MDC) on 11 August 2004. e2 Power Sdn Bhd will be operational by mid-January 2005.

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## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)**

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

In line with the centralisation of branch operations, in September, OCBC Bank launched its Business Banking Service Desks and Business Banking Commercial Service Centres. These will serve to enhance customer service, grow the transactional banking business and provide corporate customers with a one-stop customer enquiry line.

During the year, the investment banking division made strides in both the USD/RM syndicated loan and RM debt capital markets with 14 concluded transactions. The division closed USD syndicated loan transactions as mandated lead arrangers for two major banking groups, Malayan Banking Berhad and AmInternational (L) Ltd. The division also concluded the largest financing exercise for a major plantation company, Kulim (M) Bhd, through a USD60 million Term Loan Facility and a RM367.5 million Syndicated Islamic Facility.

In the debt capital market, transactions closed included a RM400 million serial bond issue for Mid Valley Capital Sdn Bhd. This was an innovative structured commercial asset backed transaction for a prime shopping mall in Malaysia, Megamall. It represented the first time such a structured transaction achieved the highest tranche rating of up to AAA.

In debt advisory, the division arranged structured mezzanine financing for a high-rise condominium project in a prime location in Malaysia, in which a member of the Capitaland Group jointly participated.

### **MAJOR BUSINESS PLANS & ACTIVITIES FOR YEAR 2005**

Moving into 2005, OCBC Malaysia plans to build a firm foundation for its consumer financial services division by aggressively growing its customer base and enhancing distribution capacity. It plans to achieve such growth by focusing on selected depository and loan products that reach out more aggressively to a younger market segment as well. In addition, the Bank would continue to build on the successes of its other products and services.

The direct sales department, which was set up last year, would continue in its role to market credit cards and Cash Financing-i through road shows and strategic tie-ins in key markets.

The consumer financial services division would also place due emphasis on building a firm foundation for service quality, especially for branches and the Call Centre through training for front-line staff.

The business banking division, having already established an entrenched position with the SME community in Malaysia and successfully grown its total income from the SME business by 15.2% in 2004, will continue in its efforts to attain sustained growth and overall profitability during 2005. The division will move to realise the full potential of the strong sales culture and infrastructure developed last year. In addition, efforts will also concentrate on further strengthening and deepening top-tier corporate relationships as well as on selectively acquiring new relationships.

In support of these strategies, efforts will be directed toward strengthening the business/process framework to ensure long-term business sustainability. Product innovations relating to distributor financing programmes, bancassurance products and corporate internet banking will continue to be developed and marketed through extended sales distribution channels comprising the branches, mobile sales teams and business alliance partners. In tandem with the more robust growth, the division will increase risk management vigilance, an initiative supported by a predictive early warning system for the early detection of problematic credits.

The treasury division will seek to increase the Bank's customer base and market share through a combination of product innovation, pricing and customer service initiatives. Among the new products and structures in the pipeline for 2005 are those relating to structured investments (equity, interest rate, bonds, foreign currency), equity futures, credit default swaps, credit linked notes, bond options and asset swaps. Ongoing efforts will also be channeled to enhance existing products and structures such as capped term loans, non-deliverable forwards and cross currency interest rate swaps.

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## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)**

### **RATINGS BY EXTERNAL AGENCIES**

The Bank is rated by an external agency, Rating Agency Malaysia Berhad. The Bank received AA1 for long term rating and P1 for short term rating which was reaffirmed in December 2004 and is still in use at the reporting date. This is reflective of OCBC Malaysia's resilient asset quality, sound credit risk management, sustainable financial performance and sturdy capitalisation.

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

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

Tan Sri Dato' Nasruddin Bin Bahari (Chairman)

David Conner

Colonel (Rtd) David Wong Cheong Fook (appointed on 30/3/2004)

Helen Lim Lean See (resigned on 12/8/2004)

Lai Teck Poh

Soon Tit Koon

Tan Siok Choo

Dato' Yeoh Beow Tit

Datuk Yong Poh Kon



**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)****DIRECTORS AND THEIR INTEREST IN SHARES AND OPTIONS (continued)**

In accordance with articles 106 & 107 of the Bank's Articles of Association, Mr David Conner, Mr Lai Teck Poh and Datuk Yong Poh Kon retire from the board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with articles 110 of the Bank's Articles of Association, Colonel (Rtd) David Wong Cheong Fook retires from the board at the forthcoming Annual General Meeting and, being eligible, offers himself for election.

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

Oversea-Chinese Banking Corporation LimitedNumber of ordinary shares of S\$ 1.00 each

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

	As at 1.1.2004/ At date of appointment <sup>@</sup>	<u>Acquired</u>	<u>Disposed</u>	As at 31.12.2004
Dato' Yeoh Beow Tit	-	30,400	20,000	10,400
Lai Teck Poh	84,348	-	-	84,348
David Conner	121,000	21,000	-	142,000
Soon Tit Koon	10,000	-	-	10,000
Col (Rtd) David Wong Fook	@ 3,000	-	-	3,000

Number of ordinary shares of S\$ 1.00 each

Shareholdings in which directors have deemed interest \*

	As at 1.1.2004	<u>Acquired</u>	<u>Disposed</u>	As at 31.12.2004
Tan Siok Choo	1,471,063	-	-	1,471,063
Lai Teck Poh	5,673	9,972	-	15,645
Soon Tit Koon	4,006	26,101	-	30,107
Dato' Yeoh Beow Tit	3,303	8,120	-	11,423
David Conner	670,526	371,423	21,000	1,020,949

Class G Preference Shares

Lai Teck Poh	42,000	-	-	42,000
David Conner	50,000	-	-	50,000
Tan Siok Choo	735,532	-	-	735,532

\*Deemed interest includes shares granted under the OCBC Deferred Share Plan which will vest three years from the grant date and will lapse when the director ceases employment during the vesting period. Deemed interest also includes Employee Share Purchase Plan which started on 19 June 2004 and would cease in June 2006.

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## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)**

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

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

	<u>Number of unissued ordinary shares of S\$ 1.00 each</u>					
	<u>Share Options held by directors in their own name</u>					
	<u>As at</u> <u>1.1.2004</u>	<u>Offered</u>	<u>Exercised</u>	<u>Lapsed</u>	<u>As at</u> <u>31.12.2004</u>	<u>Dates options</u> <u>expire</u>
David Conner	600,000	330,000	-	-	930,000	8/4/2012-14/3/2014
Lai Teck Poh	448,895	30,000	-	-	478,895	29/1/2006-14/3/2014
Dato' Yeoh Beow Tit	360,400	45,000	30,400	-	375,000	9/12/2008-14/3/2014
Soon Tit Koon	175,000	75,000	-	-	250,000	8/4/2012-14/3/2014

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

### **DIRECTORS' BENEFITS**

During and at the end of the financial year, no director of the Bank has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by directors as shown in Note 25 to the financial statements, or the fixed salary of full-time employees of the Bank) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

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

### **ULTIMATE HOLDING COMPANY**

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

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**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)**

**AUDITORS**

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

In accordance with a resolution of the Board of Directors dated 31 January 2005.

TAN SRI DATO' NASRUDDIN BIN BAHARI  
DIRECTOR

DATO' YEOH BEOW TIT  
DIRECTOR

Kuala Lumpur

**BALANCE SHEETS AS AT 31 DECEMBER 2004**

	Note	Group		Bank	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>ASSETS</b>					
Cash and short-term funds	2	1,379,166	3,089,323	1,379,166	3,089,323
Deposits and placements with financial institutions	3	523,991	35,402	523,991	35,402
Dealing securities	4	579,445	792,658	579,445	792,658
Investment securities	5	4,881,721	3,931,919	4,881,721	3,931,919
Loans, advances and financing	6	19,081,516	16,658,288	19,080,640	16,657,273
Other assets	7	148,000	94,120	152,851	91,121
Statutory deposits with Bank Negara Malaysia	8	694,086	582,086	694,086	582,086
Investment in subsidiary companies	9	0	0	1,611	1,611
Property, plant and equipment	10	202,724	183,302	202,721	183,302
Deferred taxation asset	11	100,267	109,112	100,493	108,977
<b>TOTAL ASSETS</b>		<b>27,590,916</b>	<b>25,476,210</b>	<b>27,596,725</b>	<b>25,473,672</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Deposits from customers	12	16,941,812	15,744,231	16,962,910	15,764,528
Deposits and placements of banks and other financial institutions	13	3,514,906	3,563,907	3,514,906	3,563,907
Obligations on securities sold under repurchase agreements		2,128,354	1,409,451	2,128,354	1,409,451
Bills and acceptances payable		1,533,193	1,267,140	1,533,193	1,267,140
Amount due to Cagamas		1,010,781	1,098,152	1,010,781	1,098,152
Subordinated term loan	14	570,000	380,027	570,000	380,027
Other liabilities	15	274,687	227,558	271,644	226,302
Taxation and zakat		8,464	18,676	8,464	11,457
<b>Total Liabilities</b>		<b>25,982,197</b>	<b>23,709,142</b>	<b>26,000,252</b>	<b>23,720,964</b>
Financed by :					
Share capital	16	287,500	287,500	287,500	287,500
Reserves	17	1,321,219	1,479,568	1,308,973	1,465,208
Shareholders' Equity		<b>1,608,719</b>	<b>1,767,068</b>	<b>1,596,473</b>	<b>1,752,708</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>27,590,916</b>	<b>25,476,210</b>	<b>27,596,725</b>	<b>25,473,672</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	29	<b>23,372,056</b>	<b>12,618,566</b>	<b>23,341,877</b>	<b>12,587,411</b>

The accounting policies on pages 18 to 23 and notes on pages 24 to 90 form an integral part of the financial statements.

**INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004**

	Note	Group		Bank	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Interest income	18	1,164,906	1,106,820	1,164,815	1,106,713
Interest expense	19	(613,606)	(555,188)	(614,202)	(555,874)
Net interest income		551,300	551,632	550,613	550,839
Islamic Banking income	41(23)	29,301	12,612	29,301	12,612
		580,601	564,244	579,914	563,451
Non-interest income	20	203,597	130,051	203,597	136,951
Net income		784,198	694,295	783,511	700,402
Staff cost and overhead expenses	21	(287,830)	(232,500)	(287,638)	(232,280)
Operating profits before allowances		496,368	461,795	495,873	468,122
Allowance for losses on loans and financing	23	(109,188)	(167,227)	(109,437)	(167,361)
Provision for commitment and contingencies		(4,302)	(3,192)	(4,302)	(3,192)
Write back of / (allowance for) diminution in value of investment securities (net)		14,376	(7,462)	14,376	(7,462)
Impairment losses on property, plant and equipment		(2,745)	0	(2,745)	0
Profit before taxation and zakat		394,509	283,914	393,765	290,107
Taxation	26	(118,134)	(78,675)	(115,276)	(80,573)
Zakat		(24)	(23)	(24)	(23)
Net profit attributable to shareholders		276,351	205,216	278,465	209,511
Basic earnings per share (sen)	27	96.1	71.4	96.9	72.9
Dividend per ordinary share – 185 sen gross (2003 : 315 sen) less income tax (sen)	28	133.2	226.8	133.2	226.8

The accounting policies on pages 18 to 23 and notes on pages 24 to 90 form an integral part of the financial statements.

**STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004**

	Note	Non-distributable				Distributable		Total RM'000
		Share capital	Share premium	Statutory reserve	Capital reserve	General reserve	Retained profits	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>Group</b>								
Balance at 1 January 2004		287,500	462,500	322,000	56,619	436,750	201,699	1,767,068
Transfer (to)/from		0	0	0	0	(400,000)	400,000	0
		<u>287,500</u>	<u>462,500</u>	<u>322,000</u>	<u>56,619</u>	<u>36,750</u>	<u>601,699</u>	<u>1,767,068</u>
Net profit attributable to shareholders		0	0	0	0	0	276,351	276,351
Dividends paid in respect of:								
- year ended 31 December 2003	28	0	0	0	0	0	(434,700)	(434,700)
Balance at 31 December 2004		<u>287,500</u>	<u>462,500</u>	<u>322,000</u>	<u>56,619</u>	<u>36,750</u>	<u>443,350</u>	<u>1,608,719</u>
Balance at 1 January 2003		287,500	462,500	322,000	56,619	436,750	472,583	2,037,952
Net profit attributable to shareholders		0	0	0	0	0	205,216	205,216
Dividends paid in respect of :								
- year ended 31 December 2002		0	0	0	0	0	(175,950)	(175,950)
- year ended 31 December 2003	28	0	0	0	0	0	(300,150)	(300,150)
Balance at 31 December 2003		<u>287,500</u>	<u>462,500</u>	<u>322,000</u>	<u>56,619</u>	<u>436,750</u>	<u>201,699</u>	<u>1,767,068</u>
<b>Bank</b>								
Balance at 1 January 2004		287,500	462,500	322,000	0	400,000	280,708	1,752,708
Transfer (to)/from		0	0	0	0	(400,000)	400,000	0
		<u>287,500</u>	<u>462,500</u>	<u>322,000</u>	<u>0</u>	<u>0</u>	<u>680,708</u>	<u>1,752,708</u>
Net profit attributable to shareholders		0	0	0	0	0	278,465	278,465
Dividends paid in respect of								
- year ended 31 December 2003	28	0	0	0	0	0	(434,700)	(434,700)
Balance at 31 December 2004		<u>287,500</u>	<u>462,500</u>	<u>322,000</u>	<u>0</u>	<u>0</u>	<u>524,473</u>	<u>1,596,473</u>

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD  
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**STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004  
(CONTINUED)**

	Note	Non-distributable				Distributable		Total
		Share capital	Share premium	Statutory reserve	Capital reserve	General reserve	Retained profits	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>Bank (continued)</b>								
Balance at 1 January 2003	11	287,500	462,500	322,000	0	400,000	547,297	2,019,297
Net profit attributable to shareholders		0	0	0	0	0	209,511	209,511
Dividends paid in respect of :								
-year ended 31 December 2002		0	0	0	0	0	(175,950)	(175,950)
-year ended 31 December 2003	28	0	0	0	0	0	(300,150)	(300,150)
Balance at 31 December 2003		<u>287,500</u>	<u>462,500</u>	<u>322,000</u>	<u>0</u>	<u>400,000</u>	<u>280,708</u>	<u>1,752,708</u>

The accounting policies on pages 18 to 23 and notes on pages 24 to 90 form an integral part of the financial statements.

**CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004**

	Note	Group		Bank	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit before taxation and zakat		394,509	283,914	393,765	290,107
Adjustments for:-					
Net profit from dealing securities		(16,470)	(4,495)	(16,470)	(4,495)
Gain from sale of investment securities		(6)	(1,167)	(6)	(1,167)
Dividends received		(1,649)	(3,623)	(1,649)	(10,523)
Depreciation of property, plant and equipment		20,538	28,727	20,537	28,710
Impairment losses on property, plant and equipment		2,745	0	2,745	0
Gain on disposal of property, plant and equipment (net)		(1,594)	(688)	(1,594)	(688)
Allowance for bad and doubtful debts and financing		128,655	188,543	128,904	188,677
Profit equalisation reserve		(4,479)	3,311	(4,479)	3,311
Allowance for interest / income-in-suspense		44,190	65,594	44,146	65,583
(Write back) / allowance for diminution in value of investment securities (net)		(14,376)	7,462	(14,376)	7,462
Amortisation of premium less accretion of discount		39,167	26,268	39,167	26,268
Provision for commitment and contingencies		4,302	3,192	4,302	3,192
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>		<b>595,532</b>	<b>597,038</b>	<b>594,992</b>	<b>596,437</b>
<b>(Increase)/Decrease in Operating Assets :</b>					
Loans, advances and financing		(2,596,073)	(1,838,274)	(2,596,417)	(1,838,481)
Other assets and statutory deposits with Bank Negara Malaysia		(165,881)	(81,004)	(173,730)	(81,095)
Dealing securities (net)		229,683	(287,255)	229,683	(287,255)
<b>Increase/(Decrease) in Operating Liabilities :</b>					
Deposits from customers		1,197,581	1,383,055	1,198,382	1,378,883
Bills and acceptances payable		266,053	54,017	266,053	54,017
Loans sold to Cagamas		(87,371)	(341,664)	(87,371)	(341,664)
Other liabilities		47,306	31,904	45,519	31,950
Obligations sold under Repurchase agreement		718,903	502,210	718,903	502,210
Deposits of banks and other financial institutions		(49,001)	1,329,715	(49,001)	1,329,715
Subordinated term loan		189,973	380,027	189,973	380,027
Cash generated from operations		346,705	1,729,769	336,986	1,724,744
Income tax and zakat paid		(119,524)	(102,175)	(109,809)	(104,105)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>227,181</b>	<b>1,627,594</b>	<b>227,177</b>	<b>1,620,639</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of investment securities (net)		(974,587)	(922,110)	(974,587)	(922,110)
Purchase of property, plant and equipment		(44,342)	(7,564)	(44,338)	(7,564)
Proceeds from sale of property, plant and equipment		3,231	700	3,231	700
Dividends received		1,649	3,623	1,649	10,523
<b>NET CASH UTILISED IN INVESTING ACTIVITIES</b>		<b>(1,014,049)</b>	<b>(925,351)</b>	<b>(1,014,045)</b>	<b>(918,451)</b>



Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD  
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**CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)**

	Note	Group		Bank	
		2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid		(434,700)	(476,100)	(434,700)	(476,100)
NET CASH UTILISED IN FINANCING ACTIVITIES		<u>(434,700)</u>	<u>(476,100)</u>	<u>(434,700)</u>	<u>(476,100)</u>
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(1,221,568)	226,143	(1,221,568)	226,088
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		3,124,725	2,898,582	3,124,725	2,898,637
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	38	<u>1,903,157</u>	<u>3,124,725</u>	<u>1,903,157</u>	<u>3,124,725</u>

The accounting policies on pages 18 to 23 and notes on pages 24 to 90 form an integral part of the financial statements.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004**

A. Basis of preparation of the financial statements

The financial statements of the Bank and of the Group have been prepared under the historical cost convention and comply with the provisions of the Companies Act, 1965, Bank Negara Malaysia Guidelines, Syariah requirements (operation of Islamic Banking) and applicable approved accounting standards in Malaysia. The financial statements incorporate all activities relating to Islamic Banking (IB) which have been undertaken by the Bank in compliance with Syariah principles.

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

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 2004. Subsidiary companies are those companies in which the Group has power to exercise control over the financials and operating policies so as to benefit from their activities.

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

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

C. Recognition of Interest Income / Financing Income

Interest income / financing income is recognised on an accrual basis. 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, recognition of interest income / financing income is suspended until it is realised on a cash basis.

This policy on suspension of interest / income is in conformity with Bank Negara Malaysia's "Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts".

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

D. Recognition of Fees and Other Income

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

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

Dividends from subsidiaries are recognised when the shareholders' right to receive payment is established. Dividends from dealing and investment securities are recognised when received.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)**

E. Allowance for Bad and Doubtful Debts and Financing

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

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 loans, advances and financing or portion of a loans, advances and financing classified as bad is written off after taking into consideration the estimated realisable value of the collateral, if any, when in the judgement of the management, there is no prospect of recovery and is in compliance with Bank Negara Malaysia guidelines.

F. Repurchase Agreements

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

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

G. Dealing securities

Dealing securities are marketable securities that are acquired and held with the intention of resale in the short term and are stated at the lower of cost and market value.

Transfers, if any, between dealing and investment securities are made at the lower of cost and market value.

H. Investment securities

Investment 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 to maturity.

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

Transfers, if any, between investment and dealing securities are made at the lower of cost and market value.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)**

I. Amounts Recoverable from Danaharta

This relates to the loans sold to Pengurusan Danaharta Nasional Berhad (“Danaharta”) where the total consideration is received in two portions; upon the sale of the loans (initial consideration) and upon the recovery of the loans (final consideration). The final consideration amount represents the Bank’s predetermined share of the surplus over the initial consideration upon recovery of the loans.

The difference between the carrying value of the loans and the initial consideration is recognised as Amounts recoverable from Danaharta within the ‘Other Assets’ component of the balance sheet. Allowances against these amounts are made to reflect the Directors’ assessment of the realisable value of the final consideration as at the balance sheet date.

J. Investment in Subsidiary Companies

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

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

K. Property, Plant and Equipment and Depreciation

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

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

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

L. Assets Under Lease

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

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

M. Bills and Acceptances Payable

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

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)**

N. Amount Due To Cagamas

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

O. Forward Exchange Contracts

Premium or discount on foreign exchange forward contracts that qualify as hedges are amortised to income statement on a straight-line basis over the period of the contracts.

Outstanding forward contracts that do not qualify as hedges are revalued using the net present value method, and the resulting gain or losses computed based on future cash flows discounted using the applicable interest rates for the cashflows, is taken to the income statement.

P. Currency Translations and Conversion

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

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

	<u>2004</u>	<u>2003</u>
Foreign currency	RM	RM
1 US Dollar	3.80	3.80
1 Australian Dollar	2.96	2.85
100 Japanese Yen	3.70	3.55

Q. Taxation

i) Current tax

The taxation charged in the income statements which comprise income tax is calculated at the current tax rate based on the estimated chargeable income for the financial year.

ii) Deferred tax

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

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)**

R. Zakat Obligations

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

S. Interest Rate Swaps and Futures Contracts

Interest income or interest expense associated with interest rate swaps that qualify as hedges is recognised over the life of the swaps agreement as a component of interest income or interest expense. Gains and losses on interest rate swaps and futures contracts that qualify as hedges are generally deferred over the life of the underlying assets or liabilities.

Gains and losses on interest rate swaps and futures contracts that do not qualify as hedges are recognised in the current year using the mark-to-market method.

T. 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

A provision is made for shares granted under the deferred share plan over a period of three years from the grant date.

U. Employee Benefits

- i) Short term employee benefit  
Wages, salaries, paid annual leave and sick leave, variable cash performance bonus and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group.
- ii) Defined contribution plans  
The Group's contribution to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group has no further payment obligations.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004 (continued)**

U. Employee Benefits (continued)

iii) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

iv) Equity compensation benefits

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

Further details of the deferred share plan are disclosed in Note 15.

V. 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.

W. Profit Equalisation Reserve (PER)

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004****1 GENERAL INFORMATION**

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

The number of employees at the end of the financial year amounted to 2,448 (2003 : 1,902) employees in the Group and 2,446 (2003 : 1,900) employees in the Bank.

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

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

The address of the registered office of the Bank is 1<sup>st</sup> - 8<sup>th</sup> Floor, Wisma Lee Rubber, Jalan Melaka, 50100 Kuala Lumpur.

**2 CASH AND SHORT-TERM FUNDS**

	<b>Group</b>		<b>Bank</b>	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	142,228	102,324	142,228	102,324
Money at call and deposit placements maturing within one month	1,236,938	2,986,999	1,236,938	2,986,999
	<u>1,379,166</u>	<u>3,089,323</u>	<u>1,379,166</u>	<u>3,089,323</u>

**3 DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS**

Licensed banks	415,691	30,402	415,691	30,402
Other financial institutions	108,300	5,000	108,300	5,000
	<u>523,991</u>	<u>35,402</u>	<u>523,991</u>	<u>35,402</u>

**4 DEALING SECURITIES**

Money market instruments:-

Quoted:

Malaysian Government Treasury bills	0	2,982	0	2,982
Malaysian Government securities	75,548	0	75,548	0
Government Investment Certificate	0	49,358	0	49,358
Bank Negara Negotiable notes	0	49,684	0	49,684
Private debt securities	503,897	247,187	503,897	247,187
	<u>579,445</u>	<u>349,211</u>	<u>579,445</u>	<u>349,211</u>

Unquoted:

Bankers' acceptances and Islamic

Accepted bills	0	443,447	0	443,447
	<u>579,445</u>	<u>792,658</u>	<u>579,445</u>	<u>792,658</u>



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****4 DEALING SECURITIES (continued)**

	<b>Group</b>		<b>Bank</b>	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Market value of quoted money market instruments:-				
Malaysian Government Treasury bills	0	2,982	0	2,982
Malaysian Government securities	75,619	0	75,619	0
Government Investment Certificate	0	49,400	0	49,400
Bank Negara Negotiable notes	0	49,784	0	49,784
Private debt securities	504,421	247,748	504,421	247,748
	<u>580,040</u>	<u>349,914</u>	<u>580,040</u>	<u>349,914</u>

**5 INVESTMENT SECURITIES**

Money market instruments:-

Quoted:

Malaysian Government securities	2,286,164	1,003,043	2,286,164	1,003,043
Government Investment Certificate	272,166	209,328	272,166	209,328
Bank Negara Negotiable notes	0	74,490	0	74,490
Cagamas bonds / notes	972,654	1,039,870	972,654	1,039,870
Danaharta bonds	32,589	210,303	32,589	210,303
Private debt securities	644,112	952,886	644,112	952,886
	<u>4,207,685</u>	<u>3,489,920</u>	<u>4,207,685</u>	<u>3,489,920</u>

Unquoted:

Negotiable instruments of deposit	780,000	515,000	780,000	515,000
Bankers' acceptances and Islamic accepted bills	26,002	0	26,002	0
	<u>5,013,687</u>	<u>4,004,920</u>	<u>5,013,687</u>	<u>4,004,920</u>

Unquoted securities in Malaysia :-

Shares	15,650	15,650	15,650	15,650
Debentures	186	186	186	186
	<u>5,029,523</u>	<u>4,020,756</u>	<u>5,029,523</u>	<u>4,020,756</u>

Amortisation of premium less

accretion of discounts	(77,908)	22,898	(77,908)	22,898
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Allowance for diminution in value of investment securities :

-Unquoted shares in Malaysia	(121)	(121)	(121)	(121)
-Private debt securities	(69,773)	(111,614)	(69,773)	(111,614)
	<u>4,881,721</u>	<u>3,931,919</u>	<u>4,881,721</u>	<u>3,931,919</u>

Included in investment securities is an amount of RM2,307,772,000 (2003: RM1,518,963,000) being pledged to third parties in sale and repurchase agreements.

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2004 (continued)****5 INVESTMENT SECURITIES (continued)**

i) Market value of quoted money market instruments:-

	<b>Group</b>		<b>Bank</b>	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Malaysian Government securities	2,243,609	971,681	2,243,609	971,681
Government Investment Certificate	286,335	219,620	286,335	219,620
Bank Negara Negotiable Notes	0	74,518	0	74,518
Cagamas bonds / notes	964,336	1,018,972	964,336	1,018,972
Danaharta bonds	41,788	267,974	41,788	267,974
Private debt securities	521,349	839,774	521,349	839,774
	<u>4,057,417</u>	<u>3,392,539</u>	<u>4,057,417</u>	<u>3,392,539</u>

ii) The maturity structure of money market instruments held for investment are as follows:-

	<b>Group</b>		<b>Bank</b>	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Maturity within one year	1,594,633	1,781,102	1,594,633	1,781,102
One year to three years	2,180,147	1,296,864	2,180,147	1,296,864
Three years to five years	1,166,658	875,997	1,166,658	875,997
Over five years	72,249	50,957	72,249	50,957
	<u>5,013,687</u>	<u>4,004,920</u>	<u>5,013,687</u>	<u>4,004,920</u>

iii) The movements in allowance for diminution in value of investment securities are as follows:-

	<b>Group</b>		<b>Bank</b>	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	111,735	105,160	111,735	105,160
Allowance made during the year	0	13,890	0	13,890
Amount transferred from specific allowance	1,341	830	1,341	830
Amount written back in respect of recoveries	(14,376)	(6,428)	(14,376)	(6,428)
Amount written off	(28,806)	(1,717)	(28,806)	(1,717)
Balance at 31 December	<u>69,894</u>	<u>111,735</u>	<u>69,894</u>	<u>111,735</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****6 LOANS, ADVANCES AND FINANCING**

	<b>Group</b>		<b>Bank</b>	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Overdrafts	3,433,406	3,695,545	3,433,406	3,695,545
Term loans :				
-fixed rate	670,202	288,197	670,202	288,197
-floating rate	11,875,118	10,174,911	11,875,118	10,174,911
Credit/charge cards receivables	264,790	181,623	264,790	181,623
Bills receivable	39,916	21,401	39,916	21,401
Trust receipts	118,069	77,310	118,069	77,310
Claims on customers under acceptance credits	1,577,785	1,313,041	1,577,785	1,313,041
Hire purchase	316,961	145,672	316,961	145,672
Lease receivables	26,948	26,315	24,582	23,455
Block discounting	366	384	366	384
Other loans	1,739,063	1,680,129	1,739,063	1,680,129
Staff loans (of which None [2003 : RM22,933] to directors )	105,221	100,640	105,221	100,640
	<u>20,167,845</u>	<u>17,705,168</u>	<u>20,165,479</u>	<u>17,702,308</u>
Unearned interest and income	(119,853)	(87,096)	(119,735)	(86,914)
Gross loans, advances and financing	<u>20,047,992</u>	<u>17,618,072</u>	<u>20,045,744</u>	<u>17,615,394</u>
Allowance for bad and doubtful debts and financing :				
- Specific	(455,465)	(448,813)	(454,781)	(447,853)
- General	(306,870)	(305,758)	(306,855)	(305,743)
Interest-in-suspense / income-in-suspense	(204,141)	(205,213)	(203,468)	(204,525)
Net loans, advances and financing	<u>19,081,516</u>	<u>16,658,288</u>	<u>19,080,640</u>	<u>16,657,273</u>

i) The maturity structure of loans, advances and financing are as follows:-

	<b>Group</b>		<b>Bank</b>	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Maturity within one year	7,880,052	7,767,919	7,878,695	7,766,262
One year to three years	2,541,325	1,899,453	2,540,647	1,899,370
Three years to five years	1,650,671	1,565,774	1,650,458	1,564,836
Over five years	7,975,944	6,384,926	7,975,944	6,384,926
	<u>20,047,992</u>	<u>17,618,072</u>	<u>20,045,744</u>	<u>17,615,394</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****6 LOANS, ADVANCES AND FINANCING (continued)**

ii) Loans, advances and financing according to economic sector are as follows :

	<b>Group</b>		<b>Bank</b>	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Agriculture	1,305,618	914,674	1,305,618	914,674
Mining and quarrying	21,033	21,487	21,033	21,487
Manufacturing	3,369,757	2,814,369	3,369,383	2,813,852
Electricity, gas and water	83,447	214,305	83,447	214,305
Construction	941,378	732,368	940,881	731,896
Real estate	1,390,212	1,303,937	1,390,212	1,303,937
Purchase of landed property				
of which : i. Residential	5,579,587	4,667,016	5,579,587	4,667,016
ii. Non-residential	843,239	723,739	843,239	723,739
General commerce	2,455,908	2,272,034	2,455,422	2,271,956
Transport, storage and communication	420,113	571,901	420,113	571,901
Finance, insurance and business services	841,980	478,049	841,980	478,049
Purchase of securities	275,395	454,753	275,395	454,753
Purchase of transport vehicles	10,224	11,522	10,224	11,520
Consumption credit	984,115	820,883	983,224	819,693
Others	1,525,986	1,617,035	1,525,986	1,616,616
	<u>20,047,992</u>	<u>17,618,072</u>	<u>20,045,744</u>	<u>17,615,394</u>

iii) The movements in the non-performing loans and financing (including interest and income receivable) are as follows :

	<b>Group</b>		<b>Bank</b>	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	1,909,993	1,727,658	1,908,369	1,725,902
Non-performing during the year (gross)	1,397,534	1,335,480	1,397,432	1,335,312
Amount converted to investment securities	(1,341)	(3,977)	(1,341)	(3,977)
Amount recovered	(1,332,113)	(1,012,304)	(1,331,806)	(1,012,075)
Amount written off	(176,459)	(136,864)	(176,372)	(136,793)
Balance at 31 December	<u>1,797,614</u>	<u>1,909,993</u>	<u>1,796,282</u>	<u>1,908,369</u>
Net non-performing loans and financing (as % of total loans less specific allowance and interest/income-in-suspense)	<u>5.87%</u>	<u>7.40%</u>	<u>5.87%</u>	<u>7.40%</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****6 LOANS, ADVANCES AND FINANCING (continued)**

- iv) The movements in the allowance for bad and doubtful debts and financing and interest-in-suspense/ income-in-suspense are as follows :

	<b>Group</b>		<b>Bank</b>	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
<u>General allowance</u>				
Balance at 1 January	305,758	304,861	305,743	304,846
Allowance made during the year	1,112	897	1,112	897
Balance at 31 December	<u>306,870</u>	<u>305,758</u>	<u>306,855</u>	<u>305,743</u>
(as % of total loans less specific allowance and interest/income-in-suspense)	<u>1.70%</u>	<u>2.0%</u>	<u>1.69%</u>	<u>2.0%</u>
<u>Specific allowance</u>				
Balance at 1 January	448,813	354,558	447,853	353,443
Allowance made during the year	451,711	363,683	451,702	363,637
Amount transferred to allowance for diminution in value of investment securities	(1,341)	(830)	(1,341)	(830)
Amount written back in respect of recoveries	(325,159)	(177,584)	(324,901)	(177,404)
Amount written off	(118,559)	(91,014)	(118,532)	(90,993)
Balance at 31 December	<u>455,465</u>	<u>448,813</u>	<u>454,781</u>	<u>447,853</u>
<u>Interest/income-in-suspense</u>				
Balance at 1 January	205,213	175,518	204,525	174,789
Allowance made during the year	131,812	141,584	131,719	141,466
Amount written back in respect of recoveries	(74,985)	(65,712)	(74,936)	(65,605)
Amount written off arising from :				
-current year	(12,637)	(10,278)	(12,637)	(10,278)
-prior year	(45,262)	(35,899)	(45,203)	(35,847)
Balance at 31 December	<u>204,141</u>	<u>205,213</u>	<u>203,468</u>	<u>204,525</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)**

7 OTHER ASSETS	Group		Bank	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Amount due from subsidiary	0	0	7,867	0
Interest receivable	54,821	37,153	54,821	37,153
Other debtors, deposits and prepayments	93,179	56,967	90,163	53,968
	<u>148,000</u>	<u>94,120</u>	<u>152,851</u>	<u>91,121</u>
<u>Amount recoverable from Danaharta</u>				
Balance at 1 January	0	0	0	0
Amount arising during the year 1/	8,053	7,456	8,053	7,456
Allowance made during the year	(8,053)	(7,456)	(8,053)	(7,456)
Balance at 31 December	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

1/ This amount arose from the recognition of 8% holding cost amount on loans and advances sold and outstanding from Danaharta

**8 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA**

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

**9 INVESTMENT IN SUBSIDIARY COMPANIES**

	Bank	
	2004 RM'000	2003 RM'000
Unquoted shares at cost		
- in Malaysia	1,617	1,617
Less : Allowance for diminution in value	(6)	(6)
	<u>1,611</u>	<u>1,611</u>

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

Name	Principal activities	Issued and paid up share capital RM'000	Percentage of equity held	
			2004 %	2003 %
OCBC Credit Berhad	Licensed credit company	15,000	← 100% →	
Malaysia Nominees (Tempatan) Sdn Bhd	Nominees services	10	← 100% →	
Malaysia Nominees (Asing) Sdn Bhd	Nominees services	10	← 100% →	

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****10 PROPERTY, PLANT AND EQUIPMENT**

<b>Group</b> 2004	Balance at 1 January	Additions	Disposal	Reclassification	Balance at 31 December
<u>Cost</u>	RM'000	RM'000	RM'000	RM'000	RM'000
Freehold land and buildings	99,598	518	(246)	(5,929)	93,941
Building-in-progress	51,425	28,601	0	0	80,026
Leasehold land and buildings :					
- less than 50 years	8,429	0	(1,984)	0	6,445
- 50 years or more	8,482	0	0	5,929	14,411
Office equipment and furniture	58,620	2,056	(51)	(50)	60,575
Computer equipment	152,137	13,040	(51,016)	50	114,211
Motor vehicles	8,717	13	(136)	0	8,594
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	1,624	114	0	0	1,738
	<u>389,032</u>	<u>44,342</u>	<u>(53,433)</u>	<u>0</u>	<u>379,941</u>
	Balance at 1 January	Charge for the year	Reversed on disposal	Reclassification	Balance at 31 December
<u>Accumulated depreciation</u>	RM'000	RM'000	RM'000	RM'000	RM'000
Freehold land and buildings	13,122	1,289	(27)	(651)	13,733
Leasehold land and buildings :					
- less than 50 years	1,093	262	(600)	0	755
- 50 years or more	1,089	275	0	651	2,015
Office equipment and furniture	42,220	3,587	(36)	(82)	45,689
Computer equipment	130,029	13,458	(51,016)	82	92,553
Motor vehicles	6,357	1,305	(116)	0	7,546
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	825	361	0	0	1,186
	<u>194,735</u>	<u>20,538</u>	<u>(51,795)</u>	<u>0</u>	<u>163,477</u>
	Balance at 1 January	Charge for the year	Reversed on disposal	Reclassification	Balance at 31 December
<u>Impairment losses</u>	RM'000	RM'000	RM'000	RM'000	RM'000
Freehold land and buildings	6,849	0	0	(1,812)	5,037
Leasehold land and buildings					
-Less than 50 years	2,993	0	0	(354)	2,639
-50 years or more	1,153	0	0	2,166	3,319
Office equipment and furniture	0	2,745	0	0	2,745
	<u>10,995</u>	<u>2,745</u>	<u>0</u>	<u>0</u>	<u>13,740</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****10 PROPERTY, PLANT AND EQUIPMENT (Continued)**

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

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

<b>Accumulated depreciation</b>	Balance at				Balance at
2004	1 January	Charge for the year	Reversed on disposal	Reclassification	31 December
<u>Accumulated depreciation</u>	RM'000	RM'000	RM'000	RM'000	RM'000
Freehold land and buildings	13,122	1,289	(27)	(651)	13,733
Leasehold land and buildings :					
- less than 50 years	1,093	262	(600)	0	755
- 50 years or more	543	275	0	651	1,469
Office equipment and furniture	42,766	3,586	(36)	(82)	46,234
Computer equipment	129,944	13,458	(51,016)	82	92,468
Motor vehicles	6,357	1,305	(116)	0	7,546
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	825	361	0	0	1,186
	<u>194,650</u>	<u>20,537</u>	<u>(51,795)</u>	<u>0</u>	<u>163,391</u>



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****10 PROPERTY, PLANT AND EQUIPMENT (Continued)**

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****10 PROPERTY, PLANT AND EQUIPMENT**

<b>Group</b>	Balance at				Balance at
2003	1 January	Additions	Disposal	Reclassification	31 December
<u>Cost</u>	RM'000	RM'000	RM'000	RM'000	RM'000
Freehold land and buildings	93,686	5	(5)	5,912	99,598
Building-in-progress	50,853	572	0	0	51,425
Leasehold land and buildings :					
- less than 50 years	8,412	0	0	17	8,429
- 50 years or more	14,411	0	0	(5,929)	8,482
Office equipment and furniture	57,592	1,047	(19)	0	58,620
Computer equipment	147,300	4,873	(36)	0	152,137
Motor vehicles	7,786	931	0	0	8,717
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	1,487	137	0	0	1,624
	<u>381,527</u>	<u>7,565</u>	<u>(60)</u>	<u>0</u>	<u>389,032</u>
	Balance at	Charge for	Reversed		Balance at
	1 January	the year	on disposal	Reclassification	31 December
<u>Accumulated depreciation</u>	RM'000	RM'000	RM'000	RM'000	RM'000
Freehold land and buildings	11,184	1,392	0	546	13,122
Leasehold land and buildings :					
- less than 50 years	659	434	0	0	1,093
- 50 years or more	920	169	0	0	1,089
Office equipment and furniture	38,911	3,866	(11)	(546)	42,220
Computer equipment	108,949	21,116	(36)	0	130,029
Motor vehicles	5,036	1,321	0	0	6,357
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	396	429	0	0	825
	<u>166,055</u>	<u>28,727</u>	<u>(47)</u>	<u>0</u>	<u>194,735</u>
	Balance at	Charge for	Reversed		Balance at
	1 January	the year	on disposal	Reclassification	31 December
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Impairment losses</u>					
Freehold land and buildings	4,896	0	0	1,953	6,849
Leasehold land and buildings					
-Less than 50 years	2,993	0	0	0	2,993
-50 years or more	3,106	0	0	(1,953)	1,153
	<u>10,995</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10,995</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****10 PROPERTY, PLANT AND EQUIPMENT (Continued)**

<b>Group (Continued)</b>	Balance at 31 December
2003	RM'000
<u>Net book value</u>	
Freehold land and buildings	79,627
Building-in-progress	51,425
Leasehold land and buildings :	
- less than 50 years	4,343
- 50 years or more	6,786
Office equipment and furniture	15,854
Computer equipment	22,108
Motor vehicles	2,360
<u>Assets under lease:-</u>	
Computer/office equipment and furniture	799
	<u>183,302</u>

<b>Bank</b>	Balance at				Balance at
2003	1 January	Additions	Disposal	Reclassification	31 December
<u>Cost</u>	RM'000	RM'000	RM'000	RM'000	RM'000
Freehold land and buildings	93,686	5	(5)	5,912	99,598
Building-in-progress	50,853	572	0	0	51,425
Leasehold land and buildings :					
- less than 50 years	8,412	0	0	17	8,429
- 50 years or more	14,411	0	0	(5,929)	8,482
Office equipment and furniture	57,592	1,047	(19)	0	58,620
Computer equipment	147,215	4,873	(36)	0	152,052
Motor vehicles	7,786	931	0	0	8,717
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	1,487	137	0	0	1,624
	<u>381,442</u>	<u>7,565</u>	<u>(60)</u>	<u>0</u>	<u>388,947</u>

<b>Accumulated depreciation</b>	Balance at				Balance at
2003	1 January	Charge for the year	Reversed on disposal	Reclassification	31 December
	RM'000	RM'000	RM'000	RM'000	RM'000
Freehold land and buildings	11,184	1,392	0	546	13,122
Leasehold land and buildings :					
- less than 50 years	659	434	0	0	1,093
- 50 years or more	920	169	0	(546)	543
Office equipment and furniture	38,911	3,866	(11)	0	42,766
Computer equipment	108,881	21,099	(36)	0	129,944
Motor vehicles	5,036	1,321	0	0	6,357
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	396	429	0	0	825
	<u>165,987</u>	<u>28,710</u>	<u>(47)</u>	<u>0</u>	<u>194,650</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****10 PROPERTY, PLANT AND EQUIPMENT (Continued)**

<b>Bank (Continued)</b> 2003	Balance at 1 January	Charge for the year	Reversed on disposal	Reclassification	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Impairment losses</u>					
Freehold land and buildings	4,896	0	0	1,953	6,849
Leasehold land and buildings					
-Less than 50 years	2,993	0	0	0	2,993
-50 years or more	3,106	0	0	(1,953)	1,153
	<u>10,995</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10,995</u>
					Balance at 31 December
<u>Net book value</u>					RM'000
Freehold land and buildings					79,627
Building-in-progress					51,425
Leasehold land and buildings :					
- less than 50 years					4,343
- 50 years or more					6,786
Office equipment and furniture					15,854
Computer equipment					22,108
Motor vehicles					2,360
<u>Assets under lease:-</u>					
Computer/office equipment and furniture					799
					<u>183,302</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****11 DEFERRED TAXATION**

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

	<b>Group</b>		<b>Bank</b>	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Deferred tax assets	107,365	123,744	107,365	123,608
Deferred tax liabilities	(7,098)	(14,632)	(6,872)	(14,631)
	<u>100,267</u>	<u>109,112</u>	<u>100,493</u>	<u>108,977</u>

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

	Allowance for diminution in value of investment securities	Temporary differences arising from leasing business	Excess of capital allowances over depreciation	General allowance on loans, advances and financing	Other temporary differences	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Group</b>						
2004						
Balance at 1 January	31,286	(1,378)	(4,593)	85,612	(1,815)	109,112
Credited/(charged) to income statement (Note 26)	(12,561)	1,516	1,987	315	(102)	(8,845)
Balance at 31 December	<u>18,725</u>	<u>138</u>	<u>(2,606)</u>	<u>85,927</u>	<u>(1,917)</u>	<u>100,267</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****11 DEFERRED TAXATION (continued)**

	Allowance for diminution in value of investment securities	Temporary differences arising from leasing business	Excess of capital allowances over depreciation	General allowance on loans, advances and financing	Other temporary differences	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Bank</b>						
2004						
Balance at 1 January	31,286	(1,509)	(4,593)	85,608	(1,815)	108,977
Credited/(charged) to income statement (Note 26)	(12,561)	1,881	1,987	311	(102)	(8,484)
Balance at 31 December	18,725	372	(2,606)	85,919	(1,917)	100,493
<b>Group</b>						
2003						
Balance at 1 January	29,445	116	(8,347)	85,361	(2,926)	103,649
Credited/(charged) to income statement (Note 26)	1,841	(1,494)	3,754	251	1,111	5,463
Balance at 31 December	31,286	(1,378)	(4,593)	85,612	(1,815)	109,112
<b>Bank</b>						
2003						
Balance at 1 January	29,445	(53)	(8,342)	85,357	(2,926)	103,481
Credited/(charged) to income statement (Note 26)	1,841	(1,456)	3,749	251	1,111	5,496
Balance at 31 December	31,286	(1,509)	(4,593)	85,608	(1,815)	108,977

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)**

12 DEPOSITS FROM CUSTOMERS	Group		Bank	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Demand deposits	2,334,706	2,004,972	2,335,372	2,005,364
Savings deposits	1,577,662	1,469,159	1,577,662	1,469,159
Fixed deposits	11,922,556	11,281,661	11,942,988	11,301,566
Negotiable instruments of deposits	900,156	30,500	900,156	30,500
Islamic short term Mudharabah investment	183,203	954,338	183,203	954,338
Others	23,529	3,601	23,529	3,601
	<u>16,941,812</u>	<u>15,744,231</u>	<u>16,962,910</u>	<u>15,764,528</u>

i) Maturity structure of fixed deposit, negotiable instruments of deposits and Islamic short term Mudharabah investment are as follows:-

	Group		Bank	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Due within six months	10,410,753	9,845,557	10,410,753	9,845,557
Six months to one year	2,364,477	2,102,881	2,384,909	2,122,786
One year to three years	200,945	266,996	200,945	266,996
Three years to five years	29,740	51,065	29,740	51,065
	<u>13,005,915</u>	<u>12,266,499</u>	<u>13,026,347</u>	<u>12,286,404</u>

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

	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Business enterprises	6,445,703	4,927,616	6,445,703	4,927,616
Individuals	9,687,340	9,402,154	9,687,340	9,402,154
Others	808,769	1,414,461	829,867	1,434,758
	<u>16,941,812</u>	<u>15,744,231</u>	<u>16,962,910</u>	<u>15,764,528</u>

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

	Group		Bank	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Licensed banks	3,158,182	3,501,878	3,158,182	3,501,878
Licensed finance companies	120,000	0	120,000	0
Other financial institutions	236,724	62,029	236,724	62,029
	<u>3,514,906</u>	<u>3,563,907</u>	<u>3,514,906</u>	<u>3,563,907</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****14 SUBORDINATED TERM LOAN**

		<b>Group</b>		<b>Bank</b>	
		2004	2003	2004	2003
		RM'000	RM'000	RM'000	RM'000
USD100 million	2003/2013 (a)	380,000	380,027	380,000	380,027
USD50 million	2004/2014 (b)	190,000	0	190,000	0
		<u>570,000</u>	<u>380,027</u>	<u>570,000</u>	<u>380,027</u>

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

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

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

		<b>Group</b>		<b>Bank</b>	
		2004	2003	2004	2003
		RM'000	RM'000	RM'000	RM'000
Three years to five years		76,000	0	76,000	0
More than five years		494,000	380,027	494,000	380,027
		<u>570,000</u>	<u>380,027</u>	<u>570,000</u>	<u>380,027</u>

**15 OTHER LIABILITIES**

Equity compensation benefits (a)	680	200	680	200
Accruals for personnel costs *	19,589	18,495	19,587	18,492
Obligations under finance lease	888	1,028	888	1,028
Provision for commitment and contingencies (b)	7,494	3,192	7,494	3,192
Interest payable	122,095	114,353	122,095	114,353
Other accruals and charges	123,941	85,811	120,900	82,709
Amount due to a subsidiary company	0	0	0	1,849
Profit equalisation reserve [Note 41 (9)]	0	4,479	0	4,479
	<u>274,687</u>	<u>227,558</u>	<u>271,644</u>	<u>226,302</u>

\*Includes accrual for salary, employee benefits and EPF



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****15 OTHER LIABILITIES (continued)**

a) Movements in equity compensation benefits are as follows:

	<b>Group</b>		<b>Bank</b>	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	200	0	200	0
Provision made during the year (net)	455	195	455	195
Adjustment on foreign currency revaluation	25	5	25	5
Balance at 31 December	<u>680</u>	<u>200</u>	<u>680</u>	<u>200</u>

Equity compensation benefits

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

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

	<b>Group</b>		<b>Bank</b>	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	3,192	0	3,192	0
Provision made during the year (net)	4,330	3,192	4,330	3,192
Provision written back during the year	(28)	0	(28)	0
Balance at 31 December	<u>7,494</u>	<u>3,192</u>	<u>7,494</u>	<u>3,192</u>

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

**16 SHARE CAPITAL**

	<b>Group</b>		<b>Bank</b>	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Authorised:-				
Ordinary shares of RM 1.00 each	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:-				
Ordinary shares of RM 1.00 each	<u>287,500</u>	<u>287,500</u>	<u>287,500</u>	<u>287,500</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****17 RESERVES**

The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and are not distributable as cash dividends. General reserve is accumulated from the transfer of profits and are distributable as cash dividends. Capital reserve is the portion of profits capitalised prior to the local incorporation (pre-acquisition profits) arising from consolidation.

The Bank has sufficient tax credits under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of its entire retained profits as at 31 December 2004.

**18 INTEREST INCOME**

	<b>Group</b>		<b>Bank</b>	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Loans and advances	953,089	946,099	952,954	945,981
Money at call and deposit placements				
with financial institutions	89,272	74,780	89,272	74,780
Dealing securities	18,912	20,006	18,912	20,006
Investment securities	174,084	152,178	174,084	152,178
Others	12,473	5,465	12,473	5,465
	<u>1,247,830</u>	<u>1,198,528</u>	<u>1,247,695</u>	<u>1,198,410</u>
Amortisation of premium less				
accretion of discount	(39,051)	(26,225)	(39,051)	(26,225)
Net interest suspended	(43,873)	(65,483)	(43,829)	(65,472)
	<u>1,164,906</u>	<u>1,106,820</u>	<u>1,164,815</u>	<u>1,106,713</u>

**19 INTEREST EXPENSE**

Deposits and placements of banks				
and other financial institutions	65,777	49,528	65,777	49,528
Deposits from other customers	408,396	392,155	408,948	392,742
Loans sold to Cagamas	45,390	55,145	45,390	55,145
Subordinated term loan	29,819	12,771	29,819	12,771
Others	64,224	45,589	64,268	45,688
	<u>613,606</u>	<u>555,188</u>	<u>614,202</u>	<u>555,874</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****20 NON-INTEREST INCOME**

	<b>Group</b>		<b>Bank</b>	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
Fee income:-				
Commission	87,662	44,128	87,662	44,128
Service charges and fees	48,889	41,157	48,889	41,157
Guarantee fees	1,671	2,561	1,671	2,561
Other fee income	8,734	8,120	8,734	8,120
	<u>146,956</u>	<u>95,966</u>	<u>146,956</u>	<u>95,966</u>
Investment income:-				
Net profit from dealing securities	16,282	4,475	16,282	4,475
Gain from sale of investment securities	6	1,167	6	1,167
Gross dividends from Malaysia :-				
Investment securities	1,649	3,623	1,649	3,623
Subsidiary companies	0	0	0	6,900
	<u>164,893</u>	<u>105,231</u>	<u>164,893</u>	<u>112,131</u>
Other income:-				
Foreign exchange profit				
- realised	35,594	22,812	35,594	22,812
- unrealised	1,546	772	1,546	772
Rental income	428	456	428	456
Gain on disposal of property, plant and equipment	1,594	695	1,594	695
Others	(458)	85	(458)	85
	<u>38,704</u>	<u>24,820</u>	<u>38,704</u>	<u>24,820</u>
	<u>203,597</u>	<u>130,051</u>	<u>203,597</u>	<u>136,951</u>

**21 STAFF COST AND OVERHEAD EXPENSES**

Personnel costs (Note 22)	164,343	132,177	164,190	132,033
Establishment costs	55,335	56,667	55,334	56,650
Marketing expenses	21,028	10,343	21,026	10,340
Administration and general expenses	47,124	33,313	47,088	33,257
	<u>287,830</u>	<u>232,500</u>	<u>287,638</u>	<u>232,280</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****21 STAFF COST AND OVERHEAD EXPENSES (continued)**

The above expenditure includes the following statutory disclosures:-

	<b>Group</b>		<b>Bank</b>	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Directors' remuneration (Note 25)	2,213	2,120	2,181	2,088
Rental of premises	7,298	7,477	7,298	7,477
Auditors' remuneration	204	202	186	183
Depreciation of property, plant and equipment	20,538	28,727	20,537	28,710
Loss on disposal of property, plant and equipment	14	7	14	7
	<u>14</u>	<u>7</u>	<u>14</u>	<u>7</u>

**22 PERSONNEL COSTS**

Wages, salaries and bonus	119,292	100,270	119,192	100,179
Defined contribution plan (EPF)	18,201	15,367	18,184	15,352
Equity compensation benefit (deferred share plan) (note 15(a))	455	195	455	195
Employee benefits	698	1,724	698	1,721
Other personnel costs	25,697	14,621	25,661	14,586
	<u>164,343</u>	<u>132,177</u>	<u>164,190</u>	<u>132,033</u>

Defined contribution plan

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

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

	<b>Group</b>		<b>Bank</b>	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Allowance for bad and doubtful debts and financing:-				
-Specific allowance (net)	126,552	186,099	126,801	186,233
-General allowance	1,112	897	1,112	897
-Other allowance	898	1,411	898	1,411
Bad debts and financing :-				
- written off	93	136	93	136
- recovered	(19,467)	(21,316)	(19,467)	(21,316)
	<u>109,188</u>	<u>167,227</u>	<u>109,437</u>	<u>167,361</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****24 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

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

	Holding Company RM '000	Subsidiary Companies RM '000	Other Related Companies RM '000
<b>2004</b>			
Income :			
Interest on advances	4,238	0	0
Expenditure :			
Interest on fixed deposit	33,297	552	1,217
Interest on advances	33,442	0	0
Interest on lease financing	0	86	0
	<u>66,739</u>	<u>638</u>	<u>1,217</u>
Amount due from :			
Current account and fixed deposit	146,712	0	0
Advances	0	7,867	0
	<u>146,712</u>	<u>7,867</u>	<u>0</u>
Amount due to :			
Current account and fixed deposit	2,402,596	21,088	78,459
Repurchase agreement	0	0	32,150
Advances	576,026	0	14,769
Lease financing	0	888	0
Interest payable	9,114	0	0
	<u>2,987,736</u>	<u>21,976</u>	<u>125,378</u>
Commitments:			
Foreign exchange related contracts	868,913	0	2,290
Interest rate contracts	152,112	0	0
	<u>1,021,025</u>	<u>0</u>	<u>2,290</u>
<b>2003</b>			
Income :			
Interest on advances	2,875	0	0
Expenditure :			
Interest on fixed deposit	0	672	1,116
Interest on advances	19,927	0	0
Interest on lease financing	0	41	0
	<u>19,927</u>	<u>713</u>	<u>1,116</u>
Amount due from :			
Current account and fixed deposit	120,886	0	0
Advances	0	20	0
	<u>120,886</u>	<u>20</u>	<u>0</u>
Amount due to :			
Current account and fixed deposit	2,357,426	20,267	6,900
Advances	382,019	1,849	0
Lease financing	0	1,028	0
Interest payable	0	25	0
	<u>2,739,445</u>	<u>23,169</u>	<u>6,900</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****24 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

2004	Holding Company	Subsidiary Companies	Other Related Companies
	RM '000	RM '000	RM '000
Commitments:			
Foreign exchange related contracts	59,890	0	2,400
Interest rate contracts	380,027	0	0
	<u>439,917</u>	<u>0</u>	<u>2,400</u>

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

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

**25 DIRECTORS' REMUNERATION**

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

Executive Directors

Dato' Yeoh Beow Tit

Helen Lim Lean See (resigned on 12/8/2004)

Non-executive Directors

Tan Sri Dato' Nasruddin Bin Bahari

David Conner

Colonel (Rtd) David Wong Cheong Fook (appointed on 30/3/2004)

Datuk Yong Poh Kon

Lai Teck Poh

Soon Tit Koon

Tan Siok Choo

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

	<u>Group</u>		<u>Bank</u>	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Executive Directors :				
- Salary	1,621	1,519	1,621	1,519
- Bonuses	240	275	240	275
- Benefits-in-kind (BIK)	32	38	32	38
- Defined contribution retirement plan (EPF)	273	287	273	287
- Equity compensation benefits	29	23	29	23
- Other employee benefits	111	86	111	86
Non-Executive Directors :				
- Fees	217	218	185	186
- Other remuneration	135	108	135	108
- Benefits-in-kind	26	25	26	25
Total	<u>2,684</u>	<u>2,579</u>	<u>2,652</u>	<u>2,547</u>
Total (excluding BIK, EPF, equity compensation and other employee benefits)	<u>2,213</u>	<u>2,120</u>	<u>2,181</u>	<u>2,088</u>

The remuneration attributable to the Chief Executive Officer of the Bank, including benefits-in-kind during the financial year amounted to RM1,301,000 (2003 : RM1,318,000).

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****26 TAXATION**

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

	<b>Group</b>		<b>Bank</b>	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax – current year	106,792	84,138	106,792	86,069
Deferred taxation :				
- relating to originating and reversal of temporary differences (Note 11)	8,845	(5,463)	8,484	(5,496)
Under-provision in previous years	2,497	0	0	0
	<u>118,134</u>	<u>78,675</u>	<u>115,276</u>	<u>80,573</u>
	<b>Group</b>		<b>Bank</b>	
	2004	2003	2004	2003
	%	%	%	%
Malaysian tax rate of 28% (2003 : 28%)	28.0	28.0	28.0	28.0
Tax effects of:				
Expenses not deductible for tax purposes	1.8	1.4	1.8	1.4
Income not subject to tax	(0.5)	(1.6)	(0.5)	(1.6)
Under-provision in prior years	0.6	0	0	0
	<u>29.9</u>	<u>27.8</u>	<u>29.3</u>	<u>27.8</u>

**27 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 of RM276,351,000 and RM278,465,000 respectively (2003: RM205,216,000 and RM209,511,000) and on the 287,500,000 (2003 : 287,500,000) ordinary shares of RM1.00 each in issue during the financial year.

**28 DIVIDENDS**

	<b>Group</b>		<b>Bank</b>	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
In respect of previous financial year:				
Final dividend of 170 sen (2003: 85 sen)				
less income tax at 28%	351,900	175,950	351,900	175,950
In respect of current financial year:				
Interim dividend of 40 sen (2003: 145 sen)				
less income tax at 28%	82,800	300,150	82,800	300,150

The directors have proposed a final dividend 145 sen per share less tax amounting to RM300.15 million on the fully issued and paid up ordinary shares of the Bank in respect of the financial year ended 31 December 2004. These financial statements do not reflect this final proposed dividend which will be accrued as a liability in the financial year ending 31 December 2005 when approved by the shareholder.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****29 COMMITMENTS AND CONTINGENCIES**

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

	2004		2003	
	Principal Amount RM'000	Credit Equivalent Amount* RM'000	Principal Amount RM'000	Credit Equivalent Amount* RM'000
<b>Group</b>				
Direct credit substitutes	280,841	280,841	550,949	550,949
Transaction-related contingent items	468,060	234,030	223,636	111,818
Short-term self-liquidating trade-related contingencies	294,616	58,923	156,052	31,210
Obligations under underwriting agreement	157,000	78,500	175,000	87,500
Irrevocable commitments to extend credit:-				
- maturity exceeding one year	5,921,834	2,960,917	3,296,689	1,648,345
- maturity not exceeding one year	5,410,656	0	5,406,822	0
Foreign exchange related contracts				
-less than one year	8,905,977	122,956	2,391,986	40,812
-one year to less than five years	112,543	6,336	0	0
Interest rate contracts				
-less than one year	145,250	692	0	0
-one year to less than five years	928,300	24,610	6,250	62
-five years and above	716,800	55,253	380,027	34,202
Miscellaneous	30,179	0	31,155	0
<b>Total</b>	<b>23,372,056</b>	<b>3,823,058</b>	<b>12,618,566</b>	<b>2,504,898</b>
<b>Bank</b>				
Direct credit substitutes	280,841	280,841	550,949	550,949
Transaction-related contingent items	468,060	234,030	223,636	111,818
Short-term self-liquidating trade-related contingencies	294,616	58,923	156,052	31,210
Obligations under underwriting agreement	157,000	78,500	175,000	87,500
Irrevocable commitments to extend credit:-				
- maturity exceeding one year	5,921,834	2,960,917	3,296,689	1,648,345
- maturity not exceeding one year	5,410,656	0	5,406,822	0
Foreign exchange related contracts				
-less than one year	8,905,977	122,956	2,391,986	40,812
-one year to less than five years	112,543	6,336	0	0
Interest rate contracts				
-less than one year	145,250	692	0	0
-one year to less than five years	928,300	24,610	6,250	62
-five years and above	716,800	55,253	380,027	34,202
<b>Total</b>	<b>23,341,877</b>	<b>3,823,058</b>	<b>12,587,411</b>	<b>2,504,898</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 2004 (continued)**

**29 COMMITMENTS AND CONTINGENCIES (continued)**

Foreign exchange related contracts which consist of forward, swaps and interest rate are subject to market risk and credit risk.

Details of the foreign exchange related contracts and interest rate contracts at 31 December 2004 are as follows:

	<b>Group and Bank</b>	
	2004	2003
	RM'000	RM'000
Foreign exchange related contracts		
- Forward contracts	2,419,410	506,414
- Swaps	6,279,502	1,885,572
- Options	319,608	0
Interest rate contracts		
- Swaps	1,790,350	386,277

Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance positions. As at 31 December 2004, the amount of contracts which were not hedged and hence, exposed to market risk was RM1,108,771 (2003 : RM15,959,110).

Credit risk

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the Bank has a gain position. As at 31 December 2004, the amounts of credit risk, measured in term of the cost to replace the profitable contracts was RM16,653,122 (2003 : RM7,192,642). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

Contingent liability

Miscellaneous commitments and contingencies include a contingent liability of approximately RM30.18 million (2003 : RM31.16 million) which represents the potential additional tax payable by OCBC Credit Berhad for years of assessment 1994 to 1999 arising from a decision of the Special Commissioners on the apportionment of expenses between leasing and non-leasing transactions. This decision has since been reversed by the High Court. The Inland Revenue Board is appealing to the Court of Appeal on the High Court's decision.

No provision has been made for years of assessment 1994 to 1999 as the Group does not agree with the treatment adopted by the Inland Revenue Board and no legal liability arises until the additional assessments are raised and paid. The Inland Revenue Board has raised additional assessments for year of assessments 1994 to 1999 and the Bank has successfully obtained a standover on the amount assessed of approximately RM19.61 million.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****30 LEASE COMMITMENTS**

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

Year	Group		Bank	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
2005 / 2004	2,518	5,245	2,518	5,245
2006 / 2005	1,670	1,451	1,670	1,451
2007 / 2006	1,358	234	1,358	234
	<u>5,546</u>	<u>6,930</u>	<u>5,546</u>	<u>6,930</u>

**31 CAPITAL COMMITMENTS**

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

- authorised and contracted for	10,689	70,018	10,689	70,018
- authorised but not contracted for	106	1,781	106	1,781
	<u>10,795</u>	<u>71,799</u>	<u>10,795</u>	<u>71,799</u>

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)**

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

**Market Risk Management**

Market risk is the risk of financial loss arising from changes in values of financial instruments. It includes interest rate, foreign exchange, equity, commodity and liquidity risks. The Bank's exposure to market risk is primarily through its core banking and trading activities.

The framework for managing market risk comprises policies and procedures for identifying, measuring, monitoring and reporting risks, as well as supporting infrastructure. These practices are in line with best practice risk management standards and are adopted by the Parent Bank as well.

Market risk management functions separately and independently of the Bank's business lines. This function is assumed by the Asset-Liability and Market Risk Department ("ALMR") which reports directly to the CEO, Assets and Liability Management Committee (ALCO), as well as Parent Bank's Market Risk Management Department.

The market risk for trading activities is managed through Trading policies and procedures covering all trading units within the bank. This is supplemented by a comprehensive set of risk limits which includes net open position limits sensitivity limits (PV01), Value at Risk Limits, stop loss limits and option Greek limits. All risk limits and control processes are addressed and reviewed annually, or as and when need arises. Trading activity is monitored and analysed daily vis-a vis the risk limits with additional controls to ensure proper conduct of the trading portfolio. Price discovery, valuation and risk reporting is done by units independent of the trading units to ensure independence and integrity.

**Asset and Liability Management**

Asset liability management is the purview of the ALCO. Its term of reference include managing the Bank's balance sheet to maximise earnings while managing the interest rate risk and liquidity risk in line with the Bank's risk appetite.

***Interest Rate Risk***

Banking activities exposes the Bank to interest rate risk through the repricing maturity mismatches of the assets and liabilities. This risk is managed through Board approved Repricing Gap Limits and various scenario analysis to give management a better understanding of the Bank's exposure in various interest rate scenarios. This ensures that the Bank actively manages its interest rate risk exposure.

***Liquidity Risk***

Liquidity risk management framework is designed to ensure the availability of sufficient funds to honour all financial commitments in the most cost-effective manner. The strategic objectives of liquidity risk management is to ensure an optimal funding structure that balances liquidity risk management objectives with the Bank's strategic business objectives.

Liquidity cashflow management is primarily based on cashflow projections, which reflects the Bank's potential inflow and outflow across all assets, liabilities and off balance sheet items over pre-determined time buckets. The Bank manages the cashflow both for regulatory (BNM Liquidity Framework) compliance and internal liquidity risk management purposes. In addition, the Bank also does periodic stress tests to gauge the Bank's ability to weather liquidity shocks as well as impose internal buffers over and above pure compliance requirements to ensure prudent liquidity management.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)

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

#### *Liquidity Risk (continued)*

Other liquidity risk management tools serve as benchmarks and trigger points to warn the Bank of potential structural liquidity problems. These include funding diversifications strategies, managing market access in relation to interbank and wholesale counterparties, as well as targeted Loans/Deposits ratios.

A Liquidity Risk Contingency Plan is in place which provides a structured and organized approach to identifying and managing liquidity stress scenarios. In the unlikely event the Bank suffers a liquidity crisis, the Contingency Funding Plan details the appropriate course of action and areas of responsibilities to ensure the Bank can weather the crisis.

#### **Currency Risk**

In the course of providing services to corporate and retail customers, the Bank actively exposes itself to foreign exchange risk. Foreign exchange risk is primarily transactional, arising from FX spot, FX swaps, FX forward contracts and FX options arising from customer deals. The FX risk are managed centrally by Treasury Division with various risk limits in place including net open positions limits, PV01 limits, Stop Loss limits and FX Option limits.

The Bank is also exposed to FX options positions with appropriate option risk limits in place. The Primary goal of FX options is to provide value added structured products to our customer with the ability to warehouse the option risk in order to optimise profitability within the existing risk management framework.

#### **Financial derivatives**

Financial derivatives undertaken by the Bank are off-balance sheet financial instruments which include forward contracts for the purchase and sale of foreign currencies, interest rate swaps (IRS), interest rate options (IRO) and financial futures. These instruments allow the Bank and its customers to hedge their underlying interest rate and foreign exchange exposure.

Foreign exchange derivatives are exchange rate related contracts, mainly forward foreign exchange contracts 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 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.

Interest rate derivatives are interest rate related contracts undertaken by the Bank, which include interest rate swaps, interest rate options, forward rate agreement and interest rate futures.

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.

A futures contract is an agreement to buy or sell a standard quantity of a specific financial instrument at a pre-determined future date and at a specific price. Futures contracts are traded in various exchanges, such as Malaysian Derivatives Exchange (MDEX).

### 33 INTEREST RATE RISK

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

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)

## 33 INTEREST RATE RISK (continued)

Group

As at 31 December 2004

	Up to 1 month	>1-3 months	>3-6 months	>6-12 months	>1-5 years	Over 5 years	Non- interest sensitive	Islamic Banking	Total	Average interest rate
Assets	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Cash and short term funds	1,246,685	0	0	0	0	0	60,825	71,656	1,379,166	2.45
Deposits and placements with financial institutions	0	67,500	169,100	0	0	0	287,391	0	523,991	2.45
Dealing securities	77,764	149,064	64,913	72,266	184,662	30,776	0	0	579,445	4.44
Investment securities	270,230	516,172	367,124	240,550	3,019,905	70,495	(52,512)^	449,757	4,881,721	4.95
Loans, advances and financing	14,022,562	1,329,356	1,194,711	585,043	395,720	53,912	634,285*	865,927	19,081,516	4.87
Other assets	0	0	0	0	0	0	2,430	145,570	148,000	0
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	0	654,734	39,352	694,086	0
Property, plant and equipment	0	0	0	0	0	0	202,724	0	202,724	0
Deferred taxation asset	0	0	0	0	0	0	96,304	3,963	100,267	0
<b>Total assets</b>	<b>15,617,241</b>	<b>2,062,092</b>	<b>1,795,848</b>	<b>897,859</b>	<b>3,600,287</b>	<b>155,183</b>	<b>1,886,181</b>	<b>1,576,225</b>	<b>27,590,916</b>	
<b>Liabilities</b>										
Deposits from customers	7,191,035	2,572,404	1,458,589	2,275,041	226,264	0	2,119,938	1,098,541	16,941,812	2.70
Deposits and placements of banks and other financial institutions	1,455,175	1,534,053	201,617	6,277	15,988	2,796	0	299,000	3,514,906	2.32
Obligations on securities sold under repurchase agreements	2,100,694	27,660	0	0	0	0	0	0	2,128,354	2.65
Bills and acceptances payable	0	0	0	0	0	0	1,532,071	1,122	1,533,193	0
Amount due to Cagamas	6,461	12,993	19,665	39,971	575,793	355,898	0	0	1,010,781	4.42
Subordinated term loan	0	0	0	0	76,000	494,000	0	0	570,000	5.79
Other liabilities	0	0	0	0	0	0	215,496	59,191	274,687	0
Taxation and zakat	0	0	0	0	0	0	(2,207)	10,671	8,464	0
<b>Total liabilities</b>	<b>10,753,365</b>	<b>4,147,110</b>	<b>1,679,871</b>	<b>2,321,289</b>	<b>894,045</b>	<b>852,694</b>	<b>3,865,298</b>	<b>1,468,525</b>	<b>25,982,197</b>	
On-balance sheet interest sensitivity gap	4,863,876	(2,085,018)	115,977	(1,423,430)	2,706,242	(697,511)	(1,979,117)	107,700	1,608,719	
Off-balance sheet interest sensitivity gap	(31,150)	(177,050)	(372,800)	0	97,000	484,000	0	0	0	
<b>Total interest sensitivity gap</b>	<b>4,832,726</b>	<b>(2,262,068)</b>	<b>(256,823)</b>	<b>(1,423,430)</b>	<b>2,803,242</b>	<b>(213,511)</b>	<b>(1,979,117)</b>	<b>107,700</b>	<b>1,608,719</b>	

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## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)

## 33 INTEREST RATE RISK (continued)

## Bank

As at 31 December 2004

	Up to 1 Month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000	Islamic Banking RM'000	Total RM'000	Average interest rate %
<b>Assets</b>										
Cash and short term funds	1,246,685	0	0	0	0	0	60,825	71,656	1,379,166	2.45
Deposits and placements with financial institutions	0	67,500	169,100	0	0	0	287,391	0	523,991	2.45
Dealing securities	77,764	149,064	64,913	72,266	184,662	30,776	0	0	579,445	4.44
Investment securities	270,230	516,172	367,124	240,550	3,019,905	70,495	(52,512)^	449,757	4,881,721	4.95
Loans, advances and financing	14,022,562	1,329,356	1,194,711	585,043	394,829	53,912	634,300*	865,927	19,080,640	4.87
Other assets	0	0	0	0	0	0	7,281	145,570	152,851	0
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	0	654,734	39,352	694,086	0
Investment in subsidiary companies	0	0	0	0	0	0	1,611	0	1,611	0
Property, plant and equipment	0	0	0	0	0	0	202,721	0	202,721	0
Deferred taxation asset	0	0	0	0	0	0	96,530	3,963	100,493	0
<b>Total assets</b>	<b>15,617,241</b>	<b>2,062,092</b>	<b>1,795,848</b>	<b>897,859</b>	<b>3,599,396</b>	<b>155,183</b>	<b>1,892,881</b>	<b>1,576,225</b>	<b>27,596,725</b>	
<b>Liabilities</b>										
Deposits from customers	7,211,447	2,572,425	1,458,589	2,275,041	226,264	0	2,120,603	1,098,541	16,962,910	2.70
Deposits and placements of banks and other financial institutions	1,455,175	1,534,053	201,617	6,277	15,988	2,796	0	299,000	3,514,906	2.32
Obligations on securities sold under repurchase agreements	2,100,694	27,660	0	0	0	0	0	0	2,128,354	2.65
Bills and acceptances payable	0	0	0	0	0	0	1,532,071	1,122	1,533,193	0
Amount due to Cagamas	6,461	12,993	19,665	39,971	575,793	355,898	0	0	1,010,781	4.42
Subordinated term loan	0	0	0	0	76,000	494,000	0	0	570,000	5.79
Other liabilities	0	0	0	0	0	0	212,453	59,191	271,644	0
Taxation and zakat	0	0	0	0	0	0	(2,207)	10,671	8,464	0
<b>Total liabilities</b>	<b>10,773,777</b>	<b>4,147,131</b>	<b>1,679,871</b>	<b>2,321,289</b>	<b>894,045</b>	<b>852,694</b>	<b>3,862,920</b>	<b>1,468,525</b>	<b>26,000,252</b>	
On-balance sheet interest sensitivity gap	4,843,464	(2,085,039)	115,977	(1,423,430)	2,705,351	(697,511)	(1,970,039)	107,700	1,596,473	
Off-balance sheet interest sensitivity gap	(31,150)	(177,050)	(372,800)	0	97,000	484,000	0	0	0	
<b>Total interest sensitivity gap</b>	<b>4,812,314</b>	<b>(2,262,089)</b>	<b>(256,823)</b>	<b>(1,423,430)</b>	<b>2,802,351</b>	<b>(213,511)</b>	<b>(1,970,039)</b>	<b>107,700</b>	<b>1,596,473</b>	

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

\* The amount includes specific allowance, interest-in-suspense and general allowance for loan, advances and financing in accordance with the Company's accounting policy amounting to (RM966,476,000) for Group and (RM965,104,000) for Bank

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## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)

## 33 INTEREST RATE RISK (continued)

## Group

As at 31 December 2003

Assets	Up to 1 month RM'000	>1-3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non-interest sensitive RM'000	Islamic Banking RM'000	Total RM'000	Average interest rate %
Cash and short term funds	2,698,648	0	0	0	0	0	85,743	304,932	3,089,323	2.84
Deposits and placements with financial institutions	0	35,402	0	0	0	0	0	0	35,402	2.84
Dealing securities	34,511	70,326	73,747	0	0	0	0	614,074	792,658	3.04
Investment securities	320,000	340,023	389,293	310,106	1,536,723	13,256	(92,168)^	1,114,686	3,931,919	4.54
Loans, advances and financing	13,632,798	899,907	690,937	380,584	286,572	62,135	359,063*	346,292	16,658,288	5.84
Other assets	0	0	0	0	0	0	20,283	73,837	94,120	0
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	0	546,025	36,061	582,086	0
Property, plant and equipment	0	0	0	0	0	0	183,302	0	183,302	
Deferred taxation asset	0	0	0	0	0	0	107,395	1,717	109,112	0
<b>Total assets</b>	<b>16,685,957</b>	<b>1,345,658</b>	<b>1,153,977</b>	<b>690,690</b>	<b>1,823,295</b>	<b>75,391</b>	<b>1,209,643</b>	<b>2,491,599</b>	<b>25,476,210</b>	
<b>Liabilities</b>										
Deposits from customers	6,654,917	2,066,983	1,405,051	2,105,091	124,942	0	1,822,374	1,564,873	15,744,231	2.79
Deposits and placements of banks and other financial institutions	2,073,377	862,174	503,681	84,130	39,195	282	0	1,068	3,563,907	1.50
Obligations on securities sold under repurchase agreements	1,409,451	0	0	0	0	0	0	0	1,409,451	2.77
Bills and acceptances payable	0	0	0	0	0	0	1,266,411	729	1,267,140	0
Amount due to Cagamas	6,530	13,130	19,873	40,393	598,922	419,304	0	0	1,098,152	4.42
Subordinated term loan	0	0	0	0	0	380,027	0	0	380,027	5.55
Other liabilities	0	0	0	0	0	0	211,064	16,494	227,558	0
Taxation and zakat	0	0	0	0	0	0	12,000	6,676	18,676	
<b>Total liabilities</b>	<b>10,144,275</b>	<b>2,942,287</b>	<b>1,928,605</b>	<b>2,229,614</b>	<b>763,059</b>	<b>799,613</b>	<b>3,311,849</b>	<b>1,589,840</b>	<b>23,709,142</b>	
On-balance sheet interest sensitivity gap	6,541,682	(1,596,629)	(774,628)	(1,538,924)	1,060,236	(724,222)	(2,102,206)	901,759	1,767,068	
Off-balance sheet interest sensitivity gap	0	0	386,277	0	(6,250)	(380,027)	0	0	0	
<b>Total interest sensitivity gap</b>	<b>6,541,682</b>	<b>(1,596,629)</b>	<b>(388,351)</b>	<b>(1,538,924)</b>	<b>1,053,986</b>	<b>(1,104,249)</b>	<b>(2,102,206)</b>	<b>901,759</b>	<b>1,767,068</b>	

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)

## 33 INTEREST RATE RISK (continued)

## Bank

As at 31 December 2003

	Up to 1 month	>1-3 months	>3-6 months	>6-12 months	>1-5 years	Over 5 years	Non- interest sensitive	Islamic Banking	Total	Average interest rate
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>Assets</b>										
Cash and short term funds	2,698,648	0	0	0	0	0	85,743	304,932	3,089,323	2.84
Deposits and placements with Financial institutions	0	35,402	0	0	0	0	0	0	35,402	2.84
Dealing securities	34,511	70,326	73,747	0	0	0	0	614,074	792,658	3.04
Investment securities	320,000	340,023	389,293	310,106	1,536,723	13,256	(92,168)^	1,114,686	3,931,919	4.54
Loans, advances and financing	13,631,148	899,907	690,937	380,577	285,551	62,135	360,726*	346,292	16,657,273	5.84
Other assets	0	0	0	0	0	0	17,284	73,837	91,121	0
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	0	546,025	36,061	582,086	0
Investment in subsidiary companies	0	0	0	0	0	0	1,611	0	1,611	0
Property, plant and equipment	0	0	0	0	0	0	183,302	0	183,302	0
Deferred taxation asset	0	0	0	0	0	0	107,260	1,717	108,977	
<b>Total assets</b>	<b>16,684,307</b>	<b>1,345,658</b>	<b>1,153,977</b>	<b>690,683</b>	<b>1,822,274</b>	<b>75,391</b>	<b>1,209,783</b>	<b>2,491,599</b>	<b>25,473,672</b>	
<b>Liabilities</b>										
Deposits from customers	6,674,802	2,066,983	1,405,051	2,105,091	124,942	0	1,822,786	1,564,873	15,764,528	2.79
Deposits and placements of banks and other financial institutions	2,073,377	862,174	503,681	84,130	39,195	282	0	1,068	3,563,907	1.50
Obligations on securities sold under repurchase agreements	1,409,451	0	0	0	0	0	0	0	1,409,451	2.77
Bills and acceptances payable	0	0	0	0	0	0	1,266,411	729	1,267,140	0
Amount due to Cagamas	6,530	13,130	19,873	40,393	598,922	419,304	0	0	1,098,152	4.42
Subordinated term loan	0	0	0	0	0	380,027	0	0	380,027	5.55
Other liabilities	0	0	0	0	0	0	209,808	16,494	226,302	0
Taxation and zakat	0	0	0	0	0	0	4,781	6,676	11,457	
<b>Total liabilities</b>	<b>10,164,160</b>	<b>2,942,287</b>	<b>1,928,605</b>	<b>2,229,614</b>	<b>763,059</b>	<b>799,613</b>	<b>3,303,786</b>	<b>1,589,840</b>	<b>23,720,964</b>	
On-balance sheet interest sensitivity gap	6,520,147	(1,596,629)	(774,628)	(1,538,931)	1,059,215	(724,222)	(2,094,003)	901,759	1,752,708	
Off-balance sheet interest sensitivity gap	0	0	386,277	0	(6,250)	(380,027)	0	0	0	
<b>Total interest sensitivity gap</b>	<b>6,520,147</b>	<b>(1,596,629)</b>	<b>(388,351)</b>	<b>(1,538,931)</b>	<b>1,052,965</b>	<b>(1,104,249)</b>	<b>(2,094,003)</b>	<b>901,759</b>	<b>1,752,708</b>	

^ The negative amount includes allowance for diminution in value of investment securities in accordance with the Company's accounting policy amounting to (RM111,735,000) for Group and Bank.

\* The amount includes specific allowance, interest-in-suspense and general allowance for loan, advances and financing in accordance with the Company's accounting policy amounting to (RM959,784,000) for Group and (RM958,121,000) for Bank.



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## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)

### 33 INTEREST RATE RISK

#### Derivative financial instruments

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

The interest rate swap contract with notional principal amount of RM570.0 million is used to swap the floating interest rate payments on the floating rate borrowings to fixed rate payments. The weighted average interest rate of the Bank's floating rate borrowings at balance sheet date was 5.6% (31.12.2003: 5.5%) per annum. After the interest rate swap, the Bank's weighted average interest rate at balance sheet date was 3.1% (31.12.2003: 3.2%) per annum.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****34 LIQUIDITY RISK**

The maturities of assets and liabilities are important factors in assessing the liquidity of the Group. 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 2004</b>	<b>Up to 3 Months</b>	<b>&gt; 3 Months to 6 Months</b>	<b>&gt;6-12 Months</b>	<b>&gt;1-3 Years</b>	<b>&gt;3-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>							
Cash and short term funds	1,379,166	0	0	0	0	0	1,379,166
Deposits and placements with financial institutions	67,500	169,100	287,391	0	0	0	523,991
Dealing securities	226,828	64,913	72,266	106,659	78,003	30,776	579,445
Investment securities	866,402	367,124	342,642	2,065,703	1,155,274	84,576	4,881,721
Loans, advances and financing	7,009,185	970,434	865,495	3,291,037	1,370,739	5,574,626	19,081,516
Other assets	81,065	8,813	5,855	51,208	0	1,059	148,000
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	694,086	694,086
Property, plant & equipment	0	0	0	0	0	202,724	202,724
Deferred taxation asset	0	0	0	100,267	0	0	100,267
<b>Total assets</b>	<b>9,630,146</b>	<b>1,580,384</b>	<b>1,573,649</b>	<b>5,614,874</b>	<b>2,604,016</b>	<b>6,587,847</b>	<b>27,590,916</b>
<b>Liabilities</b>							
Deposits from customers	12,766,157	1,560,061	2,384,909	200,945	29,740	0	16,941,812
Deposits and placements of banks and other financial institutions	3,288,228	201,617	6,277	9,785	6,203	2,796	3,514,906
Obligations on securities sold under repurchase agreements	2,128,354	0	0	0	0	0	2,128,354
Bills and acceptances payable	1,335,046	198,147	0	0	0	0	1,533,193
Amount due to Cagamas	19,454	19,665	39,971	300,963	274,830	355,898	1,010,781
Subordinated term loan	0	0	0	0	76,000	494,000	570,000
Other liabilities	191,881	31,714	20,216	30,876	0	0	274,687
Taxation and zakat	0	0	0	8,464	0	0	8,464
<b>Total liabilities</b>	<b>19,729,120</b>	<b>2,011,204</b>	<b>2,451,373</b>	<b>551,033</b>	<b>386,773</b>	<b>852,694</b>	<b>25,982,197</b>
<b>Net Liquidity gap</b>	<b>(10,098,974)</b>	<b>(430,820)</b>	<b>(877,724)</b>	<b>5,063,841</b>	<b>2,217,243</b>	<b>5,735,153</b>	<b>1,608,719</b>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)

## 34 LIQUIDITY RISK (continued)

**Bank****As at 31 December 2004**

	Up to 3 Months	>3 Months to 6 Months	>6-12 Months	>1-3 Years	>3-5 Years	Over 5 Years	Total
<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>
Cash and short term funds	1,379,166	0	0	0	0	0	1,379,166
Deposits and placements with financial institutions	67,500	169,100	287,391	0	0	0	523,991
Dealing securities	226,828	64,913	72,266	106,659	78,003	30,776	579,445
Investment securities	866,402	367,124	342,642	2,065,703	1,155,274	84,576	4,881,721
Loans, advances and financing	7,009,185	970,434	865,495	3,290,359	1,370,526	5,574,641	19,080,640
Other assets	85,916	8,813	5,855	51,208	0	1,059	152,851
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	694,086	694,086
Investment in subsidiary companies	0	0	0	0	0	1,611	1,611
Property, plant & equipment	0	0	0	0	0	202,721	202,721
Deferred taxation asset	0	0	0	100,493	0	0	100,493
<b>Total assets</b>	<b>9,634,997</b>	<b>1,580,384</b>	<b>1,573,649</b>	<b>5,614,422</b>	<b>2,603,803</b>	<b>6,589,470</b>	<b>27,596,725</b>
<b>Liabilities</b>							
Deposits from customers	12,787,235	1,560,081	2,384,909	200,945	29,740	0	16,962,910
Deposits and placements of Banks and other financial institutions	3,288,228	201,617	6,277	9,785	6,203	2,796	3,514,906
Obligations on securities sold under repurchase agreements	2,128,354	0	0	0	0	0	2,128,354
Bills and acceptances payable	1,335,046	198,147	0	0	0	0	1,533,193
Amount due to Cagamas	19,454	19,665	39,971	300,963	274,830	355,898	1,010,781
Subordinated term loan	0	0	0	0	76,000	494,000	570,000
Other liabilities	188,889	31,714	20,165	30,876	0	0	271,644
Taxation and zakat	0	0	0	8,464	0	0	8,464
<b>Total liabilities</b>	<b>19,747,206</b>	<b>2,011,224</b>	<b>2,451,322</b>	<b>551,033</b>	<b>386,773</b>	<b>852,694</b>	<b>26,000,252</b>
<b>Net Liquidity gap</b>	<b>(10,112,209)</b>	<b>(430,840)</b>	<b>(877,673)</b>	<b>5,063,389</b>	<b>2,217,030</b>	<b>5,736,776</b>	<b>1,596,473</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****34 LIQUIDITY RISK (continued)****Group****As at 31 December 2003**

	Up to 3 Months	> 3 Months to 6 Months	>6-12 Months	>1-3 Years	>3-5 Years	Over 5 Years	Total
<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>
Cash and short term fund	3,089,323	0	0	0	0	0	3,089,323
Deposits and placements with financial institutions	35,402	0	0	0	0	0	35,402
Dealing securities	522,741	235,630	34,287	0	0	0	792,658
Investment securities	734,515	549,414	419,071	1,282,360	865,278	81,281	3,931,919
Loans, advances and financing	6,816,649	752,991	1,132,508	2,508,860	1,118,680	4,328,600	16,658,288
Other assets	52,757	2,911	4,756	32,571	0	1,125	94,120
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	582,086	582,086
Property, plant & equipment	0	0	0	0	0	183,302	183,302
Deferred tax asset	0	0	0	109,112	0	0	109,112
<b>Total assets</b>	<b>11,251,387</b>	<b>1,540,946</b>	<b>1,590,622</b>	<b>3,932,903</b>	<b>1,983,958</b>	<b>5,176,394</b>	<b>25,476,210</b>
<b>Liabilities</b>							
Deposits from customers	11,881,338	1,422,046	2,122,786	316,996	1,065	0	15,744,231
Deposits and placements of banks and other financial institutions	2,936,619	503,681	84,130	27,446	11,750	281	3,563,907
Obligations on securities sold under repurchase agreements	1,409,451	0	0	0	0	0	1,409,451
Bills and acceptances payable	1,130,184	136,956	0	0	0	0	1,267,140
Amount due to Cagamas	19,660	19,873	40,393	324,361	274,561	419,304	1,098,152
Subordinated term loan	0	0	0	0	0	380,027	380,027
Other liabilities	152,441	32,090	21,022	22,005	0	0	227,558
Taxation and zakat	0	0	0	18,676	0	0	18,676
<b>Total liabilities</b>	<b>17,529,693</b>	<b>2,114,646</b>	<b>2,268,331</b>	<b>709,484</b>	<b>287,376</b>	<b>799,612</b>	<b>23,709,142</b>
<b>Net Liquidity gap</b>	<b>(6,278,306)</b>	<b>(573,700)</b>	<b>(677,709)</b>	<b>3,223,419</b>	<b>1,696,582</b>	<b>4,376,782</b>	<b>1,767,068</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****34 LIQUIDITY RISK (continued)****Bank****As at 31 December 2003**

	Up to 3 Months	>3 Months to 6 Months	>6-12 Months	>1-3 Years	>3-5 Years	Over 5 Years	Total
<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>
Cash and short term funds	3,089,323	0	0	0	0	0	3,089,323
Deposits and placements with financial institutions	35,402	0	0	0	0	0	35,402
Dealing securities	522,741	235,630	34,287	0	0	0	792,658
Investment securities	734,515	549,414	419,071	1,282,360	865,278	81,281	3,931,919
Loans, advances and financing	6,816,647	752,991	1,132,501	2,508,777	1,117,757	4,328,600	16,657,273
Other assets	49,758	2,911	4,756	32,571	0	1,125	91,121
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	582,086	582,086
Investment in subsidiary companies	0	0	0	0	0	1,611	1,611
Property, plant & equipment	0	0	0	0	0	183,302	183,302
Deferred tax asset	0	0	0	108,977	0	0	108,977
<b>Total assets</b>	<b>11,248,386</b>	<b>1,540,946</b>	<b>1,590,615</b>	<b>3,932,685</b>	<b>1,983,035</b>	<b>5,178,005</b>	<b>25,473,672</b>
<b>Liabilities</b>							
Deposits from customers	11,901,615	1,422,066	2,122,786	316,996	1,065	0	15,764,528
Deposits and placements of Banks and other financial institutions	2,936,619	503,681	84,130	27,446	11,750	281	3,563,907
Obligations on securities sold under repurchase agreements	1,409,451	0	0	0	0	0	1,409,451
Bills and acceptances payable	1,130,184	136,956	0	0	0	0	1,267,140
Amount due to Cagamas	19,660	19,873	40,393	324,361	274,561	419,304	1,098,152
Subordinated term loan	0	0	0	0	0	380,027	380,027
Other liabilities	149,419	32,090	20,939	23,854	0	0	226,302
Taxation and zakat	0	0	0	11,457	0	0	11,457
<b>Total liabilities</b>	<b>17,546,948</b>	<b>2,114,666</b>	<b>2,268,248</b>	<b>704,114</b>	<b>287,376</b>	<b>799,612</b>	<b>23,720,964</b>
<b>Net Liquidity gap</b>	<b>(6,298,562)</b>	<b>(573,720)</b>	<b>(677,633)</b>	<b>3,228,571</b>	<b>1,695,659</b>	<b>4,378,393</b>	<b>1,752,708</b>

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****35 CREDIT RISKS**

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

<b>Group</b>	Short term Funds	Deposits and placements with financial institutions	Dealing securities	Investment Securities <sup>^</sup>	Loans, advances and financing*	Interest receivable	Commitments and contingencies
<b>As at 31 December 2004</b>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	10,435	0	1,305,618	0	154,340
Mining and quarrying	0	0	0	0	21,033	0	22,891
Manufacturing	0	0	0	857	3,369,757	0	524,472
Electricity, gas and water	0	0	228,698	64,974	83,447	0	70,474
Construction	0	0	102,670	297,988	941,378	0	183,491
Real estate	0	0	0	0	1,390,212	0	266,583
Purchase of landed property (of which :							
i Residential	0	0	0	0	5,579,587	0	509,972
ii Non residential)	0	0	0	0	843,239	0	117,966
General commerce	0	0	49,627	5,064	2,455,908	0	358,213
Transport, storage and communication	0	0	42,230	212,361	420,113	0	104,790
Finance, insurance and business services	412,165	169,100	35,604	1,780,398	841,980	22,138	224,278
Purchase of securities	0	0	0	0	275,395	0	30,151
Purchase of transport vehicles	0	0	0	0	10,224	0	279
Consumption credit	0	0	0	0	984,115	0	344,790
Government	967,001	354,891	75,548	2,553,543	1,273,590	32,683	601
Others	0	0	34,633	36,430	252,396	0	241,119
	<b>1,379,166</b>	<b>523,991</b>	<b>579,445</b>	<b>4,951,615</b>	<b>20,047,992</b>	<b>54,821</b>	<b>3,154,410</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****35 CREDIT RISKS (continued)**

<b>Bank</b>	Short term Funds	Deposits and placements with financial institutions	Dealing securities	Investment Securities <sup>^</sup>	Loans, advances and financing*	Interest receivable	Commitments and contingencies
<b>As at 31 December 2004</b>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	10,435	0	1,305,618	0	154,340
Mining and quarrying	0	0	0	0	21,033	0	22,891
Manufacturing	0	0	0	857	3,369,383	0	524,472
Electricity, gas and water	0	0	228,698	64,974	83,447	0	70,474
Construction	0	0	102,670	297,988	940,881	0	183,491
Real estate	0	0	0	0	1,390,212	0	266,583
Purchase of landed property (of which :							
i Residential	0	0	0	0	5,579,587	0	509,972
ii non residential)	0	0	0	0	843,239	0	117,966
General commerce	0	0	49,627	5,064	2,455,422	0	358,213
Transport, storage and Communication	0	0	42,230	212,361	420,113	0	104,790
Finance, insurance and business services	412,165	169,100	35,604	1,780,398	841,980	22,138	224,278
Purchase of securities	0	0	0	0	275,395	0	30,151
Purchase of transport Vehicles	0	0	0	0	10,224	0	279
Consumption credit	0	0	0	0	983,224	0	344,790
Government	967,001	354,891	75,548	2,553,543	1,273,590	32,683	601
Others	0	0	34,633	36,430	252,396	0	241,119
	<b>1,379,166</b>	<b>523,991</b>	<b>579,445</b>	<b>4,951,615</b>	<b>20,045,744</b>	<b>54,821</b>	<b>3,154,410</b>

<sup>^</sup>Excludes allowance for diminution in value of investment securities amounting to RM 69,894,000 (Group and Bank).

\*Excludes allowances for bad and doubtful debts and financing amounting to RM966,476,000 (Group) and RM965,104,000 (Bank).

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 29.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****35 CREDIT RISKS (continued)**

<u>Group</u>	Short term Funds	Deposits and placements with financial institutions	Dealing securities	Investment Securities <sup>^</sup>	Loans, advances and financing*	Interest receivable	Commitments and contingencies
<b>As at 31 December 2003</b>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	0	0	914,674	0	126,919
Mining and quarrying	0	0	0	0	21,487	0	23,416
Manufacturing	0	0	0	0	2,814,369	0	433,284
Electricity, gas and water	0	0	128,547	127,650	214,305	0	54,780
Construction	0	0	0	317,146	732,368	0	216,290
Real estate	0	0	0	0	1,303,937	0	374,087
Purchase of landed property (of which :							
i Residential	0	0	0	0	4,667,016	0	406,755
ii Non residential)	0	0	0	0	723,739	0	46,520
General commerce	0	0	9,939	30,486	2,272,034	0	246,181
Transport, storage and communication	0	0	59,610	215,314	571,901	0	45,544
Finance, insurance and business services	719,899	35,402	443,447	1,561,423	478,049	22,016	142,818
Purchase of securities	0	0	0	0	454,753	0	43,397
Purchase of transport vehicles	0	0	0	0	11,522	0	214
Consumption credit	0	0	0	0	820,883	0	237,047
Government	2,283,681	0	151,115	1,785,580	1,326,898	15,137	0
Others	0	0	0	6,055	290,137	0	107,646
	<b>3,003,580</b>	<b>35,402</b>	<b>792,658</b>	<b>4,043,654</b>	<b>17,618,072</b>	<b>37,153</b>	<b>2,504,898</b>



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****35 CREDIT RISKS (continued)**

<b>Bank</b>	Short term Funds	Deposits and placements with financial institutions	Dealing securities	Investment Securities <sup>^</sup>	Loans, advances and financing <sup>*</sup>	Interest receivable	Commitments and contingencies
<b>As at 31 December 2003</b>	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	0	0	914,674	0	126,919
Mining and quarrying	0	0	0	0	21,487	0	23,416
Manufacturing	0	0	0	0	2,813,852	0	433,284
Electricity, gas and water	0	0	128,547	127,650	214,305	0	54,780
Construction	0	0	0	317,146	731,896	0	216,290
Real estate	0	0	0	0	1,303,937	0	374,087
Purchase of landed property (of which :							
i Residential	0	0	0	0	4,667,016	0	406,755
ii non residential)	0	0	0	0	723,739	0	46,520
General commerce	0	0	9,939	30,486	2,271,956	0	246,181
Transport, storage and Communication	0	0	59,610	215,314	571,901	0	45,544
Finance, insurance and business services	719,899	35,402	443,447	1,561,423	478,049	22,016	142,818
Purchase of securities	0	0	0	0	454,753	0	43,397
Purchase of transport Vehicles	0	0	0	0	11,520	0	214
Consumption credit	0	0	0	0	819,693	0	237,047
Government	2,283,681	0	151,115	1,785,580	1,326,898	15,137	0
Others	0	0	0	6,055	289,718	0	107,646
	<b>3,003,580</b>	<b>35,402</b>	<b>792,658</b>	<b>4,043,654</b>	<b>17,615,394</b>	<b>37,153</b>	<b>2,504,898</b>

<sup>^</sup>Excludes allowance for diminution in value of investment securities amounting to RM111,735,000 (Group and Bank).

<sup>\*</sup>Excludes allowances for bad and doubtful debts and financing amounting to RM959,784,000 (Group) and RM958,121,000 (Bank).

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 29.

**36 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****36 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, estimates of future cash flows, future expected loss experience and other factors. Changes in the uncertainties and assumptions could significantly affect these estimates and the resulting fair value estimates. Therefore, for a significant portion of the Group's financial instruments, including loans and advances to customers, their respective fair value estimates do not purport to represent, nor should they be construed to represent, the amounts that the Group could realise in a sales transaction at the balance sheet date. The fair value information presented herein should also in no way be construed as representative of the underlying value of the Group as a going concern.

In addition, fair value information is not provided for non-financial instruments and financial instruments that are excluded from the scope of Malaysian Accounting Standard Board ("MASB") 24 which requires fair value information to be disclosed. These include property, plant and equipment, intangibles, interests in subsidiaries and all transactions and events conducted on the basis of Islamic Principles.

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

<b>Group</b>	<b>2004</b>		<b>2003</b>	
	<b>Fair value RM'000</b>	<b>Carrying value RM'000</b>	<b>Fair value RM'000</b>	<b>Carrying value RM'000</b>
<b>Financial Assets</b>				
Assets for which fair value approximates carrying value	1,309,940	1,309,940	2,804,674	2,804,674
Deposits and placements with financial institutions	523,991	523,991	35,402	35,402
Dealing securities	166,049	165,806	178,638	178,584
Investment securities	3,946,455	3,858,142	2,851,761	2,817,234
Loans, advance and financing	18,215,589	18,215,589	16,311,996	16,311,996
<b>Financial Liabilities</b>				
Deposits from customers	15,843,271	15,843,271	14,179,358	14,179,358
Deposits and placements of banks and other financial institutions	3,215,906	3,215,906	3,562,839	3,562,839
Obligations on securities sold under repurchase agreements	2,128,354	2,128,354	1,409,451	1,409,451
Liabilities for which fair value approximates carrying value	1,747,567	1,747,567	1,477,475	1,477,475
Amount due to Cagamas	1,005,408	1,010,781	1,062,711	1,098,152
Subordinated term loan	549,184	570,000	355,713	380,027

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****36 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

	2004		2003	
	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	1,314,791	1,314,791	2,801,675	2,801,675
Deposits and placements with financial institutions	523,991	523,991	35,402	35,402
Dealing securities	166,049	165,806	178,638	178,584
Investment securities	3,946,455	3,858,142	2,851,761	2,817,234
Loans, advance and financing	18,214,713	18,214,713	16,310,981	16,310,981
<b>Financial Liabilities</b>				
Deposits from customers	15,864,369	15,864,369	14,199,655	14,199,655
Deposits and placements of banks and other financial institutions	3,215,906	3,215,906	3,562,839	3,562,839
Obligations on securities sold under repurchase agreements	2,128,354	2,128,354	1,409,451	1,409,451
Liabilities for which fair value approximates carrying value	1,744,524	1,744,524	1,476,219	1,476,219
Amount due to Cagamas	1,005,408	1,010,781	1,062,711	1,098,152
Subordinated term loan	549,184	570,000	355,713	380,027

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****36 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

<u>Group and Bank</u>	2004			2003		
	Contract or underlying principal amount RM'000	Fair value		Contract or underlying principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
<b>Financial derivatives</b>						
Foreign exchange derivatives						
-forward	2,419,410	2,683	6,489	506,414	875	5,302
-swaps	6,279,502	8,718	1,954	1,885,572	6,318	1,119
-options	319,608	1,462	1,052	0	0	0
	<u>9,018,520</u>	<u>12,863</u>	<u>9,495</u>	<u>2,391,986</u>	<u>7,193</u>	<u>6,421</u>
Interest rate derivatives						
-swaps	1,628,850	3,678	5,586	386,277	0	3,243
-options	161,500	112	26	0	0	0
	<u>1,790,350</u>	<u>3,790</u>	<u>5,612</u>	<u>386,277</u>	<u>0</u>	<u>3,243</u>

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

**Short term financial instruments**

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

	Group		Bank	
	2004 RM'000	2003 RM'000	2004 RM'000	2003 RM'000
<u>Financial Assets</u>				
Cash and short term funds	1,307,510	2,784,391	1,307,510	2,784,391
Other assets	2,430	20,283	7,281	17,284
	<u>1,309,940</u>	<u>2,804,674</u>	<u>1,314,791</u>	<u>2,801,675</u>
<u>Financial liabilities</u>				
Bills and acceptances payable	1,532,071	1,266,411	1,532,071	1,266,411
Other liabilities	215,496	211,064	212,453	209,808
	<u>1,747,567</u>	<u>1,477,475</u>	<u>1,744,524</u>	<u>1,476,219</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)**

**36 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

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

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

**Dealing and investment 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. Fair value of equity securities is estimated using a number of methods, including earnings multiples and discounted cash flow analysis. These securities may be subjected to restrictions, for example, consent of other investors, that may limit the Group's ability to realise the estimated fair value. Accordingly, current estimates of fair value and the ultimate realisation of these instruments may differ.

**Loans and advances**

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

For performing 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 and interest-in-suspense, being the expected recoverable amount.

**Deposits from customers**

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

**Obligations on securities sold under repurchase agreements**

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

**Amount due to Cagamas**

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

**Subordinated Term Loan**

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

**Financial derivatives**

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****37 CAPITAL ADEQUACY**

	<b>Bank</b>	
	2004 RM'000	2003 RM'000
The capital adequacy ratios of the Bank are as follows:-		
Tier-1 capital	1,495,980	1,643,731
Eligible Tier-2 capital	876,855	685,770
Total capital	<u>2,372,835</u>	<u>2,329,501</u>
Less : Investment in subsidiaries and holding of other financial institution's capital	<u>(1,611)</u>	<u>(1,611)</u>
Total capital base	<u>2,371,224</u>	<u>2,327,890</u>
<u>Capital Ratios</u>		
Excluding proposed final dividend :		
Core-capital ratio	7.39%	9.60%
Risk-weighted capital ratio	11.71%	13.60%
Including proposed final dividend :		
Core-capital ratio	5.90%	7.55%
Risk-weighted capital ratio	10.23%	11.55%
i) Components of Tier-1 and Tier-2 capital are as follows:		
<u>Tier-1 capital</u>		
Paid-up share capital	287,500	287,500
Share premium	462,500	462,500
Other reserves	745,980	893,731
Total Tier-1 capital	<u>1,495,980</u>	<u>1,643,731</u>
<u>Tier-2 capital</u>		
General allowance for bad and doubtful debts and financing	306,855	305,743
Subordinated term loan	570,000	380,027
Total Tier-2 capital	<u>876,855</u>	<u>685,770</u>
Total capital	2,372,835	2,329,501
Less :		
Investment in subsidiaries	<u>(1,611)</u>	<u>(1,611)</u>
Capital base	<u>2,371,224</u>	<u>2,327,890</u>
ii) Breakdown of the risk-weighted assets in the various categories of risk-weights are as follows:		
	<b>Bank</b>	
	2004 RM'000	2003 RM'000
0 %	6,385,238	6,406,933
10%	907,818	1,061,993
20%	1,790,129	1,766,714
50%	5,512,459	4,628,886
100%	<u>17,037,851</u>	<u>14,333,364</u>

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2004 (continued)**

**37 CAPITAL ADEQUACY (continued)**

Pursuant to Bank Negara Malaysia's circular "Recognition of Deferred Tax Assets ('DTA') and Treatment of DTA for RWCR Purposes" dated 8 August 2003, deferred taxation income/(expense) is excluded from the computation of Tier 1 capital and deferred taxation assets is excluded from the calculation of risk weighted assets.

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

	<b>Group</b>		<b>Bank</b>	
	2004	2003	2004	2003
	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	1,379,166	3,089,323	1,379,166	3,089,323
Deposits and placements with financial institutions	523,991	35,402	523,991	35,402
	<u>1,903,157</u>	<u>3,124,725</u>	<u>1,903,157</u>	<u>3,124,725</u>

**39 SIGNIFICANT POST BALANCE SHEET EVENT**

The OCBC Group's effort in hubbing processes and transactions in Malaysia saw the establishment of e2 Power Sdn Bhd on 21 July 2004. e2 Power Sdn Bhd, a subsidiary of e2 Power Pte Ltd, Singapore was awarded the "Multimedia Super Corridor" status (MSC) on 11 August 2004. It had commenced operations on 17 January 2005 to provide selected back-office support and transaction processing services to the Bank.

**40 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 31 January 2005.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****41 THE OPERATION OF ISLAMIC BANKING (IB)**

BALANCE SHEETS AS AT 31 DECEMBER 2004

	Note	Group and Bank	
		2004 RM'000	2003 RM'000
<b>ASSETS</b>			
Cash and short-term funds	(2)	71,656	304,932
Dealing securities	(3)	0	485,485
Investment securities	(4)	449,757	395,429
Financing and other advances	(5)	865,927	346,292
Other assets	(6)	145,570	73,837
Statutory deposits with Bank Negara Malaysia		39,352	36,061
Deferred taxation assets	(18)	3,963	1,717
<b>TOTAL ASSETS</b>		<b>1,576,225</b>	<b>1,643,753</b>
<b>LIABILITIES AND ISLAMIC BANKING FUNDS</b>			
Deposits from customers	(7)	1,098,541	1,564,873
Deposits and placements of banks and other financial institutions	(8)	299,000	1,068
Bills and acceptances payable		1,122	729
Other liabilities	(9)	59,191	16,494
Tax and Zakat		10,671	6,676
<b>Total Liabilities</b>		<b>1,468,525</b>	<b>1,589,840</b>
Islamic Banking Funds		64,000	20,000
Retained profits		43,700	33,913
		<b>107,700</b>	<b>53,913</b>
<b>TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS</b>		<b>1,576,225</b>	<b>1,643,753</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	(19)	<b>574,324</b>	<b>393,574</b>

The accompanying notes on pages 76 to 90 form an integral part of the financial statements.



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****41 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

## INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

	Note	Group and Bank	
		2004	2003
		RM'000	RM'000
Income derived from investment of depositors' funds	(10)	42,621	28,042
Allowance for losses on financing and other loans	(11)	(15,509)	(479)
Transfer from/(to) profit equalisation reserve		4,479	(3,311)
Total attributable income		31,591	24,252
Income attributable to depositors	(12)	(42,806)	(23,859)
Income attributable to shareholders		(11,215)	393
Income derived from the investment of Islamic banking funds	(13)	25,007	11,740
Total net income		13,792	12,133
Personnel expenses	(14)	(1,100)	(994)
Other overhead expenses	(15)	(1,156)	(523)
Profit before zakat and taxation		11,536	10,616
Zakat	(16)	(24)	(23)
Taxation	(17)	(1,725)	(3,394)
Net profit for the financial year		9,787	7,199

The accompanying notes on pages 76 to 90 form an integral part of the financial statements.

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)**

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

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

	Islamic	Retained profits	Total
	Banking fund		
	RM'000	RM'000	RM'000
<b>Group and Bank</b>			
Balance at 1 January 2004	20,000	33,913	53,913
Issue of share capital	44,000	0	44,000
Net profit attributable to shareholders	0	9,787	9,787
Balance at 31 December 2004	<u>64,000</u>	<u>43,700</u>	<u>107,700</u>
Balance at 1 January 2003	20,000	26,714	46,714
Net profit attributable to shareholders	0	7,199	7,199
Balance at 31 December 2003	<u>20,000</u>	<u>33,913</u>	<u>53,913</u>

The accompanying notes on pages 76 to 90 form an integral part of the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****41 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004**

	Note	<b>Group and Bank</b>	
		2004 RM'000	2003 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation and zakat		11,536	10,616
Adjustments for:-			
Net profit from dealing securities		(188)	(620)
Allowance for bad and doubtful debts and financing		15,509	479
Profit Equalisation Reserve		(4,479)	3,311
Allowance for income-in-suspense		317	111
Amortisation of premium less accretion of discount		116	151
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>		<b>22,811</b>	<b>14,048</b>
<b>(Increase)/Decrease in Operating Assets :</b>			
Loans, advances and financing		(535,461)	(129,976)
Other assets and statutory deposits with Bank Negara Malaysia		(75,024)	(37,279)
Dealing securities (net)		485,673	(196,775)
<b>Increase/(Decrease) in Operating Liabilities :</b>			
Deposits from customers		(466,332)	602,287
Bills and acceptances payable		393	110
Other liabilities		47,176	3,062
Obligations sold under Repurchase agreement			0
Deposits of banks and other financial institutions		297,932	(73,661)
Cash (utilised in) / generated from operations		(222,832)	181,816
Income tax and zakat paid		0	(21)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>222,832</b>	<b>181,795</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investment securities (net)		(54,444)	61,084
Issue of share capital		44,000	0
<b>NET CASH (UTILISED IN) / GENERATED FROM INVESTING ACTIVITIES</b>		<b>(10,444)</b>	<b>61,084</b>
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(233,276)</b>	<b>242,879</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR</b>		<b>304,932</b>	<b>62,053</b>
<b>CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR</b>	(23)	<b>71,656</b>	<b>304,932</b>

The accompanying notes on pages 76 to 90 form an integral part of the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)**

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

(1) DISCLOSURE OF SYARIAH ADVISOR

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

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

	<b>Group and Bank</b>	
	2004	2003
	RM'000	RM'000
(2) CASH AND SHORT-TERM FUNDS		
Cash and balances with banks and other financial institutions	24	62
Money at call and deposit placements maturing within one month	71,632	304,870
	71,656	304,932

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****41 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

	<b>Group and Bank</b>	
	2004 RM'000	2003 RM'000
(3) DEALING SECURITIES		
Money market instruments :-		
Quoted :		
Malaysian Government investment issues	0	49,358
Bank Negara Negotiable Notes	0	49,684
Private debt securities	0	98,728
Unquoted :		
Bankers' acceptances and Islamic accepted bills	0	287,715
	<u>0</u>	<u>485,485</u>
Market value of quoted money market instruments:-		
Malaysian Government investment issues		49,400
Bank Negara Negotiable Notes		49,784
Private debt securities	45,349	98,872
	<u>45,349</u>	<u>198,056</u>
(4) INVESTMENT SECURITIES		
Money market instruments:-		
Quoted :		
Malaysian Government investment issues	226,532	141,091
Bank Negara Negotiable Notes	0	74,490
Khazanah Bonds	14,199	0
Sanadat Mudharabah Cagamas	110,134	20,000
Private debt securities	10,507	142,577
Unquoted:	361,372	378,158
Islamic Negotiable Instruments of Deposits	80,000	0
	<u>441,372</u>	<u>378,158</u>
Amortisation of premium less accretion of discounts	8,385	17,271
Total investment securities	<u>449,757</u>	<u>395,429</u>
i) Market value of quoted money market instruments :-		
Malaysian Government investment issues	237,410	148,060
Bank Negara Negotiable Notes	0	74,518
Khazanah Bonds	14,199	0
Sanadat Mudharabah Cagamas	110,485	22,832
Private debt securities	10,219	152,918
	<u>372,313</u>	<u>398,328</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****41 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

	<b>Group and Bank</b>	
	2004 RM'000	2003 RM'000
ii) The maturity structure of money market instruments held for investment are as follows:-		
Maturing within one year	110,883	276,184
One year to three years	205,354	101,974
Three to five years	<u>45,135</u>	<u>0</u>
	<u>361,372</u>	<u>378,158</u>
 (5) FINANCING AND OTHER ADVANCES		
Term financing		
- Housing financing	123,337	131,668
- Syndicated term financing	244,031	95,587
- Hire purchase receivables	256,288	87,106
- Leasing receivables	24,583	23,455
- Other term financing	173,365	57,813
Revolving Credits	183,895	41,300
Unearned income	<u>(117,952)</u>	<u>(84,829)</u>
Gross financing	<u>887,547</u>	<u>352,100</u>
Allowance for bad and doubtful debts and financing		
- Specific	(7,635)	(696)
- General	(13,191)	(4,635)
Income-in-suspense	<u>(794)</u>	<u>(477)</u>
Net financing	<u>865,927</u>	<u>346,292</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****41 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

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

	<b>Group and Bank</b>	
	2004	2003
	RM'000	RM'000
i) Financing analysed by concepts is as follows:-		
Al-Bai' Bithaman Ajil	210,930	159,886
Al-Qardhul-Hassan	17	62
Al-Ijarah	24,583	21,289
Al-Ijarah Thumma Al Bai	256,288	75,276
Other financing	395,729	95,587
	<u>887,547</u>	<u>352,100</u>
ii) The maturity structure of financing is as follow:-		
Maturing within one year	190,514	45,623
One year to three years	163,828	64,049
Three to five years	210,671	111,775
Over five years	322,534	130,653
	<u>887,547</u>	<u>352,100</u>
iii) Financing according to economic sector is as follows:-		
Agriculture	411,238	107,811
Mining & quarrying	2,536	1,497
Manufacturing	241,988	105,368
Construction	14,352	2,411
Real estate	1,678	0
Purchase of landed property		
(of which : i. Residential	71,170	72,590
ii. Non-residential)	4,162	2,912
General Commerce	32,886	15,460
Transport, storage and communication	11,543	1,506
Purchase of securities	3,786	20,159
Consumption credit	67,044	485
Finance, insurance and business services	16,106	15,518
Others	9,058	6,383
	<u>887,547</u>	<u>352,100</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****41 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

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

## iv) Movements in non-performing financing

	<b>Group and Bank</b>	
	2004	2003
	RM'000	RM'000
Balance at 1 January	4,553	3,750
Non-performing during the year	10,369	5,049
Amount recovered	(1,401)	(4,245)
Amount written off	(13)	(1)
Balance at 31 December	<u>13,508</u>	<u>4,553</u>
Net non-performing financing (as % of total financing less specific allowance and income-in-suspense)	<u>0.58%</u>	<u>1.0%</u>

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

General allowance

Balance at 1 January	4,635	4,601
Transfer to conventional banking	0	(7)
Allowance made during the year	8,556	41
Balance at 31 December	<u>13,191</u>	<u>4,635</u>

(as % of total financing less specific allowance and income-in-suspense)

<u>1.5%</u>	<u>1.3%</u>
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Specific allowance

Balance at 1 January	696	258
Allowance made during year	7,984	1,424
Amount recovered	(1,031)	(986)
Amount written off	(14)	0
Balance at 31 December	<u>7,635</u>	<u>696</u>

Income-in-suspense

Balance at 1 January	477	366
Allowance made during the year	659	388
Amount written back in respect of recoveries	(342)	(277)
Balance at 31 December	<u>794</u>	<u>477</u>



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****41 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

	<b>Group and Bank</b>	
	2004	2003
	RM'000	RM'000
(6) OTHER ASSETS		
Income receivable	1,718	672
Other debtors, deposits and prepayments	143,852	73,165
	<u>145,570</u>	<u>73,837</u>
(7) DEPOSITS FROM CUSTOMERS		
i) By type of deposits		
<b>Non-Mudharabah Fund:</b>		
Demand deposits	98,662	59,757
Savings deposits	255,514	219,399
Others	9,117	831
	<u>363,293</u>	<u>279,987</u>
<b>Mudharabah Fund:</b>		
General investment deposits	332,390	330,548
Islamic short term Mudharabah Investment	183,203	954,338
Negotiable Islamic Debt Certificate	219,655	0
	<u>735,248</u>	<u>1,284,886</u>
Total deposits from customers	<u>1,098,541</u>	<u>1,564,873</u>
ii) Maturity structure of general investment deposits, Islamic short term Mudharabah investment and negotiable Islamic debt certificate are as follows:-		
Due within six months	620,960	1,074,072
Six months to one year	109,868	17,696
One year to three years	3,589	192,579
Three years to five years	831	539
	<u>735,248</u>	<u>1,284,886</u>
iii) The deposits are sourced from the following customers:-		
Government and statutory bodies	34	28
Business enterprises	165,920	665,234
Individuals	354,362	384,696
Others	578,225	514,915
	<u>1,098,541</u>	<u>1,564,873</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****41 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(8) DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	<b>Group and Bank</b>	
	2004 RM'000	2003 RM'000
<b>Non-Mudharabah Fund:</b>		
Licensed banks	0	1,068
		<u>1,068</u>
<b>Mudharabah Fund:</b>		
Licensed banks	99,000	0
Licensed finance companies	20,000	0
Other financial institutions	180,000	0
	<u>299,000</u>	<u>0</u>
 Total deposits and placements of banks and other financial institutions	 <u>299,000</u>	 <u>1,068</u>

**(9) OTHER LIABILITIES**

Other accruals and charges	59,191	12,015
Profit equalisation reserve	0	4,479
	<u>59,191</u>	<u>16,494</u>
 <u>Profit equalisation reserve (PER)</u>		
Balance at 1 January	4,479	1,168
Amount provided during the year	(4,479)	3,424
Amount written back during the year	0	(113)
Balance at 31 December	<u>0</u>	<u>4,479</u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****41 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(10) INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS AND OTHERS (CONTINUED)**

	<b>Group and Bank</b>	
	<b>General Investment Deposits RM'000</b>	<b>Investment of other funds RM'000</b>
2003		
<u>Finance income and hibah:</u>		
Financing, advances and other loans	1,409	5,267
Dealing securities	1,551	5,798
Investment securities	2,567	9,594
Money at call and deposit with financial institutions	288	1,076
	<u>5,815</u>	<u>21,735</u>
Amortisation of premium less accretion of discounts	(23)	(85)
	<u>5,792</u>	<u>21,650</u>
<u>Other dealing income:</u>		
Net gain from sale of dealing securities	127	473
	<u>5,919</u>	<u>22,123</u>

	<b>Group and Bank</b>	
	<b>2004 RM'000</b>	<b>2003 RM'000</b>
(11) ALLOWANCE FOR LOSSES ON LOANS AND FINANCING		
Allowance for bad and doubtful debts and financing:-		
- specific allowance (net)	6,953	438
- general allowance	8,556	41
	<u>15,509</u>	<u>479</u>

**(12) INCOME ATTRIBUTABLE TO DEPOSITORS**

Deposits from customers		
- Mudharabah Fund	31,564	18,258
- Non-Mudharabah Fund	5,884	4,642
Deposits and placements of banks and other financial institutions		
- Mudharabah Fund	3,912	954
- Non-Mudharabah Fund	1,446	5
	<u>42,806</u>	<u>23,859</u>

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****41 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

## (13) INCOME DERIVED FROM INVESTMENT OF ISLAMIC BANKING FUNDS (IBF)

	<b>Group and Bank</b>	
	2004	2003
	RM'000	RM'000
<u>Finance income and hibah:</u>		
Financing, advances and other loans	21,703	10,679
Dealing securities	152	246
Investment securities	1,585	406
	<u>23,440</u>	<u>11,331</u>
Amortisation of premium less accretion of discounts	(41)	(43)
	<u>23,399</u>	<u>11,288</u>
<u>Other dealing income:</u>		
Net gain from sale of dealing securities	13	20
<u>Other operating income:</u>		
Others	16	0
<u>Fee and commission income:</u>		
Commission	122	36
Service charges and fees	1,457	396
	<u>25,007</u>	<u>11,740</u>

## (14) PERSONNEL EXPENSES

Salaries and wages	675	602
Allowance and bonuses	156	152
Equity compensation benefit (deferred share plan)	3	1
Defined contribution plan (EPF)	132	120
Others	134	119
Total	<u>1,100</u>	<u>994</u>

The number of employees at the financial year amounted to 14 (2003: 13).

## (15) OTHER OVERHEAD EXPENSES

Establishment costs	104	145
Marketing expenses	547	166
Administration and general expenses	505	212
	<u>1,156</u>	<u>523</u>

## (16) ZAKAT OBLIGATION

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****41 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

	<b>Group and Bank</b>	
	2004	2003
	RM'000	RM'000
<b>(17) TAXATION</b>		
Malaysian income tax – current year	3,971	3,549
Deferred taxation :		
- relating to originating and reversal of temporary differences (Note 18)	(2,246)	(155)
	<u>1,725</u>	<u>3,394</u>

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

	<b>Group and Bank</b>	
	2004	2003
	%	%
Malaysian tax rate of 28% (2003 : 28%)	28.0	28.0
Tax effects of:		
Expenses not deductible for tax purposes	(13.0)	4.0
Average effective tax rate	<u>15.0</u>	<u>32.0</u>

**(18) DEFERRED TAXATION**

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

	<b>Group and Bank</b>	
	2004	2003
	RM'000	RM'000
Deferred tax assets	3,963	2,552
Deferred tax liabilities	0	(835)
	<u>3,963</u>	<u>1,717</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****41 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(18) DEFERRED TAXATION (continued)**

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

	Temporary differences arising from leasing business	General allowance on financing and other advances	Other temporary differences	Total
	RM'000	RM'000	RM'000	RM'000
<b>Group and Bank</b>				
2004				
Balance at 1 January	(835)	1,298	1,254	1,717
Credited/(charged) to income statement (Note (17))	1,207	2,293	(1,254)	2,246
Balance at 31 December	372	3,591	0	3,963
<b>Group and Bank</b>				
2003				
Balance at 1 January	(53)	1,288	327	1,562
Credited/(charged) to income statement (Note 17)	(782)	10	927	155
Balance at 31 December	(835)	1,298	1,254	1,717

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****41 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(19) COMMITMENTS AND CONTINGENCIES**

<b>Group and Bank</b>	2004		2003	
	Principal Amount RM'000	Credit Equivalent Amount* RM'000	Principal Amount RM'000	Credit Equivalent Amount* RM'000
Irrevocable commitments to extend credit:				
- maturity exceeding one year	391,396	195,698	200,774	100,387
- maturity not exceeding one year	182,928	0	192,800	0
	<b>574,324</b>	<b>195,698</b>	<b>393,574</b>	<b>100,387</b>

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

**(20) MATURITIES OF ASSETS AND LIABILITIES BY CONTRACTUAL MATURITY PROFILE**

<b>As at 31 December 2004</b>	<b>Up to 3 month RM'000</b>	<b>&gt;3 month to 6 month RM'000</b>	<b>&gt;6-12 month RM'000</b>	<b>&gt;1-3 year RM'000</b>	<b>&gt;3-5 year RM'000</b>	<b>Over 5 year RM'000</b>	<b>Total RM'000</b>
<b>Assets</b>							
Cash and short term funds	71,656	0	0	0	0	0	71,656
Deposits and placements with banks & other financial institutions	0	0	0	0	0	0	0
Dealing securities	0	0	0	0	0	0	0
Investment securities	80,000	0	102,092	222,531	45,134	0	449,757
Financing and other advances	184,482	891	5,141	163,828	210,671	300,914	865,927
Other assets	138,607	0	135	6,828	0	0	145,570
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	39,352	39,352
Deferred tax assets	0	0	0	3,963	0	0	3,963
<b>Total assets</b>	<b>474,745</b>	<b>891</b>	<b>107,368</b>	<b>397,150</b>	<b>255,805</b>	<b>340,266</b>	<b>1,576,225</b>
<b>Liabilities</b>							
Deposits from customer	882,762	101,492	109,868	3,589	830	0	1,098,541
Deposits and placements of banks and other financial institutions	299,000	0	0	0	0	0	299,000
Bills and acceptances payable	1,122	0	0	0	0	0	1,122
Other liabilities	5,796	265	211	12,919	0	40,000	59,191
Taxation and zakat	0	0	0	10,671	0	0	10,671
<b>Total liabilities</b>	<b>1,188,680</b>	<b>101,757</b>	<b>110,079</b>	<b>27,179</b>	<b>830</b>	<b>40,000</b>	<b>1,468,525</b>
<b>Net liquidity gap</b>	<b>(713,935)</b>	<b>(100,866)</b>	<b>(2,711)</b>	<b>369,971</b>	<b>254,975</b>	<b>300,266</b>	<b>107,700</b>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****41 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

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

<b>As at 31 December 2003</b>	<b>Up to 3 month RM'000</b>	<b>&gt;3 month to 6 month RM'000</b>	<b>&gt;6-12 month RM'000</b>	<b>&gt;1-3 year RM'000</b>	<b>&gt;3-5 year RM'000</b>	<b>Over 5 year RM'000</b>	<b>Total RM'000</b>
<b>Assets</b>							
Cash and short term funds	304,932	0	0	0	0	0	304,932
Deposits and placements with banks & other financial institutions	0	0	0	0	0	0	0
Dealing securities	348,473	102,725	34,287	0	0	0	485,485
Investment securities	74,490	54,150	162,098	104,691	0	0	395,429
Financing and other advances	40,970	657	2,823	64,049	111,775	126,018	346,292
Other assets	69,266	1	132	4,438	0	0	73,837
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	36,061	36,061
Deferred tax assets	0	0	0	1,717	0	0	1,717
<b>Total assets</b>	<b>838,131</b>	<b>157,533</b>	<b>199,340</b>	<b>174,895</b>	<b>111,775</b>	<b>162,079</b>	<b>1,643,753</b>
<b>Liabilities</b>							
Deposits from customer	1,337,044	17,015	17,696	192,579	539	0	1,564,873
Deposits and placements of banks and other financial institutions	1,068	0	0	0	0	0	1,068
Bills and acceptances payable	729	0	0	0	0	0	729
Other liabilities	3,747	574	164	12,009	0	0	16,494
Taxation and zakat	0	0	6,676	0	0	0	6,676
<b>Total liabilities</b>	<b>1,342,588</b>	<b>17,589</b>	<b>24,536</b>	<b>204,588</b>	<b>539</b>	<b>0</b>	<b>1,589,840</b>
<b>Net liquidity gap</b>	<b>(504,457)</b>	<b>139,944</b>	<b>174,804</b>	<b>(29,693)</b>	<b>111,236</b>	<b>162,079</b>	<b>53,913</b>



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)****41 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

	<b>Group and Bank</b>	
	2004	2003
	RM'000	RM'000
<b>(21) CAPITAL ADEQUACY</b>		
The capital adequacy ratios of the Bank are as follows:-		
Tier 1 capital	103,737	52,196
Eligible tier 2 capital	13,191	4,635
Total capital base	<u>116,928</u>	<u>56,831</u>
<u>Capital Ratios</u>		
Core-capital ratio	9.34%	8.81%
Risk-weighted capital ratio	10.53%	9.60%
i) Components of Tier-1 and Tier-2 capital are as follows:		
<u>Tier-1 capital</u>		
Islamic Banking Fund	64,000	20,000
Retained profits	39,737	32,196
Total Tier-1 capital	<u>103,737</u>	<u>52,196</u>
<u>Tier-2 capital</u>		
General allowance for bad and doubtful debts and financing	13,191	4,635
Total Tier-2 capital	<u>13,191</u>	<u>4,635</u>
Total capital base	<u>116,928</u>	<u>56,831</u>
ii) Breakdown of the risk-weighted assets in the various categories of risk-weights are as follows:		
0 %	296,804	550,391
10%	45,805	20,132
20%	210,174	591,809
50%	70,060	71,922
100%	1,028,524	435,599
	<u>1,651,367</u>	<u>1,669,853</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2004 (continued)**

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

(22) NET INCOME FROM ISLAMIC BANKING OPERATIONS

For consolidation with the conventional operations, net income from Islamic Banking operations shall comprise the following items:

	Group and Bank	
	2004	2003
	RM'000	RM'000
Income derived from investment of depositors' funds	42,621	28,042
Transfer to profit equalisation reserve	4,479	(3,311)
Total attributable income	47,100	24,731
Income attributable to the depositors	(42,806)	(23,859)
Income attributable to the Bank	4,294	872
Income derived from the investment of Islamic banking funds	25,007	11,740
Net income from Islamic banking operations	29,301	12,612

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

Cash and short term funds	71,656	304,932
Deposits and placements with financial institutions	0	0
	71,656	304,932

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD  
(Incorporated in Malaysia)

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

We, Tan Sri Dato' Nasruddin Bin Bahari and Dato'Yeoh Beow Tit, two of the directors of OCBC Bank (Malaysia) Berhad, state that, in the opinion of the directors, the financial statements set out on pages 12 to 90 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Bank as at 31 December 2004 and of the results and cash flows of the Group and the Bank for the financial year then ended, in accordance with the provisions of the Companies Act, 1965, the applicable approved accounting standards in Malaysia and Bank Negara Malaysia Guidelines.

In accordance with a resolution of the Board of Directors dated 31 January 2005.

TAN SRI DATO' NASRUDDIN BIN BAHARI  
DIRECTOR

DATO' YEOH BEOW TIT  
DIRECTOR

Kuala Lumpur

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

I, Tan Fong Sang, being the officer primarily responsible for the financial management of OCBC Bank (Malaysia) Berhad, do solemnly, and sincerely declare that the accompanying balance sheets of the Group and the Bank as at 31 December 2004 and the related income statements and cash flow statements of the Group and the Bank for the financial year then ended, together with the notes thereto as set out on pages 12 to 90 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared at )  
Kuala Lumpur in Wilayah Persekutuan )  
on 31 January 2005. ) TAN FONG SANG

Before me,

TAN BOON CHUA  
COMMISSIONER FOR OATHS

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD  
(Incorporated in Malaysia)

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

We have audited the financial statements set out on pages 12 to 90. These financial statements are the responsibility of the Bank's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion:

- (a) the financial statements have been prepared in accordance with the applicable approved accounting standards in Malaysia, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965 so as to give a true and fair view of :
- (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
  - (ii) the state of affairs of the Group and the Bank as at 31 December 2004 and of the results and cash flows of the Group and the Bank for the financial year ended on that date;

and

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

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

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

PRICEWATERHOUSECOOPERS  
(No.AF:1146)  
Chartered Accountants

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

Kuala Lumpur

31 January 2005