

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

31 DECEMBER 2006

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

The Directors have pleasure in submitting their report and the audited financial statements of the Group and the Bank for the financial year ended 31 December 2006.

PRINCIPAL ACTIVITIES

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

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

FINANCIAL RESULTS	GROUP	BANK
	2006	2006
	RM'000	RM'000
Profit before taxation and zakat	602,945	602,716
Taxation	(171,343)	(171,299)
Zakat	(343)	(343)
Net profit attributable to shareholders	<u>431,259</u>	<u>431,074</u>
Retained profits brought forward	501,213	582,136
Dividends paid of 153.5 sen per ordinary share less tax at 28%	(317,745)	(317,745)
Dividends paid on preference shares less tax at 28%	(18,040)	(18,040)
Retained profits carried forward	<u>596,687</u>	<u>677,425</u>

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)

DIVIDENDS

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

- i. a final gross dividend of 112.0 sen per share less tax on 23 March 2006 in respect of the previous financial year amounting to RM231.8 million on the fully issued and paid-up ordinary shares of the Bank;
- ii. an interim dividend of 41.5 sen per share less tax on 19 September 2006 in respect of the current financial year amounting to RM85.9 million on the fully issued and paid-up ordinary shares of the Bank; and
- iii. a dividend of 4.51% per annum (on total paid up amount) on 17 March 2006 and 19 September 2006 amounting to RM8.9 million and RM9.1 million, respectively, on the fully issued and paid-up non-cumulative non-convertible perpetual preference shares of the Bank.

The Directors now recommend a net cash dividend of 4.51% amounting to RM 8.95 million to the preference shareholders and a final gross dividend of 95 sen per share less tax in respect of the current financial year amounting to RM199.38 million on the fully issued and paid-up ordinary shares of the Bank which is subject to approval of members at the forthcoming Annual General Meeting of the Bank.

SHARE CAPITAL

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

RESERVES AND PROVISIONS

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

BAD AND DOUBTFUL DEBTS AND FINANCING

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

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)

CONTINGENT AND OTHER LIABILITIES

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

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Group and the Bank for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature, except for the change in accounting policies as explained in Section A of the Group's significant accounting policies and Note 40 of the financial statements.

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

FINANCIAL PERFORMANCE

The Bank registered a net profit and a pre-tax profit of RM431 million and RM603 million respectively for the financial year ended 31 December 2006, its highest ever. Compared against last year, net profit rose by 4% or RM17 million, mainly attributed to robust growth in operating profits, which rose 19% or RM107 million to RM666 million. Higher operating profit was driven largely by an increase of 19% or RM122 million in net interest income to RM749 million, and a growth of 10% or RM26 million in non-interest income to RM283 million.

The higher net interest income derived from an 11% or RM3.1 billion growth in average interest earning assets to RM 31 billion and improved net interest margins of 21 bps. The increase in non-interest income came mainly from higher fees and commissions and foreign exchange gains. Overhead expenses increased by 13% or RM47 million to RM417 million in line with business volumes increases and the opening of new branches.

Allowances for the year stood at RM63 million, of which RM37 million were for general allowances in compliance with BNM/GP3 requirements. NPLs decreased by RM45 million to RM1.3 billion, resulting in a lower net NPL ratio of 3.24% (2005: 3.63%).

The quantum of outstanding loans grew by 9.6% or RM2.1 billion to RM23.9 billion (2005: RM21.8 billion). The growth was driven by business loans of RM1.6 billion and consumer loans of RM0.5 billion. Consequently, total assets grew by 19% to RM36.7 billion.

Shareholders' funds stood at RM2.2 billion while the risk weighted capital ratio (RWCR) continued to be strong at 11.91% as at 31 December 2006. With the proposed final dividend, RWCR would be reduced to 11.12%.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)

ACTIVITIES & ACHIEVEMENTS

OCBC Bank (Malaysia) Berhad ("OCBC") has been operating in Malaysia for more than seven decades and remains among the leading foreign banks in the country.

With the liberalisation initiatives introduced by the Central Bank early in the year, OCBC added three more branches to its physical network, raising the total to 28 across both the Peninsula and East Malaysia. The latest additions – in Batu Maung (Penang), Puchong (Selangor) and Miri (Sarawak) – were set up to serve the needs of both the immediate neighbourhoods as well as the wider audiences of the surrounding areas. Notably, the Puchong branch now serves as a mobile sales hub for the entire southern Klang Valley area, while the Miri branch focuses on the northern Sarawak region.

OCBC continues to maintain a healthy mix of customers in Malaysia, ranging from individuals of diverse demographic groups to corporate and SME customers, and sole proprietorships and partnerships. It is increasingly becoming recognised as a bank that serves both individuals and businesses across communities, thanks to initiatives that began at the turn of the century to establish a dedicated consumer financial services division, alongside its robust business banking operations. These have been augmented by the more recent implementation of the OCBC New Horizons strategy.

OCBC is staffed by more than 2,700 employees and offers a range of specialist financial services that includes consumer, corporate, investment, premier and transaction banking, and global treasury services to meet the needs of its customers across communities.

Accolades for the year included being named Malaysia's Best Corporate/Institutional Internet Bank by *Global Finance* for the second consecutive year, and Rating Agency Malaysia Berhad's (RAM) prestigious Blue Print award under the New Asset Backed Securitisation (ABS) Benchmark Deal 2006 category.

In the area of business banking, OCBC continued to perform well, witnessing strong growth in total income involving both SMEs and large corporates, catalysed, in part, by strong initiatives in new customer acquisition and focus on investment banking, trade and treasury. With the scenario of rising interest rates, emphasis was also placed on liability products and cash management transactions through GIRO, the implementation of the financial process exchange (FPX) and the launch of Easi-ProCheck, a unique cheque writing service specially developed for the SME segment.

The business banking division initiated finance-related workshops at various locations to provide insights into new ways of financing business needs as well as educational seminars on cash management, product briefings, workshops, customer events and trade exhibitions & forums – to further reach out to the business community.

OCBC also made strides in investment banking and completed more landmark capital market transactions during the year, including another benchmark property ABS transaction through CP/MTN Programme. Pioneering efforts in Islamic financing continued with the issuance of RM200 million *Mudharabah* Islamic bonds and a RM400 million 3-year loan for Unisem, the largest and longest tenure syndication for a semiconductor company in Malaysia.

In consumer banking, OCBC rolled out its most flexible financing innovation, *PowerCredit*, a revolving line of credit that offers customers up to RM100,000 in non-collateralised cash access. The product differs significantly from overdrafts, loans and credit cards in the way it combines several popular features of the three and yet retains its own unique identity. The introduction of the new product is a reflection of the country's maturing financing market and a response to customers' growing demand for a greater variety of options to suit their specific borrowing requirements.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)

ACTIVITIES & ACHIEVEMENTS (Continued)

OCBC made further inroads into the credit cards market and increased its total card base by over 30% in 2006. The gains were made possible through the introduction of several new innovations, promotions, the expansion of distribution network and continuing its effort to aggressively market credit cards through the nation's largest insurance group, Great Eastern Holdings Limited. The programme has yielded significant results, with over 30% of the co-branded OCBC Bank-Great Eastern credit cards currently in circulation.

In the area of wealth management, OCBC made significant progress through active sales campaigns, new product launches and new tie-ups. The new bancassurance tie-ups with The Pacific Insurance Berhad and Manulife have enhanced the existing product offerings to include Medi-Pac, a hospitalisation and surgical offering; and MaxIncome, a life insurance plan designed for families. Among the significant unit trust offerings during 2006 was the Global Fortune Fund, a feeder fund that rides on the benefits offered by its underlying fund, AllianzGI Global High Payout Fund (GHPF) that rolls global equities and covered call options into one. OCBC continued to adopt a pioneering stance in structured investments and introduced several sophisticated new products. Among these 100% principal-protected products were *FX Ladder*, the country's first multi-tier foreign exchange-linked structured investment and *FTSE/Xinhua China 25*.

OCBC Islamic Banking division continued to grow with RM3.2 billion in assets, RM2.6 billion in customer deposits, and almost RM1.7 billion in gross financing, as at 31 December 2006. Among the highlights for 2006 were the launch of the inaugural *OCBC Islamic Banking Week* and the implementation of *SPARKS*, a procedure for turning around Islamic personal financing approvals within 24 hours and time-to-cash of just five days. Besides these, OCBC continued to participate in a variety of exhibitions and forums to promote Islamic Banking and, as in the past eleven years, again contributed *zakat* (Muslim tithe) in line with the Syariah principle of providing for the poor and needy in society.

As part of its quest to provide more service channels to customers, OCBC linked arms with HSBC Bank Malaysia Berhad, United Overseas Bank (Malaysia) Berhad and Standard Chartered Bank Malaysia Berhad to launch *HOUSE* – a shared ATM service that allows customers' access to more than 300 ATMs nationwide.

MAJOR BUSINESS PLANS & ACTIVITIES FOR YEAR 2007

As we move into 2007, OCBC will deepen its market presence in Malaysia with the expansion of branch network, alternative distribution network as well as differentiated customer experience grounded on quality principles.

OCBC Consumer Financial Services (CFS) division will continue to grow its retail customer base targeting at specific customer segments including the Bumiputra customers. To support this growth strategy, it will continue to expand its product range offer for wealth management, housing loan and lifestyle products. Besides expanding its direct sales and mobile teams, the Bank will continue to work closely with strategic partners like Great Eastern Life and external distribution parties to expand its reach. To ensure quality and differentiated service experience to engage customers, the BEE programmes (Building Emotional Engagement) will be implemented.

OCBC continues to serve and meet the needs of its business banking customers through innovation on its business model and developing an enhanced strategy that emphasises on efficiency and lower costs to serve the chosen segments of small businesses/sole proprietorship/partnership. Ongoing efforts will be channelled to improve and streamline processes, further strengthening product & service innovations through technology and greater emphasis on liability products. For the large corporate segment, support will be continuing particularly to those who are venturing overseas to countries such as Indonesia, China and Vietnam. With these initiatives, we will move towards achieving our vision of becoming the preferred bank for the business segment in 2007 in Malaysia and also to be the top 3 SME banks both in Malaysia and Singapore.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)

MAJOR BUSINESS PLANS & ACTIVITIES FOR YEAR 2007 (continued)

Treasury will continue to develop solutions for our customers to meet their hedging and investment needs in the markets. With the ongoing liberalisation of capital controls, increasing trade activities and stable interest rates in 2007, it will continue to offer interest rate swaps, forwards and foreign exchange contracts with greater focus on structured investments in particular foreign exchange linked structured products.

RATINGS BY EXTERNAL AGENCIES

The Bank is rated by an external agency, Rating Agency Malaysia Berhad. The Bank received AA1 for long term rating (indicates sound credit profiles and without significant problems) and P1 for short term rating (indicates superior capabilities for timely payments of obligations) which was reaffirmed in December 2005 and is still in use at the reporting date. This is reflective of the Bank's resilient asset quality, sound credit risk management, sustainable financial performance and sturdy capitalisation.

CORPORATE GOVERNANCE

Board Composition and Independence

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

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

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

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

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

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

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)

CORPORATE GOVERNANCE (continued)

Board Conduct and Responsibilities

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

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

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

In 2006, the Board and Board Audit Committee held a total of 6 meetings each whilst the Board Nominating Committee and Board Risk Management Committee held a total of 2 and 3 meetings respectively. Prior to each meeting, members are provided with timely and complete information to enable members to fulfil their responsibilities. Information provided includes background information and matters to be addressed by the Board, copies of disclosure documents, monthly internal financial statements, risk management reports, budgets, forecasts and reports of variance from budgets and forecasts.

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

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

Board performance

The Board has approved the annual performance evaluation process to assess the effectiveness of the Board, Board Committee and each Director's contribution with the formation of the Board Nominating Committee.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)

CORPORATE GOVERNANCE (continued)

BOARD COMMITTEE

Audit Committee

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

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

The Board approved the terms of reference of the Audit Committee. The Committee has full access to and co-operation from management, and has the discretion to invite any Directors and executive officers to attend its meetings. The Audit Committee has been given the resources required for it to discharge its functions. It has explicit authority to investigate any matter within its terms of reference.

The Committee may meet at any time with the internal auditors and external auditors. It meets with the Bank's auditors to review and approve the audit plans, the internal audit programmes, the results of their examination and findings on their evaluation of the system of internal controls, the scope and results of the internal audit procedures and the response from the Bank's management.

The Audit Committee reviews the financial statements of the Bank, related party transactions and the auditors' report thereon and submits them to the Board of Directors. In addition to the review of the financial statements, the Audit Committee reviews and evaluates with the external auditors and internal auditors, the adequacy of the system of internal and accounting controls, risk management and compliance. The reviews include the scope and results of the audits, the cost effectiveness of the audits, and the independence and objectivity of the external auditors.

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

Internal Audit Function

The Audit Committee approved the terms of reference of Internal Audit outlined in the Audit Charter. In line with the leading practice, Internal Audit's mission statement requires it to provide independent and objective assessments designed to help the Bank to accomplish its strategic initiatives by engaging a risk-based, systematic and disciplined approach to evaluate the effectiveness of risk management, control and governance processes. Its scope of work is to provide reasonable, but not absolute, assurance to the Audit Committee and Senior Management that the Bank's network of risk management, control, and governance process, as designed and implemented by senior management, are adequate and effective.

Internal Audit reports on the adequacy of the systems of control to the Audit Committee and management, but does not form any part of those systems of control. Internal Audit is also expected to meet or exceed the Standards for the Professional Practices of Internal Auditing of The Institute of Internal Auditors as well as applicable local regulatory requirements for Internal Audit.

Internal Audit has implemented a risk-based audit methodology and approach. Annual audit plan is developed using the risk-based audit methodology and approved by the Audit Committee. Audit work is prioritised and scoped in accordance with an assessment of potential exposure to risks. This includes all principal risks of the Bank, namely financial risks, strategic risks and operational risks. Internal Audit develops an understanding of the Bank's key objectives and processes to identify principal risks.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)

CORPORATE GOVERNANCE (continued)

Internal Audit Function (continued)

Computerised audit systems and softwares have been adopted to automate audit process, facilitate sampling process and support audit execution. The works undertaken by Internal Audit include the audit of the system of internal control over its key operations (including overseas branches), review of security and access controls for the key computer systems, review of control process pertaining to new product and system enhancements, and review of controls over the monitoring of asset liability market and credit risks.

Internal Audit also actively participates in major new product, system developments, process improvement activities and special projects, to help evaluate risk exposures and to help ensure that proposed mitigating internal controls are adequately implemented and evaluated on a timely basis.

Internal Controls

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

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

MANAGEMENT INFORMATION

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

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

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)**CORPORATE GOVERNANCE (continued)****DIRECTORS' ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS IN 2006**

Name of Director	Number of Meetings attended in 2006							
	Board		Audit Committee		Nominating Committee		Risk Management Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Tan Sri Dato' Nasruddin Bin Bahari	6	6	6	6	2	2	3	3
Mr David Conner	6	6			2	2	3	3
Mr Ching Wei Hong	3	3					2	2
Mr Soon Tit Koon	6	6			2	2	3	3
Ms Tan Siok Choo	6	5	6	5	2	2	3	2
Dato' Yeoh Beow Tit	6	6						
Datuk Yong Poh Kon	6	6					3	2
Col (R) David Wong Cheong Fook	6	6	6	6	2	2	3	3

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

FURTHER INFORMATION ON DIRECTORS**Profile of the Board of Directors****Tan Sri Dato' Nasruddin Bin Bahari, Chairman**

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

Dato' Yeoh Beow Tit

Dato' Yeoh was appointed Senior Executive Vice President in January 2001. He joined OCBCL on 19 March 1996, initially as Director and CEO of the Bank and subsequently as Head of Retail Banking, OCBCL. Dato' Yeoh returned to head the Malaysian operations as Director and CEO in January 1999, a position he continues to hold. Dato' Yeoh is a seasoned banker with more than 25 years of banking experience. He holds a Bachelor of Economics (double major in Economics and Operations Research) from Monash University Australia, and a Master of Science in Management from the University of Salford, England. He is also a Director of Great Eastern Life Assurance (Malaysia) Berhad, Overseas Assurance Corporation (Malaysia) Berhad, Cagamas Berhad, E2 Power Sdn Bhd and OCBC Capital Corporation.

Mr David Conner

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

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)

CORPORATE GOVERNANCE (continued)

Profile of the Board of Directors (continued)

Mr Ching Wei Hong

Mr Ching Wei Hong who is also Executive Vice President of OCBCCL was appointed to the Board on 20 June 2006. Previously Head of Group Transaction Banking, he currently oversees OCBCCL's transaction processing and technology operations. He is responsible for information technology initiatives and delivering productivity gains in operations. Mr Ching has more than 21 years experience in regional finance, corporate banking and cash management. Prior to joining OCBCCL, he was Director of Corporate Finance, Philips Electronics Asia Pacific Pte Ltd. He also held senior regional assignments in Bank of America and was Treasurer of Union Carbide Asia Pacific Inc. Mr Ching holds a Bachelor of Business Administration from the National University of Singapore. He is also presently a Director of Clearing and Payments Services Pte Ltd, Network for Electronic Transfers Pte Ltd (NETS), E2 Power Pte Ltd and E2 Power Sdn Bhd.

Mr Soon Tit Koon

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

Datuk Yong Poh Kon

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

Ms Tan Siok Choo

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

Col (Rtd) David Wong Cheong Fook

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)

DIRECTORS AND THEIR INTEREST IN SHARES AND OPTIONS

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

Tan Sri Dato' Nasruddin Bin Bahari (Chairman)

David Conner

Colonel (Rtd) David Wong Cheong Fook

Lai Teck Poh (resigned w.e.f. 8 March 2006)

Soon Tit Koon

Tan Siok Choo

Dato' Yeoh Beow Tit

Datuk Yong Poh Kon

Ching Wei Hong (appointed w.e.f. 20 June 2006)

In accordance with articles 106 & 107 of the Bank's Articles of Association, Mr David Conner, Ms Tan Siok Choo and Colonel (Rtd) David Wong Cheong Fook retire from the Board at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with article 110 of the Bank's Articles of Association, Mr Ching Wei Hong retires from the Board at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

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

Oversea-Chinese Banking Corporation Limited

Number of ordinary shares

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

	As at <u>1.1.2006</u>	<u>Acquired</u>	<u>Disposed</u>	As at <u>31.12.2006</u>
Dato' Yeoh Beow Tit	122,200	265,583	174,000	213,783
David Conner	491,200	82,719	0	573,919
Soon Tit Koon	24,000	263,871	0	287,871
Col (Rtd) David Wong Cheong Fook	12,000	4,800	0	16,800
Tan Sri Dato' Nasruddin Bin Bahari	4,800	4,800	0	9,600
Ching Wei Hong	0 *	242,487	242,487	0

*As at 20 June 2006 (date of appointment).

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)

DIRECTORS AND THEIR INTEREST IN SHARES AND OPTIONS (continued)

Oversea-Chinese Banking Corporation Limited

Number of ordinary shares

Shareholdings in which Directors have deemed interest ^{1/}

	<u>As at 1.1.2006</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2006</u>
Tan Siok Choo	3,530,550	0	0	3,530,550
Soon Tit Koon	130,951	65,906	23,871	172,986
Dato' Yeoh Beow Tit	22,947	18,371	12,143	29,175
David Conner	265,067	102,797	82,719	285,145
Ching Wei Hong	47,899 ^{2/}	11,162	14,257	44,804
<u>Class G Preference Shares</u>				
David Conner	50,000	0	0	50,000
Tan Siok Choo	735,532	0	0	735,532

^{1/} Deemed interest includes shares granted under the OCBC Deferred Share Plan and acquisition rights under the OCBC Employee Share Purchase Plan.

^{2/} As at 20 June 2006 (date of appointment).

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

Number of unissued ordinary shares

Share Options held by Directors in their own name

	David Conner	Ching Wei Hong	Dato' Yeoh Beow Tit	Soon Tit Koon
As at 1.1.2006	2,852,000	540,000*	793,800	768,000
Offered	612,000	0	60,000	120,000
Exercised	0	219,720	253,440	240,000
Lapsed	0	0	0	0
As at 31.12.2006	3,464,000	320,280	600,360	648,000
Date options expire	8/4/2012 – 13/3/2016	29/1/2006 – 13/3/2016	9/12/2008 – 13/3/2016	8/4/2012 – 13/3/2016

* As at 20 June 2006 (date of appointment).

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)

DIRECTORS AND THEIR INTEREST IN SHARES AND OPTIONS (continued)

OCBC Capital Corporation Limited ("OCC")

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

Shareholdings in which Directors have deemed interest

	<u>As at 1.1.2006</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2006</u>
Non-cumulative non-convertible guaranteed <u>OCC-A-Preference Shares</u>				
Soon Tit Koon	10,000	0	0	10,000

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

DIRECTORS' BENEFITS

During and at the end of the financial year, no Director of the Bank has received or become entitled to receive any benefit (other than the benefit included in the aggregate amount of emoluments received or due and receivable by Directors as shown in Note 24 to the financial statements, or the fixed salary of full-time employees of the Bank) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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

ULTIMATE HOLDING COMPANY

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

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)

AUDITORS

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

In accordance with a resolution of the Board of Directors dated

TAN SRI DATO' NASRUDDIN BIN BAHARI
DIRECTOR

DATO' YEOH BEOW TIT
DIRECTOR

Kuala Lumpur

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

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

In the opinion of the Directors, the financial statements set out on pages 20 to 110 are drawn up in accordance with the provisions of the Companies Act, 1965, and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of the state of affairs of the Group and the Bank as at 31 December 2006 and of the results of their operations and cash flows for the year ended on that date.

In accordance with a resolution of the Board of Directors dated

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, the officer primarily responsible for the financial management of OCBC Bank (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 20 to 110 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared at)
Kuala Lumpur in Wilayah Persekutuan)
On) TAN FONG SANG

Before me,

TAN BOON CHUA
COMMISSIONER FOR OATHS

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

We have audited the financial statements set out on pages 20 to 110. The preparation of the financial statements is the responsibility of the Bank's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved Standards on Auditing 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 the Directors, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements are properly drawn up in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board as modified by Bank Negara Malaysia Guidelines so as to give a true and fair view of :
 - (i) the state of affairs of the Group and the Bank as at 31 December 2006 and the results of their operations and cash flows for the year ended on that date; and
 - (ii) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements of the Group and the Bank; and
- (b) the accounting and other records and the registers required by the Companies Act, 1965 to be kept by the Bank and its subsidiaries have been properly kept in accordance with the provisions of the said Act.

We are satisfied that the financial statements of the subsidiaries 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.

The 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.

The financial statements for the preceding financial year were audited by another firm of chartered accountants whose report dated 15 February 2006 expressed an unqualified opinion.

KPMG
Firm Number: AF:0758
Chartered Accountants

Seow Yoo Lin
Approval Number: 1497/02/09(J)
Partner

Kuala Lumpur

BALANCE SHEETS AS AT 31 DECEMBER 2006

	Note	Group		Bank	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
ASSETS					
Cash and short-term funds	2	3,647,179	1,960,947	3,647,179	1,960,947
Securities purchased under resale agreement		0	49,976	0	49,976
Deposits and placements with financial institutions	3	2,280,746	332,476	2,280,746	332,476
Held-for-trading securities	4	529,805	352,699	529,805	352,699
Available-for-sale securities	4	5,641,394	5,752,212	5,641,394	5,752,212
Loans, advances and financing	5	23,032,197	20,936,458	23,031,826	20,935,828
Other assets	7	357,450	263,969	357,372	260,952
Statutory deposits with Bank Negara Malaysia	8	866,086	785,086	866,086	785,086
Investment in subsidiary companies	9	0	0	1,611	1,611
Property, plant and equipment	10	231,495	236,438	231,482	236,420
Investment property	11	11,030	11,231	11,030	11,231
Non-current assets held for sale	12	544	0	544	0
Deferred taxation asset	13	102,143	129,243	102,459	129,527
TOTAL ASSETS		36,700,069	30,810,735	36,701,534	30,808,965
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits from customers	14	24,646,667	19,778,540	24,660,884	19,792,275
Deposits and placements of banks and other financial institutions	15	2,965,448	3,066,763	2,965,448	3,066,763
Obligations on securities sold under repurchase agreements		3,075,577	2,611,796	3,075,577	2,611,796
Bills and acceptances payable		1,818,185	1,340,850	1,818,185	1,340,850
Amount due to Cagamas		689,298	921,782	689,298	921,782
Subordinated term loan / bonds	16	698,522	533,709	698,522	533,709
Other liabilities	17	518,354	420,397	518,245	417,338
Taxation and zakat		58,070	37,670	58,058	37,670
Total Liabilities		34,470,121	28,711,507	34,484,217	28,722,183
Financed by :					
Share capital	18	291,500	291,500	291,500	291,500
Reserves	19	1,938,448	1,807,728	1,925,817	1,795,282
Shareholders' Equity		2,229,948	2,099,228	2,217,317	2,086,782
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		36,700,069	30,810,735	36,701,534	30,808,965
COMMITMENTS AND CONTINGENCIES	30	37,915,353	31,651,355	37,915,353	31,651,355

The accounting policies on pages 26 to 34 and notes on pages 35 to 110 form an integral part of the financial statements.

INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

	Note	Group		Bank	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Interest income	20	1,597,153	1,323,488	1,597,153	1,323,457
Interest expense	21	(847,929)	(695,902)	(848,360)	(696,314)
Net interest income		749,224	627,586	748,793	627,143
Islamic Banking income	43(24)	51,776	44,512	51,776	44,512
		801,000	672,098	800,569	671,655
Non-interest income	22	282,834	256,936	282,834	256,936
Net income		1,083,834	929,034	1,083,403	928,591
Staff cost and overhead expenses	23	(417,623)	(370,156)	(417,374)	(369,908)
Operating profits before allowances (Allowance for) / write back of losses on loans, advances and financing	25	666,211	558,878	666,029	558,683
(Provision for) / write back of commitment and contingencies	17(b)	(62,623)	6,177	(62,670)	6,114
Write back of impairment losses on securities (net)		(293)	824	(293)	824
Impairment losses on property, plant and equipment	10	0	18,591	0	18,591
		(350)	0	(350)	0
Profit before taxation and zakat		602,945	584,470	602,716	584,212
Taxation	27	(171,343)	(169,441)	(171,299)	(169,383)
Zakat		(343)	(383)	(343)	(383)
Net profit attributable to shareholders		431,259	414,646	431,074	414,446
Basic earnings per share (sen)	28	143.7	143.6	143.6	143.5
Dividend per ordinary share – 136.5 sen gross (2005 : 157.0 sen) less income tax (sen)	29	99.2	113.0	99.2	113.0

The accounting policies on pages 26 to 34 and notes on pages 35 to 110 form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

Note	Non-distributable					Distributable		Total
	Share capital	Share premium	Statutory reserve	Capital reserve	Fair value reserve	General reserve	Retained profits	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group								
Balance at 1 January 2006								
- As previously stated	291,500	858,500	322,000	72,932	32,646	36,750	501,213	2,115,541
- Effect of adopting cash-settled share-based payment	17	0	0	(16,313)	0	0	0	(16,313)
As restated	291,500	858,500	322,000	56,619	32,646	36,750	501,213	2,099,228
Revaluation of available-for-sale securities (net)	0	0	0	0	47,762	0	0	47,762
Deferred tax on revaluation of available-for-sale securities (net)	0	0	0	0	(12,516)	0	0	(12,516)
Net gains recognised directly in equity	0	0	0	0	35,246	0	0	35,246
Net profit attributable to shareholders	0	0	0	0	0	0	431,259	431,259
Total recognised income and expense for the year	0	0	0	0	35,246	0	431,259	466,505
Dividends paid on ordinary shares in respect of :								
- Final 2005	29	0	0	0	0	0	(231,840)	(231,840)
- Interim 2006	29	0	0	0	0	0	(85,905)	(85,905)
Dividends paid on preference shares								
- Final 2006	29	0	0	0	0	0	(18,040)	(18,040)
Balance at 31 December 2006	291,500	858,500	322,000	56,619	67,892	36,750	596,687	2,229,948
Balance at 1 January 2005								
- As previously stated	287,500	462,500	322,000	66,995	51,371	36,750	331,720	1,558,836
- Effect of adopting cash-settled share-based payment	0	0	0	(10,376)	0	0	0	(10,376)
As restated	287,500	462,500	322,000	56,619	51,371	36,750	331,720	1,548,460
Revaluation of available-for-sale securities (net)	0	0	0	0	(27,264)	0	0	(27,264)
Deferred tax on revaluation of available-for-sale securities (net)	0	0	0	0	8,539	0	0	8,539
Net gains recognised directly in equity	0	0	0	0	(18,725)	0	0	(18,725)
Net profit attributable to shareholders	0	0	0	0	0	0	414,646	414,646
Total recognised income and expense for the year	0	0	0	0	(18,725)	0	414,646	395,921
Issuance of preference share	4,000	396,000	0	0	0	0	0	400,000
Dividends paid on ordinary shares in respect of :								
- Final 2004	29	0	0	0	0	0	(150,075)	(150,075)
- Interim 2005	29	0	0	0	0	0	(93,150)	(93,150)
Dividends paid on preference shares								
- Final 2005	29	0	0	0	0	0	(1,928)	(1,928)
Balance at 31 December 2005	291,500	858,500	322,000	56,619	32,646	36,750	501,213	2,099,228

**STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006
(continued)**

Note	Non-distributable					Distributable		Total
	Share capital	Share premium	Statutory reserve	Capital reserve	Fair value reserve	General reserve	Retained profits	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Bank								
Balance at 1 January 2006								
- As previously stated	291,500	858,500	322,000	16,313	32,646	0	582,136	2,103,095
- Effect of adopting cash-settled share-based payment	17	0	0	(16,313)	0	0	0	(16,313)
As restated	291,500	858,500	322,000	0	32,646	0	582,136	2,086,782
Revaluation of available-for-sale securities (net)	0	0	0	0	47,762	0	0	47,762
Deferred tax on revaluation of available-for-sale securities (net)	0	0	0	0	(12,516)	0	0	(12,516)
Net gains recognised directly in equity	0	0	0	0	35,246	0	0	35,246
Net profit attributable to shareholders	0	0	0	0	0	0	431,074	431,074
Total recognised income and expense for the year	0	0	0	0	35,246	0	431,074	466,320
Dividends paid on ordinary shares in respect of :								
- Final 2005	29	0	0	0	0	0	(231,840)	(231,840)
- Interim 2006	29	0	0	0	0	0	(85,905)	(85,905)
Dividends paid on preference shares								
- Final 2006	29	0	0	0	0	0	(18,040)	(18,040)
Balance at 31 December 2006	291,500	858,500	322,000	0	67,892	0	677,425	2,217,317
Balance at 1 January 2005								
- As previously stated	287,500	462,500	322,000	10,376	51,371	0	412,843	1,546,590
- Effect of adopting cash-settled share-based payment	0	0	0	(10,376)	0	0	0	(10,376)
As restated	287,500	462,500	322,000	0	51,371	0	412,843	1,536,214
Revaluation of available-for-sale securities (net)	0	0	0	0	(27,264)	0	0	(27,264)
Deferred tax on revaluation of available-for-sale securities (net)	0	0	0	0	8,539	0	0	8,539
Net gains recognised directly in equity	0	0	0	0	(18,725)	0	0	(18,725)
Net profit attributable to shareholders	0	0	0	0	0	0	414,446	414,446
Total recognised income and expense for the year	0	0	0	0	(18,725)	0	414,446	395,721
Issuance of preference share	4,000	396,000	0	0	0	0	0	400,000
Dividends paid on ordinary shares in respect of :								
- Final 2004	29	0	0	0	0	0	(150,075)	(150,075)
- Interim 2005	29	0	0	0	0	0	(93,150)	(93,150)
Dividends paid on preference shares								
- Final 2005	29	0	0	0	0	0	(1,928)	(1,928)
Balance at 31 December 2005	291,500	858,500	322,000	0	32,646	0	582,136	2,086,782

The accounting policies on pages 26 to 34 and notes on pages 35 to 110 form an integral part of the financial statements.

CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

	Note	Group		Bank	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation and zakat		602,945	584,470	602,716	584,212
Adjustments for:-					
Net gains from sale of held-for-trading securities		(14,166)	(21,722)	(14,166)	(21,722)
Net losses from sale of available-for-sale securities		1,459	161	1,459	161
Dividends received		(1,553)	(864)	(1,553)	(864)
Depreciation of property, plant and equipment		23,598	17,943	23,593	17,941
Depreciation of investment property		181	176	181	176
Impairment losses on property, plant and equipment		350	0	350	0
(Gain) / loss on disposal of property, plant and equipment (net)		(1,265)	90	(1,265)	90
Gain on disposal of investment property		(475)	(351)	(475)	(351)
Gain on disposal of non-current assets held for sale		(1,461)	0	(1,461)	0
Allowance for / (write back) of bad and doubtful debts and financing		62,623	(6,177)	62,670	(6,114)
Profit equalisation reserve		14,684	4,471	14,684	4,471
Write back of impairment losses on securities (net)		0	(18,591)	0	(18,591)
Amortisation of premium less accretion of discount		47,584	56,721	47,584	56,721
Provision for / (write back of) commitment and contingencies		293	(824)	293	(824)
Equity compensation benefits		3,647	6,174	3,647	6,174
Unrealised loss / (gain) on revaluation (net)		11,687	(28,154)	11,687	(28,154)
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		750,131	593,523	749,944	593,326
(Increase)/Decrease in Operating Assets :					
Loans, advances and financing		(2,158,362)	(2,003,335)	(2,158,668)	(2,003,644)
Other assets and statutory deposits with Bank Negara Malaysia		(120,117)	(118,231)	(123,056)	(110,363)
Held-for-trading securities (net)		(161,091)	247,340	(161,091)	247,340
Securities purchased under resale agreement		49,976	(49,976)	49,976	(49,976)
Increase/(Decrease) in Operating Liabilities :					
Deposits from customers		4,868,127	2,836,728	4,868,609	2,829,365
Bills and acceptances payable		477,335	(192,343)	477,335	(192,343)
Amount due to Cagamas		(232,484)	(88,999)	(232,484)	(88,999)
Other liabilities		14,872	53,900	17,822	53,884
Obligations on securities sold under repurchase agreements		463,781	483,442	463,781	483,442
Deposits and placements of banks and other financial institutions		(101,315)	(448,143)	(101,315)	(448,143)
Subordinated term loan / bonds		(38,626)	(23,889)	(38,626)	(23,889)
Cash generated from operations		<u>3,812,227</u>	<u>1,290,017</u>	<u>3,812,227</u>	<u>1,290,000</u>
Income tax and zakat paid		(136,702)	(117,558)	(136,702)	(117,558)
NET CASH GENERATED FROM OPERATING ACTIVITIES		<u>3,675,525</u>	<u>1,172,459</u>	<u>3,675,525</u>	<u>1,172,442</u>

CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)

	Note	Group		Bank	
		2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale / (purchase) of available-for-sale securities (net)		109,537	(875,101)	109,537	(875,101)
Purchase of property, plant and equipment		(20,192)	(75,986)	(20,192)	(75,969)
Purchase of investment property		(498)	0	(498)	0
Proceeds from sale of property, plant and equipment		2,321	12,823	2,321	12,823
Proceeds from sale of investment property		485	360	485	360
Proceeds from sale of non-current assets held for sale		1,556	0	1,556	0
Dividends received		1,553	864	1,553	864
NET CASH GENERATED FROM / (UTILISED IN) INVESTING ACTIVITIES		94,762	(937,040)	94,762	(937,023)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid		(335,785)	(245,153)	(335,785)	(245,153)
Proceeds from subordinated term loan/ bonds		200,000	0	200,000	0
Proceeds from issuance of preference shares		0	400,000	0	400,000
NET CASH (UTILISED IN) / GENERATED FROM FINANCING ACTIVITIES		(135,785)	154,847	(135,785)	154,847
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,634,502	390,266	3,634,502	390,266
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		2,293,423	1,903,157	2,293,423	1,903,157
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	39	5,927,925	2,293,423	5,927,925	2,293,423

The accounting policies on pages 26 to 34 and notes on pages 35 to 110 form an integral part of the financial statements.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006**

A. Basis of preparation of the financial statements

The financial statements of the Group and of the Bank have been prepared under the historical cost convention (except as disclosed in the notes to the financial statements) and comply with applicable approved accounting standards for entities other than private entities issued by the Malaysian Accounting Standards Board (MASB) as modified by Bank Negara Malaysia Guidelines, comply with the provisions of the Companies Act, 1965, and Syariah requirements (operation of Islamic Banking). The financial statements incorporate all activities relating to Islamic Banking (IB) which have been undertaken by the Bank in compliance with Syariah principles.

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

The MASB has issued a number of new and revised Financial Reporting Standards (FRSs) that are effective for accounting periods beginning on or after 1 January 2006 or available for early adoption.

The following new and revised FRSs issued by MASB during the financial year 2006 have not been adopted by the Group in preparing the financial statements for the year ended 31 December 2006. The impact of applying these FRSs upon first adoption, as required by paragraph 30(b) of FRS 108, Accounting Policies, Changes in Accounting Estimates and Errors, is not disclosed as exempted by the respective paragraphs of the FRSs mentioned below:-

	Effective Date	Date of adoption by the Group	Remarks
FRS 117 Leases	On or after 1 October 2006	1 January 2007	Exempted by FRS 117 Para 67B
FRS 124 Related Party Disclosures	On or after 1 October 2006	1 January 2007	Exempted by FRS 124 Para 22A
FRS 139 Financial Instruments: Recognition and Measurement	To be announced by MASB	No tentative date	Exempted by FRS 139 Para 103AB
Amendment to FRS 119 ₂₀₀₄ Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures	On or after 1 January 2007	1 January 2007	No significant impact in the period of initial application

The effects of adopting the new and revised FRSs in 2006 are set in Note 40.

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 2006. 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, except for interest earned on hire purchase, block discounting and lease financing, is recognised on an accrual basis using the effective interest method. Interest income / financing income on housing, term loans and term financing is recognised by reference to rest period which is monthly.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)**

C. Recognition of Interest Income / Financing Income (continued)

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

Income earned on hire purchase, block 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 subsidiary companies are recognised when the shareholders' right to receive payment is established. Dividends from held-for-trading and available-for-sale securities are recognised when received.

E. Allowance for Bad and Doubtful Debts and Financing

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

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

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

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

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

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

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)**

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

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

F. Repurchase Agreements

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

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

G. Securities

The Bank classifies its securities portfolios into held-for-trading and available-for-sale securities. Currently no financial assets have been classified as held-to-maturity.

i) Held-for-trading securities

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

ii) Available-for-sale securities

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

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

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

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)**

G. Securities (continued)

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

H. Investment in Subsidiary Companies

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

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

I. Property, Plant and Equipment and Depreciation

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

When significant parts of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment and depreciated separately. Properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or for both are reclassified as investment property as stated in Section J of the accounting policies. Property is also reclassified as investment property when the use of a property changes from owner-occupied to investment property.

Freehold land is not depreciated. Leasehold land and building are amortised over 50 years or the period of the lease, whichever is shorter. Depreciation of other property, plant and equipment is calculated to write off the cost of the property, plant and equipment on a straight line basis over the expected useful life of the assets concerned. The depreciable amount is determined after deducting the residual value.

The principal annual rates are:-

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

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

J. Investment Property

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

In previous years, all investment properties were included in property, plant and equipment. Following the adoption of FRS 140 Investment Property, these investment properties are now classified separately. In accordance with FRS 140, investment properties can be measured either using cost or fair value method. The Group has adopted the cost method in measuring investment properties with effect from 1 January 2006.

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

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)**

K. 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.

L. Bills and Acceptances Payable

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

M. 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.

N. Currency Translations and Conversion

i) Functional and Presentation Currency

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

ii) Transactions and Balances

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

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

	<u>2006</u>	<u>2005</u>
Foreign currency	RM	RM
1 US Dollar	3.52	3.78
1 Australian Dollar	2.79	2.77
100 Japanese Yen	2.97	3.22

O. Taxation

i) Current tax

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

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)**

O. Taxation (continued)

ii) Deferred tax

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

P. 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.

Q. Provisions

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

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

R. Impairment

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

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

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

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

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)**

S. Employee Benefits

i) Short term employee benefit

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

ii) Defined contribution plans

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

iii) Equity compensation benefits

a) Deferred Share Plan

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

b) Share Option Scheme

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

c) Employee Share Purchase Plan

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

The fair value of options granted is recognised as staff costs in the income statement. The Group uses the binomial model to calculate the fair value of share options granted under the Bank's Option Schemes and acquisition rights to ordinary shares of the Bank under the ESP Plan. The fair value of the options and rights is recognised in the income statement over the vesting period of the share options or the offering period of the ESP Plan. At each balance sheet date, the Group revises its estimates of number of options that are expected to become exercisable, and the impact of the change to the original estimates, if any, is recognised in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

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

T. Non-current Assets Held for Sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less cost to sell if their carrying amounts are expected to be recovered principally through a sale transaction rather than through continuing use.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)**

T. Non-current Assets Held for Sale (continued)

In the previous years, non-current assets held for sale were not classified separately on the balance sheet and were measured in accordance with the respective accounting policy. Following the adoption of FRS 5 Non-current Assets Held for Sale and Discontinued Operations, non-current assets held for sale are classified separately. This change in accounting policy is applied prospectively from 1 January 2006.

U. Cash and Cash Equivalents

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

V. Profit Equalisation Reserve (PER)

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

W. Use of Estimates and Judgements

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

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

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

- a) Section E – Allowance for Bad and Doubtful Debts and Financing
- b) Note 30 – Commitments and Contingencies
- c) Note 37 – Fair Value of Financial Instruments

X. Derivatives

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

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

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

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006 (continued)**

X. Derivatives (continued)

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

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

Y. Hedging

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006**1 GENERAL INFORMATION**

The principal activities of the Group and of the Bank 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 2,715 (2005: 2,533) employees in the Group and 2,713 (2005: 2,531) employees in the Bank (of which 593 (2005: 677) employees were seconded to e2 Power Sdn Bhd, a related company).

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

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

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

2 CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Cash and balances with banks and other financial institutions	138,842	166,800	138,842	166,800
Money at call and deposit placements maturing within one month	3,508,337	1,794,147	3,508,337	1,794,147
	<u>3,647,179</u>	<u>1,960,947</u>	<u>3,647,179</u>	<u>1,960,947</u>

3 DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

Licensed banks	679,746	188,976	679,746	188,976
Bank Negara Malaysia	1,601,000	143,500	1,601,000	143,500
	<u>2,280,746</u>	<u>332,476</u>	<u>2,280,746</u>	<u>332,476</u>

4 SECURITIES PORTFOLIO

i) Held-for-trading securities

At fair value

Malaysian Government securities	14,996	10,163	14,996	10,163
Government Investment Certificate	0	65,029	0	65,029
Bank Negara Malaysia Bills	146,677	0	146,677	0
Bank Negara Malaysia Negotiable notes	16,237	32,628	16,237	32,628
Private debt securities	350,429	244,879	350,429	244,879
Quoted shares in Malaysia	1,466	0	1,466	0
	<u>529,805</u>	<u>352,699</u>	<u>529,805</u>	<u>352,699</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**4 SECURITIES PORTFOLIO (continued)**

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
ii) Available-for-sale securities				
<u>At fair value</u>				
Malaysian Government securities	2,881,368	2,963,660	2,881,368	2,963,660
Government Investment Certificate	934,862	178,635	934,862	178,635
Cagamas bonds / notes	100,303	787,173	100,303	787,173
Khazanah bonds	0	14,901	0	14,901
Private debt securities	594,557	728,884	594,557	728,884
Negotiable instruments of deposit	1,065,000	965,000	1,065,000	965,000
Bankers' acceptance and Islamic accepted bills	0	118,413	0	118,413
Quoted shares in Malaysia	19,179	0	19,179	0
Unquoted shares in Malaysia	46,696	45,635	46,696	45,635
Debentures	188	187	188	187
	<u>5,642,153</u>	<u>5,802,488</u>	<u>5,642,153</u>	<u>5,802,488</u>
Allowance for impairment losses in available-for-sale securities :				
- Unquoted shares in Malaysia	(121)	(121)	(121)	(121)
- Private debt securities	(638)	(50,155)	(638)	(50,155)
	<u>(759)</u>	<u>(50,276)</u>	<u>(759)</u>	<u>(50,276)</u>
	<u>5,641,394</u>	<u>5,752,212</u>	<u>5,641,394</u>	<u>5,752,212</u>

Included in available-for-sale securities is an amount of RM3,155,199,000 (2005: RM2,757,337,000) being pledged to third parties in sale and repurchase agreements.

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

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Balance at 1 January	50,276	69,894	50,276	69,894
Amount written back	0	(18,591)	0	(18,591)
Amount written off	(49,517)	(1,027)	(49,517)	(1,027)
Balance at 31 December	<u>759</u>	<u>50,276</u>	<u>759</u>	<u>50,276</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**5 LOANS, ADVANCES AND FINANCING**

i) By type

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Overdrafts	3,433,629	3,375,072	3,433,629	3,375,072
Term loans/financing :				
Housing loans/financing	6,427,839	6,069,237	6,427,839	6,069,237
Syndicated term loan/financing	930,687	757,341	930,687	757,341
Hire purchase	381,785	332,770	381,785	332,770
Lease receivables	22,066	26,892	21,130	25,669
Other term loans	7,714,720	6,835,219	7,714,720	6,835,219
Credit/charge cards receivables	480,128	374,457	480,128	374,457
Bills receivable	94,094	98,125	94,094	98,125
Trust receipts	96,129	96,948	96,129	96,948
Claims on customers under acceptance credits	2,169,791	2,026,262	2,169,791	2,026,262
Block discounting	330	348	330	348
Loans to banks and other financial institutions	343,768	297,490	343,768	297,490
Revolving credit	1,646,941	1,383,365	1,646,941	1,383,365
Staff loans (of which RM Nil [2005 : RM Nil] to Directors)	118,169	106,727	118,169	106,727
Other loans	266,403	221,520	266,403	221,520
	<u>24,126,479</u>	<u>22,001,773</u>	<u>24,125,543</u>	<u>22,000,550</u>
Unearned interest and income	(199,201)	(176,917)	(199,170)	(176,855)
Gross loans, advances and financing	<u>23,927,278</u>	<u>21,824,856</u>	<u>23,926,373</u>	<u>21,823,695</u>
Allowance for bad and doubtful debts and financing :				
- Specific	(550,681)	(581,528)	(550,162)	(581,012)
- General	(344,400)	(306,870)	(344,385)	(306,855)
Net loans, advances and financing	<u>23,032,197</u>	<u>20,936,458</u>	<u>23,031,826</u>	<u>20,935,828</u>

ii) By type of customer

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Domestic banking institutions	226,601	244,077	226,215	243,432
Domestic non-bank financial institutions (of which RM Nil [2005: RM Nil] to stockbroking companies)	196,656	255,724	196,656	255,724
Domestic business enterprises				
- Small medium enterprises ("SME")	3,552,260	3,218,871	3,552,091	3,218,705
- Non-SME	10,273,370	8,255,764	10,273,020	8,255,414
Government and statutory bodies	422,557	1,309,281	422,557	1,309,281
Individuals	9,202,070	8,489,017	9,202,070	8,489,017
Other domestic entities	2,546	1,766	2,546	1,766
Foreign entities	51,218	50,356	51,218	50,356
	<u>23,927,278</u>	<u>21,824,856</u>	<u>23,926,373</u>	<u>21,823,695</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**5 LOANS, ADVANCES AND FINANCING (continued)**

iii) By interest/profit rate sensitivity

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Fixed rate				
Housing loans/financing	90,739	97,754	90,739	97,754
Hire purchase receivables	343,778	298,188	343,778	298,188
Other fixed rate loan/financing	1,781,837	1,292,572	1,780,932	1,291,411
Variable rate				
BLR plus	14,649,030	13,397,160	14,649,030	13,397,160
Cost-plus	3,192,608	2,952,938	3,192,608	2,952,938
Other variable rates	3,869,286	3,786,244	3,869,286	3,786,244
	<u>23,927,278</u>	<u>21,824,856</u>	<u>23,926,373</u>	<u>21,823,695</u>

iv) By sector

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Agriculture	1,524,141	1,246,054	1,524,141	1,246,054
Mining and quarrying	32,763	39,558	32,763	39,558
Manufacturing	4,133,409	3,771,819	4,133,409	3,771,819
Electricity, gas and water	15,440	56,922	15,440	56,922
Construction	1,101,106	844,975	1,100,756	844,626
Real estate	2,331,682	1,894,522	2,331,682	1,894,522
Purchase of landed property				
of which : i. Residential	6,605,024	6,266,744	6,605,024	6,266,744
ii. Non-residential	781,980	694,822	781,980	694,822
General commerce	3,115,744	2,495,309	3,115,575	2,495,142
Transport, insurance and business services	1,105,071	1,029,885	1,105,071	1,029,885
Purchase of securities	122,917	107,513	122,917	107,513
Purchase of transport vehicles	10,059	9,196	10,059	9,196
Consumption credit	1,241,726	1,092,212	1,241,340	1,091,567
Sovereign	422,557	1,309,275	422,557	1,309,275
Others	1,383,659	966,050	1,383,659	966,050
	<u>23,927,278</u>	<u>21,824,856</u>	<u>23,926,373</u>	<u>21,823,695</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**6 NON-PERFORMING LOANS, ADVANCES AND FINANCING**

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

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Balance at 1 January	1,352,617	1,593,473	1,352,101	1,592,814
Non-performing during the year (gross)	499,905	256,604	499,902	256,599
Reclassified as performing during the year	(137,348)	(181,770)	(137,348)	(181,770)
Amount recovered	(328,667)	(240,811)	(328,667)	(240,768)
Amount written off	(78,519)	(74,879)	(78,519)	(74,774)
Balance at 31 December	<u>1,307,988</u>	<u>1,352,617</u>	<u>1,307,469</u>	<u>1,352,101</u>
Specific allowance	<u>(550,681)</u>	<u>(581,528)</u>	<u>(550,162)</u>	<u>(581,012)</u>
Net non-performing loans, advances and financing	<u>757,307</u>	<u>771,089</u>	<u>757,307</u>	<u>771,089</u>
Ratio of net non-performing loans and financing to gross loans, advances and financing less specific allowance	<u>3.24%</u>	<u>3.63%</u>	<u>3.24%</u>	<u>3.63%</u>

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

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<u>General allowance</u>				
Balance at 1 January	306,870	306,870	306,855	306,855
Allowance made during the year	37,530	0	37,530	0
Balance at 31 December	<u>344,400</u>	<u>306,870</u>	<u>344,385</u>	<u>306,855</u>
(as % of gross loans, advances and financing less specific allowance)	<u>1.50%</u>	<u>1.54%</u>	<u>1.50%</u>	<u>1.54%</u>
<u>Specific allowance</u>				
Balance at 1 January	581,528	635,301	581,012	634,617
Allowance made during the year	222,435	165,950	222,432	165,945
Amount written back in respect of recoveries	(174,762)	(144,844)	(174,762)	(144,776)
Amount written off	(78,520)	(74,879)	(78,520)	(74,774)
Balance at 31 December	<u>550,681</u>	<u>581,528</u>	<u>550,162</u>	<u>581,012</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**6 NON-PERFORMING LOANS, ADVANCES AND FINANCING (continued)**

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

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Agriculture	21,264	40,875	21,264	40,875
Manufacturing	327,723	328,719	327,723	328,719
Construction	105,227	119,220	104,877	118,871
Real estate	188,136	221,539	188,136	221,539
Purchase of landed property				
of which : i. Residential	171,327	100,798	171,327	100,798
ii. Non-residential	16,438	12,259	16,438	12,259
General commerce	259,732	281,552	259,563	281,385
Transport, insurance and business services	13,268	13,776	13,268	13,776
Purchase of securities	35,007	42,715	35,007	42,715
Purchase of transport vehicles	47	47	47	47
Consumption credit	54,573	35,138	54,573	35,138
Others	115,246	155,979	115,246	155,979
	<u>1,307,988</u>	<u>1,352,617</u>	<u>1,307,469</u>	<u>1,352,101</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)

7 OTHER ASSETS	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Interest receivable	91,898	69,502	91,898	69,502
Derivative assets (a)	159,754	105,390	159,754	105,390
Other debtors, deposits and prepayments	105,798	89,077	105,720	86,060
	<u>357,450</u>	<u>263,969</u>	<u>357,372</u>	<u>260,952</u>

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

<u>Group and Bank</u>	2006			2005		
	Contract or underlying principal amount RM'000	Fair value Assets Liabilities RM'000 RM'000		Contract or underlying principal amount RM'000	Fair value Assets Liabilities RM'000 RM'000	
Financial derivatives						
Trading:						
Foreign exchange derivatives						
- forward	1,893,461	8,545	12,397	1,405,265	8,806	1,385
- swaps	2,869,458	31,442	40,385	1,934,035	3,628	4,341
- currency option	294,091	3,241	2,625	702,748	19,164	17,230
Interest rate derivatives						
- swaps	16,289,451	104,410	74,971	11,878,656	66,065	46,604
- option	818,193	3,133	3,794	902,834	5,949	3,960
- swaption	200,000	1,092	975	34,600	47	171
Equity derivatives						
- option	60,625	7,891	6,644	28,501	1,731	1,731
	<u>22,425,279</u>	<u>159,754</u>	<u>141,791</u>	<u>16,886,639</u>	<u>105,390</u>	<u>75,422</u>
Hedging:						
Interest rate derivatives						
- swaps	528,300	0	30,899	566,926	0	32,807
	<u>22,953,579</u>	<u>159,754</u>	<u>172,690</u>	<u>17,453,565</u>	<u>105,390</u>	<u>108,229</u>

8 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**9 INVESTMENT IN SUBSIDIARY COMPANIES**

	Bank	
	2006	2005
	RM'000	RM'000
Unquoted shares at cost		
- in Malaysia	1,617	1,617
Less : Allowance for diminution in value	(6)	(6)
	<u>1,611</u>	<u>1,611</u>

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

Name	Principal activities	Percentage of equity held	
		2006 %	2005 %
OCBC Credit Berhad	Licensed credit company	← 100% →	
Malaysia Nominees (Tempatan) Sdn Bhd	Nominees services	← 100% →	
Malaysia Nominees (Asing) Sdn Bhd	Nominees services	← 100% →	

10 PROPERTY, PLANT AND EQUIPMENT

Group 2006	Balance at 1 January RM'000	Adjustment on adoption of FRS 140 RM'000	As restated RM'000	Additions RM'000	Disposal/ written off RM'000	Reclassified to investment property RM'000	Balance at 31 December RM'000
<u>Cost</u>							
Freehold land and buildings	199,441	(11,274)	188,167	1,005	(238)	(650)	188,284
Leasehold land and buildings:							
- less than 50 years	6,445	0	6,445	106	0	0	6,551
- 50 years or more	14,411	(3,699)	10,712	24	0	0	10,736
Office equipment and furniture	61,766	0	61,766	2,841	(1,992)	0	62,615
Computer equipment	113,791	0	113,791	14,882	(3,240)	0	125,433
Motor vehicles	8,625	0	8,625	1,284	(5,491)	0	4,418
<u>Assets under lease:-</u>							
Computer/office equipment and furniture	1,779	0	1,779	50	0	0	1,829
	<u>406,258</u>	<u>(14,973)</u>	<u>391,285</u>	<u>20,192</u>	<u>(10,961)</u>	<u>(650)</u>	<u>399,866</u>
	Balance at 1 January RM'000	Adjustment on adoption of FRS 140 RM'000	As restated RM'000	Charge for the year RM'000	Reversed on disposal/ written off RM'000	Reclassified to investment property RM'000	Balance at 31 December RM'000
<u>Accumulated depreciation</u>							
Freehold land and buildings	16,548	(1,136)	15,412	7,035	(137)	(519)	21,791
Leasehold land and buildings :							
- less than 50 years	929	0	929	178	0	0	1,107
- 50 years or more	1,744	(407)	1,337	201	0	0	1,538
Office equipment and furniture	44,262	0	44,262	3,366	(1,665)	0	45,963
Computer equipment	73,089	0	73,089	12,389	(2,879)	0	82,599
Motor vehicles	7,891	0	7,891	245	(5,224)	0	2,912
<u>Assets under lease:-</u>							
Computer/office equipment and furniture	1,424	0	1,424	184	0	0	1,608
	<u>145,887</u>	<u>(1,543)</u>	<u>144,344</u>	<u>23,598</u>	<u>(9,905)</u>	<u>(519)</u>	<u>157,518</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)

10 PROPERTY, PLANT AND EQUIPMENT (continued)

Group (Continued) 2006	Balance at 1 January RM'000	Adjustment on adoption of FRS 140 RM'000	As restated RM'000	Charge for the year RM'000	Reversed on disposal/ written off RM'000	Reclassified to investment property RM'000	Balance at 31 December RM'000
<u>Impairment losses</u>							
Freehold land and buildings	5,055	(1,233)	3,822	350	0	0	4,172
Leasehold land and buildings :							
- less than 50 years	2,639	0	2,639	0	0	0	2,639
- 50 years or more	3,301	(966)	2,335	0	0	0	2,335
Office equipment and furniture	1,707	0	1,707	0	0	0	1,707
	<u>12,702</u>	<u>(2,199)</u>	<u>10,503</u>	<u>350</u>	<u>0</u>	<u>0</u>	<u>10,853</u>
							Balance at 31 December RM'000
<u>Carrying amounts</u>							
Freehold land and Buildings							162,321
Leasehold land and buildings :							
- less than 50 years							2,805
- 50 years or more							6,863
Office equipment and furniture							14,945
Computer equipment							42,834
Motor vehicles							1,506
<u>Assets under lease:-</u>							
Computer/office equipment and furniture							221
							<u>231,495</u>
Bank 2006	Balance at 1 January RM'000	Adjustment on adoption of FRS 140 RM'000	As restated RM'000	Additions RM'000	Disposal/ written off RM'000	Reclassified to investment property RM'000	Balance at 31 December RM'000
<u>Cost</u>							
Freehold land and buildings	199,441	(11,274)	188,167	1,005	(238)	(650)	188,284
Leasehold land and buildings:							
- less than 50 years	6,445	0	6,445	106	0	0	6,551
- 50 years or more	14,411	(3,699)	10,712	24	0	0	10,736
Office equipment and furniture	61,766	0	61,766	2,841	(1,992)	0	62,615
Computer equipment	113,685	0	113,685	14,882	(3,240)	0	125,327
Motor vehicles	8,625	0	8,625	1,284	(5,491)	0	4,418
<u>Assets under lease:-</u>							
Computer/office equipment and furniture	1,779	0	1,779	50	0	0	1,829
	<u>406,152</u>	<u>(14,973)</u>	<u>391,179</u>	<u>20,192</u>	<u>(10,961)</u>	<u>(650)</u>	<u>399,760</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**10 PROPERTY, PLANT AND EQUIPMENT (continued)**

Bank (Continued) 2006	Balance at 1 January	Adjustment on adoption of FRS 140	As restated	Charge for the year	Reversed on disposal/ written off	Reclassified to investment property	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Accumulated depreciation</u>							
Freehold land and buildings	16,548	(1,136)	15,412	7,035	(137)	(519)	21,791
Leasehold land and buildings :							
- less than 50 years	929	0	929	178	0	0	1,107
- 50 years or more	1,744	(407)	1,337	201	0	0	1,538
Office equipment and furniture	44,261	0	44,261	3,366	(1,665)	0	45,962
Computer equipment	73,002	0	73,002	12,384	(2,879)	0	82,507
Motor vehicles	7,891	0	7,891	245	(5,224)	0	2,912
<u>Assets under lease:-</u>							
Computer/office equipment and furniture	1,424	0	1,424	184	0	0	1,608
	<u>145,799</u>	<u>(1,543)</u>	<u>144,256</u>	<u>23,593</u>	<u>(9,905)</u>	<u>(519)</u>	<u>157,425</u>
	Balance at 1 January	Adjustment on adoption of FRS 140	As restated	Charge for the year	Reversed on disposal/ written off	Reclassified to investment property	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Impairment losses</u>							
Freehold land and buildings	5,055	(1,233)	3,822	350	0	0	4,172
Leasehold land and buildings :							
- less than 50 years	2,639	0	2,639	0	0	0	2,639
- 50 years or more	3,301	(966)	2,335	0	0	0	2,335
Office equipment and furniture	1,707	0	1,707	0	0	0	1,707
	<u>12,702</u>	<u>(2,199)</u>	<u>10,503</u>	<u>350</u>	<u>0</u>	<u>0</u>	<u>10,853</u>
							Balance at 31 December RM'000
<u>Carrying amounts</u>							
Freehold land and buildings							162,321
Leasehold land and buildings :							
- less than 50 years							2,805
- 50 years or more							6,863
Office equipment and furniture							14,946
Computer equipment							42,820
Motor vehicles							1,506
<u>Assets under lease:-</u>							
Computer/office equipment and furniture							221
							<u>231,482</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**10 PROPERTY, PLANT AND EQUIPMENT (continued)**

Group 2005	Balance at 1 January	Adjustment on adoption of FRS 140	As restated	Additions	Disposal/ written off	Reclassification	Reclassified to investment property	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost								
Freehold land and buildings	93,941	(11,283)	82,658	12,439	0	93,070	0	188,167
Building-in-progress	80,026	0	80,026	13,044	0	(93,070)	0	0
Leasehold land and buildings:								
- less than 50 years	6,445	0	6,445	0	0	0	0	6,445
- 50 years or more	14,411	(3,699)	10,712	0	0	0	0	10,712
Office equipment and furniture	60,575	0	60,575	8,974	(7,783)	0	0	61,766
Computer equipment	114,211	0	114,211	41,036	(41,456)	0	0	113,791
Motor vehicles	8,594	0	8,594	452	(421)	0	0	8,625
Assets under lease:-								
Computer/office equipment and furniture	1,738	0	1,738	41	0	0	0	1,779
	<u>379,941</u>	<u>(14,982)</u>	<u>364,959</u>	<u>75,986</u>	<u>(49,660)</u>	<u>0</u>	<u>0</u>	<u>391,285</u>
	Balance at 1 January	Adjustment on adoption of FRS 140	As restated	Charge for the year	Reversed on disposal/ written off	Reclassification	Reclassified to investment property	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Accumulated depreciation								
Freehold land and buildings	13,733	(1,034)	12,699	2,713	0	0	0	15,412
Leasehold land and buildings :								
- less than 50 years	755	0	755	174	0	0	0	929
- 50 years or more	1,469	(333)	1,136	201	0	0	0	1,337
Office equipment and furniture	46,235	0	46,235	3,605	(5,578)	0	0	44,262
Computer equipment	92,553	0	92,553	10,246	(29,710)	0	0	73,089
Motor vehicles	7,546	0	7,546	766	(421)	0	0	7,891
Assets under lease:-								
Computer/office equipment and furniture	1,186	0	1,186	238	0	0	0	1,424
	<u>163,477</u>	<u>(1,367)</u>	<u>162,110</u>	<u>17,943</u>	<u>(35,709)</u>	<u>0</u>	<u>0</u>	<u>144,344</u>
	Balance at 1 January	Adjustment on adoption of FRS 140	As restated	Charge for the year	Reversed on disposal/ written off	Reclassification	Reclassified to investment property	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Impairment losses								
Freehold land and buildings	5,055	(1,059)	3,996	0	0	0	(174)	3,822
Leasehold land and buildings :								
- less than 50 years	2,639	0	2,639	0	0	0	0	2,639
- 50 years or more	3,301	(966)	2,335	0	0	0	0	2,335
Office equipment and furniture	2,745	0	2,745	0	(1,038)	0	0	1,707
	<u>13,740</u>	<u>(2,025)</u>	<u>11,715</u>	<u>0</u>	<u>(1,038)</u>	<u>0</u>	<u>(174)</u>	<u>10,503</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)

10 PROPERTY, PLANT AND EQUIPMENT (continued)

Group (Continued) 2005	Balance at 31 December RM'000
<u>Carrying amounts</u>	
Freehold land and buildings	168,933
Leasehold land and buildings :	
- less than 50 years	2,877
- 50 years or more	7,040
Office equipment and furniture	15,797
Computer equipment	40,702
Motor vehicles	734
<u>Assets under lease:-</u>	
Computer/office equipment and furniture	355
	<u>236,438</u>

Bank 2005	Balance at 1 January RM'000	Adjustment on adoption of FRS 140 RM'000	As restated RM'000	Additions RM'000	Disposal/ written off RM'000	Reclassification RM'000	Reclassified to investment property RM'000	Balance at 31 December RM'000
<u>Cost</u>								
Freehold land and buildings	93,941	(11,283)	82,658	12,439	0	93,070	0	188,167
Building-in-progress	80,026	0	80,026	13,044	0	(93,070)	0	0
Leasehold land and buildings:								
- less than 50 years	6,445	0	6,445	0	0	0	0	6,445
- 50 years or more	14,411	(3,699)	10,712	0	0	0	0	10,712
Office equipment and furniture	60,575	0	60,575	8,974	(7,783)	0	0	61,766
Computer equipment	114,122	0	114,122	41,019	(41,456)	0	0	113,685
Motor vehicles	8,594	0	8,594	452	(421)	0	0	8,625
<u>Assets under lease:-</u>								
Computer/office equipment and furniture	1,738	0	1,738	41	0	0	0	1,779
	<u>379,852</u>	<u>(14,982)</u>	<u>364,870</u>	<u>75,969</u>	<u>(49,660)</u>	<u>0</u>	<u>0</u>	<u>391,179</u>

Accumulated depreciation	Balance at 1 January RM'000	Adjustment on adoption of FRS 140 RM'000	As restated RM'000	Charge for the year RM'000	Reversed on disposal/ written off RM'000	Reclassification RM'000	Reclassified to investment property RM'000	Balance at 31 December RM'000
Freehold land and buildings	13,733	(1,034)	12,699	2,713	0	0	0	15,412
Leasehold land and buildings :								
- less than 50 years	755	0	755	174	0	0	0	929
- 50 years or more	1,469	(333)	1,136	201	0	0	0	1,337
Office equipment and furniture	46,234	0	46,234	3,605	(5,578)	0	0	44,261
Computer equipment	92,468	0	92,468	10,244	(29,710)	0	0	73,002
Motor vehicles	7,546	0	7,546	766	(421)	0	0	7,891
<u>Assets under lease:-</u>								
Computer/office equipment and furniture	1,186	0	1,186	238	0	0	0	1,424
	<u>163,391</u>	<u>(1,367)</u>	<u>162,024</u>	<u>17,941</u>	<u>(35,709)</u>	<u>0</u>	<u>0</u>	<u>144,256</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**10 PROPERTY, PLANT AND EQUIPMENT (continued)**

Bank (Continued) 2005	Balance at 1 January	Adjustment on adoption of FRS 140	As restated	Charge for the year	Reversed on disposal/ written off	Reclassification	Reclassified to investment property	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Impairment losses</u>								
Freehold land and buildings	5,055	(1,059)	3,996	0	0	0	(174)	3,822
Leasehold land and buildings :								
- less than 50 years	2,639	0	2,639	0	0	0	0	2,639
- 50 years or more	3,301	(966)	2,335	0	0	0	0	2,335
Office equipment and furniture	2,745	0	2,745	0	(1,038)	0	0	1,707
	<u>13,740</u>	<u>(2,025)</u>	<u>11,715</u>	<u>0</u>	<u>(1,038)</u>	<u>0</u>	<u>(174)</u>	<u>10,503</u>
								Balance at 31 December RM'000
<u>Carrying amounts</u>								
Freehold land and buildings								168,933
Leasehold land and buildings :								
- less than 50 years								2,877
- 50 years or more								7,040
Office equipment and furniture								15,798
Computer equipment								40,683
Motor vehicles								734
<u>Assets under lease:-</u>								
Computer/office equipment and furniture								355
								<u>236,420</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**11 INVESTMENT PROPERTY**

	Group		Bank	
	2006	2005 restated	2006	2005 restated
	RM'000	RM'000	RM'000	RM'000
<u>Cost</u>				
Balance at 1 January	0	0	0	0
- Adjustment on adoption of FRS 140	14,973	14,982	14,973	14,982
As restated	14,973	14,982	14,973	14,982
Reclassified from property, plant and equipment (Note 10)	650	0	650	0
Reclassified to non-current assets held for Sale	(709)	0	(709)	0
Addition	498	0	498	0
Disposal	(10)	(9)	(10)	(9)
Balance at 31 December	15,402	14,973	15,402	14,973
<u>Accumulated depreciation</u>				
Balance at 1 January	0	0	0	0
- Adjustment on adoption of FRS 140	1,543	1,367	1,543	1,367
As restated	1,543	1,367	1,543	1,367
Reclassified from property, plant and equipment (Note 10)	519	0	519	0
Reclassified to non-current assets held for Sale	(70)	0	(70)	0
Charge for the year	181	176	181	176
Balance at 31 December	2,173	1,543	2,173	1,543
<u>Impairment losses</u>				
Balance at 1 January	0	0	0	0
- Adjustment on adoption of FRS 140	2,199	2,025	2,199	2,025
As restated	2,199	2,025	2,199	2,025
Reclassified from property, plant and equipment (Note 10)	0	174	0	174
Balance at 31 December	2,199	2,199	2,199	2,199
<u>Carrying amounts</u>				
Balance at 31 December	11,030	11,231	11,030	11,231
Fair value at 31 December	55,981	57,601	55,981	57,601
Included in carrying amounts are:				
Freehold land and buildings	8,904	9,031	8,904	9,031
Leasehold land and building:-				
- 50 years or more	2,126	2,200	2,126	2,200
	11,030	11,231	11,030	11,231

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**12 NON-CURRENT ASSETS HELD FOR SALE**

	Group and Bank
	2006
	RM'000
Balance at 1 January	0
Amount reclassified from investment property :	
- Cost	709
- Accumulated depreciation	(70)
Disposal	(95)
Balance at 31 December	<u>544</u>

13 DEFERRED TAXATION

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

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets (before offsetting)	185,369	147,039	185,369	147,039
Deferred tax liabilities (before offsetting)	(83,226)	(17,796)	(82,910)	(17,512)
Deferred tax assets after offsetting	<u>102,143</u>	<u>129,243</u>	<u>102,459</u>	<u>129,527</u>

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

	Balance at 1 January 2006	Debit to reserves	Credit / (charged) to income statement (Note 27)	Balance at 31 December 2006
	RM'000	RM'000	RM'000	RM'000
Group				
Allowance for impairment loss in available-for-sale securities	14,142	0	(13,929)	213
Temporary differences arising from leasing business	(4)	0	2,930	2,926
Excess of capital allowance over Depreciation	(5,219)	0	(7,801)	(13,020)
General allowance on loans, advances and financing	85,927	0	10,509	96,436
Unrealised gains / losses on revaluation of financial instruments	(9,215)	(12,516)	3,273	(18,458)
Impairment on loans, advances and financing	37,194	0	(14,012)	23,182
Other temporary differences	6,418	0	4,446	10,864
Total	<u>129,243</u>	<u>(12,516)</u>	<u>(14,584)</u>	<u>102,143</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**13 DEFERRED TAXATION (continued)**

	Balance at 1 January 2006 <u>RM'000</u>	Debit to reserves <u>RM'000</u>	Credit / (charged) to income statement (Note 27) <u>RM'000</u>	Balance at 31 December 2006 <u>RM'000</u>
Bank				
Allowance for impairment loss in available-for-sale securities	14,142	0	(13,929)	213
Temporary differences arising from leasing business	287	0	2,963	3,250
Excess of capital allowance over depreciation	(5,218)	0	(7,802)	(13,020)
General allowance on loans, advances and financing	85,919	0	10,509	96,428
Unrealised gains / losses on revaluation of financial instruments	(9,215)	(12,516)	3,273	(18,458)
Impairment on loans, advances and financing	37,194	0	(14,012)	23,182
Other temporary differences	6,418	0	4,446	10,864
Total	129,527	(12,516)	(14,552)	102,459
	Balance at 1 January 2005 <u>RM'000</u>	(Debit) / Credit to reserves <u>RM'000</u>	Credit / (charged) to income statement (Note 27) <u>RM'000</u>	Balance at 31 December 2005 <u>RM'000</u>
Group				
Allowance for impairment loss in available-for-sale securities	18,725	0	(4,583)	14,142
Temporary differences arising from leasing business	138	0	(142)	(4)
Excess of capital allowance over depreciation	(2,606)	0	(2,613)	(5,219)
General allowance on loans, advances and financing	85,927	0	0	85,927
Unrealised gains / losses on revaluation of financial instruments	0	(1,035)	(8,180)	(9,215)
Impairment on loans, advances and financing	0	50,354	(13,160)	37,194
Other temporary differences	798	0	5,620	6,418
Total	102,982	49,319	(23,058)	129,243

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**13 DEFERRED TAXATION (continued)**

	Balance at 1 January 2005 RM'000	(Debit) / Credit to reserves RM'000	Credit / (charged) to income statement (Note 27) RM'000	Balance at 31 December 2005 RM'000
Bank				
Allowance for impairment loss in available-for-sale securities	18,725	0	(4,583)	14,142
Temporary differences arising from leasing business	372	0	(85)	287
Excess of capital allowance over depreciation	(2,606)	0	(2,612)	(5,218)
Unrealised gains / losses on revaluation of financial instruments	85,919	0	0	85,919
Impairment on loans, advances and financing	0	(1,035)	(8,180)	(9,215)
General allowance on loans, advances and financing	0	50,354	(13,160)	37,194
Other temporary differences	798	0	5,620	6,418
Total	103,208	49,319	(23,000)	129,527

14 DEPOSITS FROM CUSTOMERS

i) By type of deposit

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Demand deposits	3,242,274	2,674,234	3,242,657	2,675,119
Savings deposits	1,795,538	1,682,772	1,795,538	1,682,772
Fixed deposits	13,941,537	10,843,856	13,955,371	10,856,706
Negotiable instruments of deposits	3,308,451	3,155,587	3,308,451	3,155,587
Islamic short term Mudharabah investment	941,752	337,923	941,752	337,923
Structured investments	1,397,102	1,066,919	1,397,102	1,066,919
Others	20,013	17,249	20,013	17,249
	24,646,667	19,778,540	24,660,884	19,792,275

ii) By type of customer

Government and statutory bodies	123,373	5,174	123,373	5,174
Business enterprises	8,167,992	5,039,053	8,167,992	5,039,053
Individuals	12,346,078	10,997,495	12,346,078	10,997,495
Others	4,009,224	3,736,818	4,023,441	3,750,553
	24,646,667	19,778,540	24,660,884	19,792,275

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**15 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Licensed banks	2,380,698	2,954,940	2,380,698	2,954,940
Bank Negara Malaysia	493,080	0	493,080	0
Other financial institutions	91,670	111,823	91,670	111,823
	<u>2,965,448</u>	<u>3,066,763</u>	<u>2,965,448</u>	<u>3,066,763</u>

16 SUBORDINATED TERM LOAN / BONDS

		Group		Bank	
		2006	2005	2006	2005
		RM'000	RM'000	RM'000	RM'000
USD 100 million	2003/2013 (a)	332,348	355,779	332,348	355,779
USD 50 million	2004/2014 (b)	166,174	177,930	166,174	177,930
RM 200 million	2006/2018 (c)	200,000	0	200,000	0
		<u>698,522</u>	<u>533,709</u>	<u>698,522</u>	<u>533,709</u>

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

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.

- c) On 24 November 2006, the Bank issued RM200 million redeemable Islamic subordinated bonds on a 15-year non-callable 10-year basis under the principle of Mudharabah (profit sharing contract) at a projected constant rate of 5.40% for the first 10 years and a step up of 100 basis point commencing from the beginning of the 11th year from the issue date and ending on the date of full redemption of the subordinated bonds, subject to the availability of profits and the investors' entitlement under the profit sharing ratio. Unless the call option is exercised by the Bank, the subordinated bonds shall be redeemed in full by five equal and consecutive annual payments. The call option and/or each of the annual redemption shall be subject to the prior approval of BNM and Monetary Authority of Singapore (MAS).

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**16 SUBORDINATED TERM LOAN / BONDS (continued)**

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

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
One year to three years	66,470	0	66,470	0
More than three years to five years	199,409	284,645	199,409	284,645
More than five years	432,643	249,064	432,643	249,064
	<u>698,522</u>	<u>533,709</u>	<u>698,522</u>	<u>533,709</u>

17 OTHER LIABILITIES

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Accruals for personnel costs *	39,438	33,271	39,429	33,207
Equity compensation benefits (a)	6,163	16,313	6,163	16,313
Obligations under finance lease	380	644	380	644
Provision for commitments and contingencies (b)	2,632	2,339	2,632	2,339
Interest payable	157,045	133,398	157,045	133,398
Other accruals and charges	120,851	121,732	120,751	118,737
Derivatives liabilities [Note 7 (a)]	172,690	108,229	172,690	108,229
Profit equalisation reserve [Note 43(10)]	19,155	4,471	19,155	4,471
	<u>518,354</u>	<u>420,397</u>	<u>518,245</u>	<u>417,338</u>

*Includes accrual for salary, employee benefits and EPF

a) Equity compensation benefits

Equity compensation benefits refer to the fair value for all goods and services received in respect of cash-settled share-based payment transactions recognised under FRS 2 Share-Based Payment. In prior year, this obligation was treated as equity-settled share-based payment transactions and included in capital reserves.

Included in equity compensation benefits are:

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**17 OTHER LIABILITIES (continued)**a) Equity compensation benefits (continued)

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

1) Share option schemes

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

	2006		2005	
	Number of share options	Weighted average acquisition price S\$	Number of shares options	Weighted average acquisition price S\$
At 1 January	16,935,352	4.955	9,427,755	11.408
Adjustments for rights issue and sub-division	0	0	9,855,973	0
Granted	469,789	6.820	691,854	5.767
Exercised	(4,803,465)	4.648	(2,922,216)	4.369
Lapsed	(326,462)	5.180	(118,014)	4.906
At 31 December	<u>12,275,214</u>		<u>16,935,352</u>	
Exercisable options at end of financial year	<u>10,859,456</u>	5.014	<u>13,322,585</u>	3.341
Weighted average share price for options exercised (S\$)		6.840		6.023

Details of the options outstanding as at 31 December 2006 are as follows:

Grant year	Grant date	Exercise period	Acquisition price (S\$)	2006	
				Outstanding	Exercisable
1997	25/05/1999	30/01/2000 to 29/01/2007	3.168	116,372	116,372
1998	25/05/1999	22/01/2001 to 21/01/2008	2.675	128,394	128,394
1999	25/05/1999	10/12/2001 to 09/12/2008	3.139	306,384	306,384
2000	06/03/2000	06/12/2002 to 05/12/2009	4.542	1,128,663	1,128,663
2001	05/03/2001	05/12/2003 to 04/12/2010	5.367	2,664,940	2,664,940
2002	08/04/2002	09/04/2003 to 08/04/2012	5.742	3,640,771	3,640,771
2003	27/03/2003	28/03/2004 to 26/03/2013	4.067	1,935,006	1,935,006
2004	15/03/2004	16/03/2005 to 14/03/2014	5.142	1,318,052	755,402
2005	14/03/2005	15/03/2006 to 13/03/2015	5.767	591,033	183,524
2006	14/03/2006	15/03/2007 to 13/03/2016	6.820	445,599	0
				<u>12,275,214</u>	<u>10,859,456</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**17 OTHER LIABILITIES (continued)**a) Equity compensation benefits (continued)2) Share option expenses

The fair value of share options granted during the financial year ended 31 December 2006 determined using the binomial valuation model was S\$531,000 (2005 : S\$679,000). The significant inputs into the model were average share price, calculated from grant date to acceptance date, of \$6.74 (2005: \$5.77), expected volatility based on Bloomberg's 250-day historical price volatility as of acceptance date of 16.04% (2005: 17.37%), expected dividend yield of 2.85% (2005: 2.74%), exercise multiple of 1.57 times (2005: 1.69 times) and annual risk-free interest rate based on SGS 10-year bond yield of 3.94% (2005: 3.17%). Other inputs into the model were the acquisition price, grant date and maturity date, as shown in the previous table.

(iii) Employee Share Purchase Plan

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

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

In June 2006, the Bank launched its second offering of ESP Plan. This ESP Plan commenced on 1 July 2006 and will expire on 30 June 2008.

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

	2006		2005	
	Number of acquisition rights	Weighted average acquisition price S\$	Number of acquisition rights	Acquisition price S\$
At 1 January	479,647	5.050	269,600	12.120
Acquisition	1,160,048	6.450	0	0
Adjustment for Rights Issue and Sub-division	0	0	347,652	0
Adjustment upon expiry of 1 st offering	(1,870)	5.050	0	0
Lapsed	(28,927)	6.149	(34,006)	9.551
Exercised	(471,554)	5.050	(103,599)	5.050
At 31 December	<u>1,137,344</u>		<u>479,647</u>	

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

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Balance at 1 January	2,339	7,494	2,339	7,494
Amount provided during the year (net)	293	(824)	293	(824)
Reclassification to other accruals and charges	0	(4,331)	0	(4,331)
Balance at 31 December	<u>2,632</u>	<u>2,339</u>	<u>2,632</u>	<u>2,339</u>

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**18 SHARE CAPITAL**

	Group		Bank	
	2006	2005	2006	2005
Authorised:	RM'000	RM'000	RM'000	RM'000
Ordinary shares of RM1 each	1,000,000	1,000,000	1,000,000	1,000,000
Non-convertible perpetual preference share of RM1 each	5,000	5,000	5,000	5,000
	<u>1,005,000</u>	<u>1,005,000</u>	<u>1,005,000</u>	<u>1,005,000</u>
Issued and fully paid:				
287,500,000 ordinary shares of RM1 each	287,500	287,500	287,500	287,500
4,000,000 non-cumulative non-convertible perpetual preference share of RM1 each	4,000	4,000	4,000	4,000
	<u>291,500</u>	<u>291,500</u>	<u>291,500</u>	<u>291,500</u>

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

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

19 RESERVES

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

The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and is not distributable as cash dividends. General reserve is accumulated from the transfer of profits and is distributable as cash dividends. Capital reserve is the portion of profits capitalised prior to the local incorporation (pre-acquisition profits) arising from consolidation. Fair value reserve captures fair value adjustment on financial assets which are classified as available-for-sale under the Revised BNM/GP8 and its corresponding effect on deferred tax. The reserve is non-distributable and cumulative fair value adjustments will be reversed to the income statement upon disposal of the assets.

The Bank has sufficient tax credits under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of its entire retained profits as at 31 December 2006.

20 INTEREST INCOME

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Loans and advances				
- Interest income other than recoveries from NPL	1,232,200	1,027,169	1,232,200	1,027,169
- Recoveries from NPL	23,494	22,020	23,494	21,989
Money at call and deposit placements with financial institutions	117,732	34,723	117,732	34,723
Held-for-trading securities	21,661	24,887	21,661	24,887
Available-for-sale securities	245,776	265,511	245,776	265,511
Others	3,874	5,899	3,874	5,899
	<u>1,644,737</u>	<u>1,380,209</u>	<u>1,644,737</u>	<u>1,380,178</u>
Amortisation of premium less accretion of discount	(47,584)	(56,721)	(47,584)	(56,721)
	<u>1,597,153</u>	<u>1,323,488</u>	<u>1,597,153</u>	<u>1,323,457</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**21 INTEREST EXPENSE**

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Deposits and placements of banks and other financial institutions	129,945	110,546	129,945	110,546
Deposits from other customers	560,858	442,803	561,248	443,150
Loans sold to Cagamas	32,632	41,722	32,632	41,722
Subordinated term loan / bonds	31,170	32,313	31,170	32,313
Others	93,324	68,518	93,365	68,583
	<u>847,929</u>	<u>695,902</u>	<u>848,360</u>	<u>696,314</u>

22 NON-INTEREST INCOME

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Fee income:				
Commission	98,148	88,045	98,148	88,045
Service charges and fees	65,620	60,450	65,620	60,450
Guarantee fees	2,767	773	2,767	773
Other fee income	14,278	10,905	14,278	10,905
	<u>180,813</u>	<u>160,173</u>	<u>180,813</u>	<u>160,173</u>
Income from securities (net):				
Net gains from sale of held-for-trading securities	14,166	21,722	14,166	21,722
Net losses from sale of available-for-sale securities	(1,459)	(161)	(1,459)	(161)
Unrealised gains / (losses) on revaluation of held-for-trading securities (net)	1,849	(694)	1,849	(694)
Gross dividends from Malaysia:				
- available-for-sale securities	1,553	864	1,553	864
	<u>196,922</u>	<u>181,904</u>	<u>196,922</u>	<u>181,904</u>
Other income (net):				
Unrealised (losses) / gains from foreign currency translations (net)	(7,443)	252	(7,443)	252
Gains arising from dealing in foreign currency (net)	87,770	43,439	87,770	43,439
Gains / (losses) arising from trading derivatives (net)	2,140	(331)	2,140	(331)
Unrealised (losses) / gains on revaluation of derivatives (net)	(4,562)	28,185	(4,562)	28,185
Rental income	4,478	2,417	4,478	2,417
Gain on disposal of property, plant and equipment	1,749	173	1,749	173
Gain on disposal of investment property	475	351	475	351
Gain on disposal of non-current assets held for sale	1,461	0	1,461	0
Others	(156)	546	(156)	546
	<u>85,912</u>	<u>75,032</u>	<u>85,912</u>	<u>75,032</u>
	<u>282,834</u>	<u>256,936</u>	<u>282,834</u>	<u>256,936</u>

23 STAFF COST AND OVERHEAD EXPENSES

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Personnel costs (i)	188,934	164,268	188,742	164,075
Establishment costs (ii)	43,766	29,584	43,742	29,565
Marketing expenses (iii)	27,897	22,686	27,896	22,686
Administration and general expenses (iv)	157,026	153,618	156,994	153,582
	<u>417,623</u>	<u>370,156</u>	<u>417,374</u>	<u>369,908</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**23 STAFF COST AND OVERHEAD EXPENSES (continued)**

The above expenditure includes the following statutory disclosures:

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Directors' remuneration (Note 24)	2,282	2,028	2,250	1,996
Rental of premises	3,566	4,135	3,549	4,125
Auditors' remuneration	238	304	220	288
Depreciation of property, plant and equipment	23,598	17,943	23,593	17,941
Depreciation of investment property	181	176	181	176
Loss on disposal of property, plant and equipment	484	263	484	263

i) Personnel costs

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Wages, salaries and bonus	136,490	119,236	136,357	119,121
Defined contribution plan (EPF)	22,656	18,031	22,633	18,011
Equity compensation benefits	3,647	6,174	3,647	6,174
Employee benefits	788	443	788	432
Other personnel costs	25,353	20,384	25,317	20,337
	<u>188,934</u>	<u>164,268</u>	<u>188,742</u>	<u>164,075</u>

Defined contribution plan

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

ii) Establishment cost

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Rental of premises	3,566	4,135	3,549	4,125
Depreciation of property, plant and equipment	23,598	17,943	23,593	17,941
Depreciation of investment property	181	176	181	176
Repair and maintenance	8,205	4,050	8,205	4,044
Others	8,216	3,280	8,214	3,279
	<u>43,766</u>	<u>29,584</u>	<u>43,742</u>	<u>29,565</u>

iii) Marketing expenses

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Transport and travelling	5,259	4,328	5,258	4,328
Advertisement and business promotion	21,155	17,197	21,155	17,197
Others	1,483	1,161	1,483	1,161
	<u>27,897</u>	<u>22,686</u>	<u>27,896</u>	<u>22,686</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**23 STAFF COST AND OVERHEAD EXPENSES (continued)****iv) Administration and general expenses**

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Printing and stationery	7,887	6,594	7,886	6,594
Postage and courier	4,794	5,401	4,794	5,401
Telephone, telex and fax	5,500	5,640	5,499	5,638
Legal and consultancy fees	5,391	4,771	5,361	4,737
Transaction processing fees*	105,571	109,348	105,571	109,348
Other administrative and general expenses	27,883	21,864	27,883	21,864
	<u>157,026</u>	<u>153,618</u>	<u>156,994</u>	<u>153,582</u>

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

24 DIRECTORS' REMUNERATION

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

Executive Director

Dato' Yeoh Beow Tit

Non-executive Directors

Tan Sri Dato' Nasruddin Bin Bahari

David Conner

Datuk Yong Poh Kon

Lai Teck Poh (resigned w.e.f. 8 March 2006)

Tan Siok Choo

Soon Tit Koon

Colonel (Rtd) David Wong Cheong Fook

Ching Wei Hong (appointed w.e.f. 20 June 2006)

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

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Executive Director (CEO):				
- Salary	1,097	1,097	1,097	1,097
- Bonuses	337	225	337	225
- Benefits-in-kind (BIK)	24	27	24	27
- Defined contribution retirement plan (EPF)	229	211	229	211
- Other employee benefits	93	73	93	73
Non-Executive Directors:				
- Fees	486	369	454	337
- Other remuneration	0	0	0	0
- Benefits-in-kind	16	26	16	26
Total	<u>2,282</u>	<u>2,028</u>	<u>2,250</u>	<u>1,996</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**24 DIRECTORS' REMUNERATION (continued)**

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

	Group		Bank	
	2006 Number of Directors	2005 Number of Directors	2006 Number of Directors	2005 Number of Directors
<u>Executive</u>				
More than RM1,300,000 but less than RM1,350,000	0	1	0	1
More than RM1,400,000 but less than RM1,450,000	1	0	1	0
<u>Non-executive</u>				
Less than RM50,000	0	4	0	3
More than RM50,000 but less than RM100,000	3	0	3	0
More than RM200,000 but less than RM250,000	0	1	0	1
More than RM250,000 but less than RM300,000	1	0	1	0

25 ALLOWANCE FOR / (WRITE BACK OF) LOSSES ON LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Allowance for / (write back of) bad and doubtful debts and financing:				
Specific allowance				
- Made in the financial year	222,435	165,950	222,432	165,945
- Written back	(174,762)	(144,844)	(174,762)	(144,776)
General allowance				
- Made in the financial year	37,530	0	37,530	0
Other allowance	702	658	702	658
Bad debts and financing				
- Written off	240	255	240	255
- Recovered	(23,522)	(25,803)	(23,472)	(25,803)
	62,623	(3,784)	62,670	(3,721)
Amount recovered from Danaharta	0	(2,393)	0	(2,393)
	62,623	(6,177)	62,670	(6,114)

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**26 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

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

	Holding Company	Subsidiary Companies	Other Related Companies
	RM '000	RM '000	RM '000
2006			
Income :			
Interest on deposits and placements	15,387	0	0
Rental income	0	17	3,471
	<u>15,387</u>	<u>17</u>	<u>3,471</u>
Expenditure :			
Interest on fixed deposit	0	391	1,567
Interest on deposits and placements	72,816	0	0
Interest on subordinated term loans	31,170	0	0
Interest on lease financing	0	41	0
Interest on repurchase agreement	0	0	1,622
Management fee	0	0	526
Rental expense	0	0	502
Transaction processing fees	0	0	105,571
	<u>103,986</u>	<u>432</u>	<u>109,788</u>
Reimbursement from various expenses	<u>0</u>	<u>0</u>	<u>49,879</u>
Amount due from :			
Current account	17,219	0	0
Deposits and placements	409,208	0	0
Interest receivable	8,329	0	0
	<u>434,756</u>	<u>0</u>	<u>0</u>
Amount due to :			
Current account and fixed deposit	17,893	14,217	120,819
Deposits and placements	1,791,264	0	0
Repurchase agreement	0	0	46,767
Subordinated term loan / bonds	498,522	0	0
Lease financing	0	379	0
Interest payable	9,185	0	0
Transaction processing fee payable	0	0	0
	<u>2,316,864</u>	<u>14,596</u>	<u>167,586</u>
Commitments:			
Foreign exchange derivatives	117,122	0	6,151
Interest rate derivatives	829,351	0	0
Equity derivatives	25,171	0	0
	<u>971,644</u>	<u>0</u>	<u>6,151</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**26 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

	Holding Company	Subsidiary Companies	Other Related Companies
2005	RM '000	RM '000	RM '000
Income :			
Interest on deposits and placements	5,505	0	0
Rental income	0	10	2,045
	<u>5,505</u>	<u>10</u>	<u>2,045</u>
Expenditure :			
Interest on fixed deposit	0	347	1,415
Interest on deposits and placements	80,053	0	0
Interest on subordinated term loan	32,313	0	0
Interest on lease financing	0	65	0
Interest on repurchase agreement	0	0	1,219
Management fee	0	0	1,160
Rental expense	0	0	623
Transaction Processing Fees	0	0	109,348
	<u>112,366</u>	<u>412</u>	<u>113,765</u>
Reimbursement from various expenses	<u>0</u>	<u>0</u>	<u>56,925</u>
Amount due from :			
Current account	23,517	0	0
Deposits and placements	143,157	0	0
Interest receivables	71	0	0
	<u>166,745</u>	<u>0</u>	<u>0</u>
Amount due to :			
Current account and fixed deposit	8,271	13,725	102,981
Deposits and placements	2,769,795	0	0
Repurchase agreement	0	0	42,468
Subordinated term loan / bonds	533,709	0	0
Lease financing	0	645	0
Interest payable	13,489	0	0
Transaction processing fee payable	0	0	627
	<u>3,325,264</u>	<u>14,370</u>	<u>146,076</u>
Commitments:			
Foreign exchange derivatives	173,612	0	1,025
Interest rate derivatives	821,098	0	0
Equity derivatives	14,251	0	0
	<u>1,008,961</u>	<u>0</u>	<u>1,025</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**27 TAXATION**

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax – current year	156,759	146,383	156,747	146,383
Deferred taxation :				
- relating to originating and reversal of temporary differences (Note 13)	14,584	23,058	14,552	23,000
	<u>171,343</u>	<u>169,441</u>	<u>171,299</u>	<u>169,383</u>

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

	Group		Bank	
	2006	2005	2006	2005
	%	%	%	%
Malaysian tax rate of 28% (2005: 28%)	28.0	28.0	28.0	28.0
Tax effects of:				
Expenses not deductible for tax purposes	0.4	1.0	0.4	1.0
Average effective tax rate	<u>28.4</u>	<u>29.0</u>	<u>28.4</u>	<u>29.0</u>

28 BASIC EARNINGS PER SHARE

The earnings per ordinary share of the Group and the Bank have been calculated based on the net profit attributable to shareholders less preference shares dividends of RM413,219,000 and RM413,034,000 respectively (2005: RM412,718,000 and RM412,518,000) and on the 287,500,000 (2005: 287,500,000) ordinary shares of RM1.00 each in issue during the financial year.

29 DIVIDENDS

	Group		Bank	
	2006	2005	2006	2005
	RM'000	RM'000	RM'000	RM'000
In respect of previous financial year:				
Final dividend of 112.0 sen (2005: 72.5 sen)				
less income tax at 28%	231,840	150,075	231,840	150,075
In respect of current financial year :				
Interim dividend of 41.5 sen (2005: 45.0 sen)				
less income tax at 28%	85,905	93,150	85,905	93,150
Dividends paid on preference shares	<u>18,040</u>	<u>1,928</u>	<u>18,040</u>	<u>1,928</u>

A final gross dividend of 95 sen per share less tax amounting to RM 199.38 million on the fully issued and paid up ordinary shares of the Bank in respect of the financial year ended 31 December 2006 will be proposed for shareholders' approval at the forthcoming Annual General Meeting. The financial statements for the current financial year do not reflect these proposed dividends. Such dividend will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2007 when approved by the shareholders.

The net cash dividend of 4.51% (on the issue price) amounting to RM 8.95 million to the preference shareholders in respect of the financial year ended 31 December 2006 will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2007 when declared by the Board of Directors and approved by Bank Negara Malaysia.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**30 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 17), no material losses are anticipated as a result of these transactions.

	31 December 2006			31 December 2005		
	Principal	Credit	Risk	Principal	Credit	Risk
	Amount	Equivalent	Weighted	Amount	Equivalent	Weighted
Group and Bank	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	659,587	659,587	651,690	256,899	256,899	236,759
Transaction-related contingent items	709,632	354,816	331,054	616,806	308,403	301,168
Short-term self-liquidating trade-related contingencies	257,192	51,438	50,994	332,554	66,511	66,511
Obligations under underwriting agreement	60,000	30,000	30,000	45,000	0	0
Irrevocable commitments to extend credit:						
- maturity exceeding one year	6,677,501	3,338,750	3,338,750	6,740,714	3,370,357	3,370,357
- maturity not exceeding one year	6,582,863	0	0	6,205,817	0	0
Foreign exchange related contracts						
- less than one year	4,935,542	91,465	25,905	4,042,049	78,649	30,190
- one year to less than five years	121,468	9,296	1,615	0	0	0
Interest rate contracts						
- less than one year	4,099,620	10,385	109,785	5,577,951	13,821	3,103
- one year to less than five years	12,985,490	395,843	17,544	7,556,089	258,977	92,571
- five years and above	750,833	54,917	16,730	248,976	18,718	8,279
Equity related contracts	60,625	19,011	19,011	28,500	9,230	9,230
Miscellaneous	15,000	0	0	0	0	0
Total	37,915,353	5,015,508	4,593,078	31,651,355	4,381,565	4,118,168

*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 2006 (continued)**31 LEASE COMMITMENTS**

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

	<u>Group</u>		<u>Bank</u>	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Less than one year	4,401	2,689	4,401	2,689
One to five years	4,073	3,212	4,073	3,212
	<u>8,474</u>	<u>5,901</u>	<u>8,474</u>	<u>5,901</u>

32 CAPITAL COMMITMENTS

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

- authorised and contracted for	19,197	26,488	19,197	26,488
- authorised but not contracted for	1,946	13,293	1,946	13,293
	<u>21,143</u>	<u>39,781</u>	<u>21,143</u>	<u>39,781</u>

33 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 Department at Head Office whilst retail and consumer NPLs are overseen by the Collections Department at Head Office.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market Risk Management

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

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

The ALCO is supported at the working level by the Asset Liability and Market Risk Management Department ("ALMR"). The ALMR is responsible for operationalising the market risk management framework as endorsed by ALCO and Board Risk Committee.

Market Risk Management Framework

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

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

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

Risk Measures – The Value-at-Risk ("VaR") methodology is the primary market risk measure for the Bank's trading activities. The Board Risk Committee agrees on an aggregate market risk appetite based on VaR. VaR is measured and monitored by risk types, namely interest rate risk, foreign exchange risk, equity risk, volatility risk and credit spread risk, as well as at the aggregate level. The Bank adopts the historical simulation approach to measuring the VaR, applied against a 1-day holding-period at a 99% confidence level. The Bank prefers historical simulation as it involves fewer assumptions on the distribution of trading profitability compared to other approaches. As VaR is a statistical measure based on historical market fluctuations, it might not accurately predict forward-looking market conditions. Furthermore, VaR only reflects the potential risk of loss arising from normal market conditions, based on recent market experience.

Stress Testing

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market Risk Management (continued)

Other Risk Measures

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

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

Back-Testing

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

Independent Model Review

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

Asset and Liability Management (ALM)

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

Asset and Liability Management Framework

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

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

Interest Rate Risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Asset and Liability Management (ALM) (continued)

Liquidity Risk

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

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

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

Currency Risk

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

Financial Derivatives

Financial derivatives are off-balance sheet financial instruments, which include Interest Rate Swap and Interest Rate Option, Currency Options and Forward, Exchange Traded Futures and Option contracts. These instruments allow the Bank and its customers to transfer, modify or reduce their foreign exchange and interest rate risks. The following outlines the nature and terms of the most common types of derivatives used:

Foreign Exchange Derivatives are exchange rate related contracts, mainly forward foreign exchange contracts, currency swaps and currency options.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)

33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial Derivatives (continued)

Currency options are also used to create Structured Investment products.

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**34 INTEREST / PROFIT RATE RISK**

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

Group

As at 31 December 2006	Non Trading Book						Trading Book RM'000	Total RM'000	Average interest rate %
	Up to 1 month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000			
Assets									
Cash and short-term funds	3,569,792	0	0	0	0	77,387	0	3,647,179	4.19
Securities purchased under resale agreement	0	0	0	0	0	0	0	0	0
Deposits and placements with financial institutions	0	2,192,696	88,050	0	0	0	0	2,280,746	4.19
Held-for-trading securities	0	0	0	0	0	0	529,805	529,805	6.57
Available-for-sale securities	590,000	480,828	950,377	3,100,823	452,741	66,625 [^]	0	5,641,394	3.86
Loans, advances and financing									
- performing	17,496,105	1,472,824	690,628	972,101	63,922	1,579,310 [*]	0	22,274,890	6.27
- non-performing	0	0	0	0	0	757,307 [#]	0	757,307	0
Other assets	0	0	0	0	0	197,696	159,754	357,450	0
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	866,086	0	866,086	0
Property, plant and equipment	0	0	0	0	0	231,495	0	231,495	0
Investment property	0	0	0	0	0	11,030	0	11,030	0
Non-current assets held for sale	0	0	0	0	0	544	0	544	0
Deferred taxation asset	0	0	0	0	0	102,143	0	102,143	0
Total assets	21,655,897	4,146,348	1,729,055	4,072,924	516,663	3,889,623	689,559	36,700,069	
Liabilities									
Deposits from customers	10,253,782	4,859,252	5,155,024	1,277,367	69,600	3,031,642	0	24,646,667	2.88
Deposits and placements of banks and other financial institutions	2,056,843	838,836	48,321	6,973	14,475	0	0	2,965,448	4.55
Obligations on securities sold under repurchase agreements	3,044,001	31,576	0	0	0	0	0	3,075,577	3.28
Bills and acceptances payable	0	0	0	0	0	1,818,185	0	1,818,185	0
Amount due to Cagamas	0	0	27,990	586,355	74,953	0	0	689,298	4.30
Subordinated term loan / Bonds	0	0	0	265,878	432,644	0	0	698,522	5.53
Other liabilities	0	0	0	0	0	403,804	114,550	518,354	0
Taxation and zakat	0	0	0	0	0	58,070	0	58,070	0
Total liabilities	15,354,626	5,729,664	5,231,335	2,136,573	591,672	5,311,701	114,550	34,470,121	
On-balance sheet interest sensitivity gap	6,301,271	(1,583,316)	(3,502,280)	1,936,351	(75,009)	(1,422,078)	575,009	2,229,948	
Off-balance sheet interest sensitivity gap	0	(176,100)	(352,200)	281,760	246,540	0	0	0	
Total interest sensitivity gap	6,301,271	(1,759,416)	(3,854,480)	2,218,111	171,531	(1,422,078)	575,009	2,229,948	

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**34 INTEREST / PROFIT RATE RISK (continued)****Bank**

As at 31 December 2006	Non Trading Book						Trading Book RM'000	Total RM'000	Average interest rate %
	Up to 1 Month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000			
Assets									
Cash and short-term funds	3,569,792	0	0	0	0	77,387	0	3,647,179	4.19
Securities purchased under resale agreement	0	0	0	0	0	0	0	0	0
Deposits and placements with financial institutions	0	2,192,696	88,050	0	0	0	0	2,280,746	4.19
Held-for-trading securities	0	0	0	0	0	0	529,805	529,805	6.57
Available-for-sale securities	590,000	480,828	950,377	3,100,823	452,741	66,625 [^]	0	5,641,394	3.86
Loans, advances and financing									
- performing	17,496,105	1,472,824	690,443	971,900	63,923	1,579,324 [*]	0	22,274,519	6.27
- non-performing	0	0	0	0	0	757,307 [#]	0	757,307	0
Other assets	0	0	0	0	0	197,618	159,754	357,372	0
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	866,086	0	866,086	0
Investment in subsidiary companies	0	0	0	0	0	1,611	0	1,611	0
Property, plant and equipment	0	0	0	0	0	231,482	0	231,482	0
Investment property	0	0	0	0	0	11,030	0	11,030	0
Non-current assets held for sale	0	0	0	0	0	544	0	544	0
Deferred taxation asset	0	0	0	0	0	102,459	0	102,459	0
Total assets	21,655,897	4,146,348	1,728,870	4,072,723	516,664	3,891,473	689,559	36,701,534	
Liabilities									
Deposits from customers	10,267,596	4,859,252	5,155,024	1,277,367	69,600	3,032,045	0	24,660,884	2.88
Deposits and placements of banks and other financial institutions	2,056,843	838,836	48,321	6,973	14,475	0	0	2,965,448	4.55
Obligations on securities sold under repurchase agreements	3,044,001	31,576	0	0	0	0	0	3,075,577	3.28
Bills and acceptances payable	0	0	0	0	0	1,818,185	0	1,818,185	0
Amount due to Cagamas	0	0	27,990	586,355	74,953	0	0	689,298	4.30
Subordinated term loan / bonds	0	0	0	265,878	432,644	0	0	698,522	5.53
Other liabilities	0	0	0	0	0	403,695	114,550	518,245	0
Taxation and zakat	0	0	0	0	0	58,058	0	58,058	0
Total liabilities	15,368,440	5,729,664	5,231,335	2,136,573	591,672	5,311,983	114,550	34,484,217	
On-balance sheet interest sensitivity gap	6,287,457	(1,583,316)	(3,502,465)	1,936,150	(75,008)	(1,420,510)	575,009	2,217,317	
Off-balance sheet interest sensitivity gap	0	(176,100)	(352,200)	281,760	246,540	0	0	0	
Total interest sensitivity gap	6,287,457	(1,759,416)	(3,854,665)	2,217,910	171,532	(1,420,510)	575,009	2,217,317	

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

^{*} The amount includes general allowance for loan, advances and financing in accordance with the Bank's accounting policy amounting to (RM344,400,000) for Group and (RM344,385,000) for Bank.

[#] The amount includes specific allowance for loan, advances and financing in accordance with the Bank's accounting policy amounting to (RM550,681,000) for Group and (RM550,162,000) for Bank.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)

34 INTEREST / PROFIT RATE RISK (continued)

Group

As at 31 December 2005	Non Trading Book						Trading Book	Total	Average interest rate
	Up to 1 month	>1-3 months	>3-12 months	>1-5 years	Over 5 years	Non-interest sensitive			
Assets	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Cash and short-term funds	1,891,486	0	0	0	0	69,461	0	1,960,947	3.55
Securities purchased under resale agreement	49,976	0	0	0	0	0	0	49,976	2.92
Deposits and placements with financial institutions	0	143,500	188,976	0	0	0	0	332,476	3.55
Held-for-trading securities	0	0	0	0	0	0	352,699	352,699	4.39
Available-for-sale securities	781,675	327,863	747,011	3,201,694	698,065	(4,096) [^]	0	5,752,212	3.67
Loans, advances and financing									
- performing	15,224,501	1,165,013	1,248,215	808,434	95,345	1,623,861 [*]	0	20,165,369	5.69
- non-performing	0	0	0	0	0	771,089 [#]	0	771,089	0
Other assets	0	0	0	0	0	158,578	105,391	263,969	0
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	785,086	0	785,086	0
Property, plant and equipment	0	0	0	0	0	236,438	0	236,438	0
Investment property	0	0	0	0	0	11,231	0	11,231	0
Non-current assets held for sale	0	0	0	0	0	0	0	0	0
Deferred taxation asset	0	0	0	0	0	129,243	0	129,243	0
Total assets	17,947,638	1,636,376	2,184,202	4,010,128	793,410	3,780,891	458,090	30,810,735	
Liabilities									
Deposits from customers	8,537,906	3,071,793	4,687,263	927,416	0	2,554,162	0	19,778,540	2.65
Deposits and placements of banks and other financial institutions	1,302,372	1,550,478	199,160	7,392	7,361	0	0	3,066,763	3.77
Obligations on securities sold under repurchase agreements	2,564,168	47,628	0	0	0	0	0	2,611,796	2.77
Bills and acceptances payable	0	0	0	0	0	1,340,850	0	1,340,850	0
Amount due to Cagamas	6,312	166,709	56,974	371,554	320,233	0	0	921,782	4.33
Subordinated term loan / bonds	0	0	0	177,903	355,806	0	0	533,709	5.68
Other liabilities	0	0	0	0	0	344,974	75,423	420,397	0
Taxation and zakat	0	0	0	0	0	37,670	0	37,670	0
Total liabilities	12,410,758	4,836,608	4,943,397	1,484,265	683,400	4,277,656	75,423	28,711,507	
On-balance sheet interest sensitivity gap	5,536,880	(3,200,232)	(2,759,195)	2,525,863	110,010	(496,765)	382,667	2,099,228	
Off-balance sheet interest sensitivity gap	0	0	(566,926)	566,926	0	0	0	0	
Total interest Sensitivity gap	5,536,880	(3,200,232)	(3,326,121)	3,092,789	110,010	(496,765)	382,667	2,099,228	

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)

34 INTEREST / PROFIT RATE RISK (continued)

Bank

As at 31 December 2005	Non Trading Book						Trading Book RM'000	Total RM'000	Average interest rate %
	Up to 1 Month RM'000	>1-3 months RM'000	>3-12 months RM'000	>1-5 years RM'000	Over 5 years RM'000	Non- interest sensitive RM'000			
Assets									
Cash and short-term funds	1,891,486	0	0	0	0	69,461	0	1,960,947	3.55
Securities purchased under resale agreement	49,976	0	0	0	0	0	0	49,976	2.92
Deposits and placements with financial institutions	0	143,500	188,976	0	0	0	0	332,476	3.55
Held-for-trading securities	0	0	0	0	0	0	352,699	352,699	4.39
Available-for-sale securities	781,675	327,863	747,011	3,201,694	698,065	(4,096)^	0	5,752,212	3.67
Loans, advances and financing									
- performing	15,224,501	1,165,013	1,248,186	807,818	95,345	1,623,876*	0	20,164,739	5.69
- non-performing	0	0	0	0	0	771,089#	0	771,089	0
Other assets	0	0	0	0	0	155,561	105,391	260,952	0
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	785,086	0	785,086	0
Investment in subsidiary companies	0	0	0	0	0	1,611	0	1,611	0
Property, plant and equipment	0	0	0	0	0	236,420	0	236,420	0
Investment property	0	0	0	0	0	11,231	0	11,231	0
Non-current assets held for sale	0	0	0	0	0	0	0	0	0
Deferred taxation asset	0	0	0	0	0	129,527	0	129,527	0
Total assets	17,947,638	1,636,376	2,184,173	4,009,512	793,410	3,779,766	458,090	30,808,965	
Liabilities									
Deposits from customers	8,551,641	3,071,793	4,687,263	927,416	0	2,554,162	0	19,792,275	2.65
Deposits and placements of banks and other financial institutions	1,302,372	1,550,478	199,160	7,392	7,361	0	0	3,066,763	3.77
Obligations on securities sold under repurchase agreements	2,564,168	47,628	0	0	0	0	0	2,611,796	2.77
Bills and acceptances payable	0	0	0	0	0	1,340,850	0	1,340,850	0
Amount due to Cagamas	6,312	166,709	56,974	371,554	320,233	0	0	921,782	4.33
Subordinated term loan / bonds	0	0	0	177,903	355,806	0	0	533,709	5.68
Other liabilities	0	0	0	0	0	341,915	75,423	417,338	0
Taxation and zakat	0	0	0	0	0	37,670	0	37,670	0
Total liabilities	12,424,493	4,836,608	4,943,397	1,484,265	683,400	4,274,597	75,423	28,722,183	
On-balance sheet interest sensitivity gap	5,523,145	(3,200,232)	(2,759,224)	2,525,247	110,010	(494,831)	382,667	2,086,782	
Off-balance sheet interest sensitivity gap	0	0	(566,926)	566,926	0	0	0	0	
Total interest sensitivity gap	5,523,145	(3,200,232)	(3,326,150)	3,092,173	110,010	(494,831)	382,667	2,086,782	

^ The negative amount includes allowance for impairment losses in investment securities in accordance with the Bank's accounting policy amounting to (RM 50,276,000) for Group and Bank.

* The amount includes general allowance for loans, advances and financing in accordance with the Bank's accounting policy amounting to (RM 306,870,000) for Group and (RM 306,855,000) for Bank.

The amount includes specific allowance for loans, advances and financing in accordance with the Bank's accounting policy amounting to (RM 581,528,000) for Group and (RM 581,012,000) for Bank

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)

34 INTEREST / PROFIT RATE RISK (continued)

Derivative financial instruments used for hedging

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

The interest rate swap contract with notional principal amount of RM570.0 million is used to swap the floating interest rate payments on the floating rate borrowings to fixed interest rate payments. The weighted average interest rate of the Bank's floating rate borrowings at balance sheet date was 5.7% (2005: 5.7%) per annum. After the interest rate swap, the Bank's weighted average interest rate at balance sheet date was 7.0% (2005: 5.3%) per annum.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**35 LIQUIDITY RISK**

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

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

Group

As at 31 December 2006	Up to 3 Months RM'000	> 3 -6 Months RM'000	>6-12 Months RM'000	>1-3 Years RM'000	>3-5 Years RM'000	Over 5 Years RM'000	Total RM'000
Assets							
Cash and short-term funds	3,647,179	0	0	0	0	0	3,647,179
Securities purchased under resale agreement	0	0	0	0	0	0	0
Deposits and placements with financial institutions	2,192,696	88,050	0	0	0	0	2,280,746
Held-for-trading securities	0	49,143	113,771	40,700	208,909	117,282	529,805
Available-for-sale securities	1,070,828	208,826	741,795	1,656,684	1,445,125	518,136	5,641,394
Loans, advances and financing	6,556,347	1,253,763	1,554,734	4,476,353	1,338,918	7,852,082	23,032,197
Other assets	142,142	4,095	14,051	192,818	0	4,344	357,450
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	866,086	866,086
Property, plant and equipment	0	0	0	0	0	231,495	231,495
Investment property	0	0	0	0	0	11,030	11,030
Non-current assets held for sale	0	0	0	0	0	544	544
Deferred taxation asset	0	0	0	102,143	0	0	102,143
Total assets	13,609,192	1,603,877	2,424,351	6,468,698	2,992,952	9,600,999	36,700,069
Liabilities							
Deposits from customers	18,144,677	2,311,023	2,844,000	340,071	937,296	69,600	24,646,667
Deposits and placements of banks and other financial institutions	2,895,679	45,751	2,570	3,163	3,810	14,475	2,965,448
Obligations on securities sold under repurchase agreements	3,075,577	0	0	0	0	0	3,075,577
Bills and acceptances payable	1,590,392	227,793	0	0	0	0	1,818,185
Amount due to Cagamas	0	0	27,990	279,315	307,040	74,953	689,298
Subordinated term loan / bonds	0	0	0	66,470	199,409	432,643	698,522
Other liabilities	244,767	59,193	32,745	181,571	78	0	518,354
Taxation and zakat	0	0	0	58,070	0	0	58,070
Total liabilities	25,951,092	2,643,760	2,907,305	928,660	1,447,633	591,671	34,470,121
Net Liquidity gap	(12,341,900)	(1,039,883)	(482,954)	5,540,038	1,545,319	9,009,328	2,229,948

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)

35 LIQUIDITY RISK (continued)

Bank

As at 31 December 2006	Up to 3 Months	>3 -6 Months	>6-12 Months	>1-3 Years	>3-5 Years	Over 5 Years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets							
Cash and short term-funds	3,647,179	0	0	0	0	0	3,647,179
Securities purchased under resale agreement	0	0	0	0	0	0	0
Deposits and placements with financial institutions	2,192,696	88,050	0	0	0	0	2,280,746
Held-for-trading securities	0	49,143	113,771	40,700	208,909	117,282	529,805
Available-for-sale securities	1,070,828	208,826	741,795	1,656,684	1,445,125	518,136	5,641,394
Loans, advances and financing	6,556,345	1,253,731	1,554,583	4,476,236	1,338,849	7,852,082	23,031,826
Other assets	142,064	4,095	14,051	192,818	0	4,344	357,372
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	866,086	866,086
Investment in subsidiary companies	0	0	0	0	0	1,611	1,611
Property, plant and equipment	0	0	0	0	0	231,482	231,482
Investment property	0	0	0	0	0	11,030	11,030
Non-current assets held for sale	0	0	0	0	0	544	544
Deferred taxation asset	0	0	0	102,459	0	0	102,459
Total assets	13,609,112	1,603,845	2,424,200	6,468,897	2,992,883	9,602,597	36,701,534
Liabilities							
Deposits from customers	18,158,894	2,311,023	2,844,000	340,071	937,296	69,600	24,660,884
Deposits and placements of Banks and other financial institutions	2,895,679	45,751	2,570	3,163	3,810	14,475	2,965,448
Obligations on securities sold under repurchase agreements	3,075,577	0	0	0	0	0	3,075,577
Bills and acceptances payable	1,590,392	227,793	0	0	0	0	1,818,185
Amount due to Cagamas	0	0	27,990	279,315	307,040	74,953	689,298
Subordinated term loan / bonds	0	0	0	66,470	199,409	432,643	698,522
Other liabilities	244,690	59,213	32,693	181,571	78	0	518,245
Taxation and zakat	0	0	0	58,058	0	0	58,058
Total liabilities	25,965,232	2,643,780	2,907,253	928,648	1,447,633	591,671	34,484,217
Net Liquidity gap	(12,356,120)	(1,039,935)	(483,053)	5,540,249	1,545,250	9,010,926	2,217,317

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)

35 LIQUIDITY RISK (continued)

Group

As at 31 December 2005	Up to 3 Months	> 3-6 Months	>6-12 Months	>1-3 Years	>3-5 Years	Over 5 Years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets							
Cash and short term-funds	1,960,947	0	0	0	0	0	1,960,947
Securities purchased under resale agreement	49,976	0	0	0	0	0	49,976
Deposits and placements with financial institutions	143,500	0	188,976	0	0	0	332,476
Held-for-trading securities	9,921	32,628	10,018	86,216	144,862	69,054	352,699
Available-for-sale securities	1,109,538	93,079	654,054	2,045,176	1,107,145	743,220	5,752,212
Loans, advances and financing	7,154,338	1,026,683	1,859,066	3,252,105	1,073,115	6,571,151	20,936,458
Other assets	97,308	15,311	17,909	132,961	0	480	263,969
Statutory deposits with							
Bank Negara Malaysia	0	0	0	0	0	785,086	785,086
Property, plant and equipment	0	0	0	0	0	236,438	236,438
Investment property	0	0	0	0	0	11,231	11,231
Non-current assets held for sale	0	0	0	0	0	0	0
Deferred taxation asset	0	0	0	0	0	129,243	129,243
Total assets	10,525,528	1,167,701	2,730,023	5,516,458	2,325,122	8,545,903	30,810,735
Liabilities							
Deposits from customers	14,163,861	2,192,013	2,495,250	139,875	787,541	0	19,778,540
Deposits and placements of banks and other financial institutions	2,852,850	197,958	1,202	5,934	1,458	7,361	3,066,763
Obligations on securities sold under repurchase agreements	2,611,796	0	0	0	0	0	2,611,796
Bills and acceptances payable	1,263,946	75,383	1,521	0	0	0	1,340,850
Amount due to Cagamas	173,021	15,237	41,737	258,013	113,541	320,233	921,782
Subordinated term loan / bonds	0	0	0	0	177,903	355,806	533,709
Other liabilities	209,525	45,069	31,915	133,718	170	0	420,397
Taxation and zakat	0	0	0	37,670	0	0	37,670
Total liabilities	21,274,999	2,525,660	2,571,625	575,210	1,080,613	683,400	28,711,507
Net Liquidity gap	(10,749,471)	(1,357,959)	158,398	4,941,248	1,244,509	7,862,503	2,099,228

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**35 LIQUIDITY RISK (continued)****Bank**

As at 31 December 2005	Up to 3 Months	>3 -6 Months	>6-12 Months	>1-3 Years	>3-5 Years	Over 5 Years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets							
Cash and short-term funds	1,960,947	0	0	0	0	0	1,960,947
Securities purchased under resale agreement	49,976	0	0	0	0	0	49,976
Deposits and placements with financial institutions	143,500	0	188,976	0	0	0	332,476
Held-for-trading securities	9,921	32,628	10,018	86,216	144,862	69,054	352,699
Available-for-sale securities	1,109,538	93,079	654,054	2,045,176	1,107,145	743,220	5,752,212
Loans, advances and financing	7,154,338	1,026,683	1,859,037	3,251,616	1,072,988	6,571,166	20,935,828
Other assets	94,291	15,311	17,909	132,961	0	480	260,952
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	785,086	785,086
Investment in subsidiary companies	0	0	0	0	0	1,611	1,611
Property, plant and equipment	0	0	0	0	0	236,420	236,420
Investment property	0	0	0	0	0	11,231	11,231
Non-current assets held for sale	0	0	0	0	0	0	0
Deferred taxation asset	0	0	0	0	0	129,527	129,527
Total assets	10,522,511	1,167,701	2,729,994	5,515,969	2,324,995	8,547,795	30,808,965
Liabilities							
Deposits from customers	14,177,596	2,192,013	2,495,250	139,875	787,541	0	19,792,275
Deposits and placements of Banks and other financial institutions	2,852,850	197,958	1,202	5,934	1,458	7,361	3,066,763
Obligations on securities sold under repurchase agreements	2,611,796	0	0	0	0	0	2,611,796
Bills and acceptances payable	1,263,946	75,383	1,521	0	0	0	1,340,850
Amount due to Cagamas	173,021	15,237	41,737	258,013	113,541	320,233	921,782
Subordinated term loan / bonds	0	0	0	0	177,903	355,806	533,709
Other liabilities	209,525	45,069	31,915	130,702	127	0	417,338
Taxation and zakat	0	0	0	37,670	0	0	37,670
Total liabilities	21,288,734	2,525,660	2,571,625	572,194	1,080,570	683,400	28,722,183
Net Liquidity gap	(10,766,223)	(1,357,959)	158,369	4,943,775	1,244,425	7,864,395	2,086,782

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 2006 (continued)**36 CREDIT RISKS**

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

Group	Cash and short term funds	Deposits and placements with financial institutions	Held-for-trading securities	Available-for-sale securities [^]	Loans, advances and financing*	Interest receivable	Commitments and contingencies
As at 31 December 2006	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	81,222	38,291	1,524,141	0	320,493
Mining and quarrying	0	0	0	0	32,763	0	8,383
Manufacturing	0	0	0	46,402	4,133,409	0	772,797
Electricity, gas and water	0	0	36,647	130,310	15,440	0	14,029
Construction	0	0	64,447	178,287	1,101,106	0	402,013
Real estate	0	0	0	0	2,331,682	0	540,758
Purchase of landed property (of which :							
i Residential	0	0	0	0	6,605,024	0	548,613
ii Non residential)	0	0	0	0	781,980	0	154,971
General commerce	0	0	0	68,398	3,115,744	0	515,593
Transport, insurance and business services	1,133,363	679,746	133,295	1,285,541	1,105,071	48,649	746,969
Purchase of securities	0	0	0	0	122,917	0	55,098
Purchase of transport vehicles	0	0	0	0	10,059	0	891
Consumption credit	0	0	0	0	1,241,726	0	605,329
Sovereign	2,513,816	1,601,000	177,910	3,816,230	422,557	43,249	3,722
Others	0	0	36,284	78,694	1,383,659	0	325,849
	3,647,179	2,280,746	529,805	5,642,153	23,927,278	91,898	5,015,508

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**36 CREDIT RISKS (continued)**

Bank	Cash and short term funds	Deposits and placements with financial institutions	Held-for-trading securities	Available-for-sale securities [^]	Loans, advances and financing*	Interest receivable	Commitments and contingencies
As at 31 December 2006	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	81,222	38,291	1,524,141	0	320,493
Mining and quarrying	0	0	0	0	32,763	0	8,383
Manufacturing	0	0	0	46,402	4,133,409	0	772,797
Electricity, gas and water	0	0	36,647	130,310	15,440	0	14,029
Construction	0	0	64,447	178,287	1,100,756	0	402,013
Real estate	0	0	0	0	2,331,682	0	540,758
Purchase of landed property (of which :							
i Residential	0	0	0	0	6,605,024	0	548,613
ii non residential)	0	0	0	0	781,980	0	154,971
General commerce	0	0	0	68,398	3,115,575	0	515,593
Transport, insurance and business services	1,133,363	679,746	133,295	1,285,541	1,105,071	48,649	746,969
Purchase of securities	0	0	0	0	122,917	0	55,098
Purchase of transport vehicles	0	0	0	0	10,059	0	891
Consumption credit	0	0	0	0	1,241,340	0	605,329
Sovereign	2,513,816	1,601,000	177,910	3,816,230	422,557	43,249	3,722
Others	0	0	36,284	78,694	1,383,659	0	325,849
	3,647,179	2,280,746	529,805	5,642,153	23,926,373	91,898	5,015,508

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

* Excludes allowances for bad and doubtful debts and financing amounting to RM895,081,000 (Group) and RM894,547,000 (Bank).

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 30.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)

36 CREDIT RISKS (continued)

<u>Group</u>	Cash and short term funds	Deposits and placements with financial institutions	Held-for-trading securities	Available-for-sale securities^	Loans, advances and financing*	Interest receivable	Commitments and contingencies
As at 31 December 2005	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	45,000	5,057	1,233,191	0	163,600
Mining and quarrying	0	0	0	0	16,237	0	16,615
Manufacturing	0	0	0	0	3,648,285	0	639,481
Electricity, gas and water	0	0	86,014	88,453	56,391	0	14,370
Construction	0	0	52,307	277,572	828,608	0	280,482
Real estate	0	0	0	0	2,113,990	0	503,655
Purchase of landed property (of which :							
i Residential	0	0	0	0	6,275,535	0	675,113
ii Non residential)	0	0	0	0	673,925	0	160,835
General commerce	0	0	10,381	56,561	2,507,213	0	462,608
Transport, insurance and business services	489,084	188,976	45,894	2,103,948	784,119	29,138	489,758
Purchase of securities	0	0	0	0	107,290	0	23,479
Purchase of transport vehicles	0	0	0	0	7,375	0	111
Consumption credit	0	0	0	0	1,228,892	0	529,642
Sovereign	1,471,863	143,500	107,821	3,142,295	1,309,275	40,364	766
Others	0	0	5,282	128,602	1,034,530	0	421,050
	1,960,947	332,476	352,699	5,802,488	21,824,856	69,502	4,381,565

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**36 CREDIT RISKS (continued)**

Bank	Cash and short term funds	Deposits and placements with financial institutions	Held-for-trading securities	Available-for-sale securities [^]	Loans, advances and financing*	Interest receivable	Commitments and contingencies
As at 31 December 2005	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	45,000	5,057	1,233,191	0	163,600
Mining and quarrying	0	0	0	0	16,237	0	16,615
Manufacturing	0	0	0	0	3,648,285	0	639,481
Electricity, gas and water	0	0	86,014	88,453	56,391	0	14,370
Construction	0	0	52,307	277,572	828,259	0	280,482
Real estate	0	0	0	0	2,113,990	0	503,655
Purchase of landed property (of which :							
i Residential	0	0	0	0	6,275,535	0	675,113
ii non residential)	0	0	0	0	673,925	0	160,835
General commerce	0	0	10,381	56,561	2,507,046	0	462,608
Transport, insurance and business services	489,084	188,976	45,894	2,103,948	784,119	29,138	489,758
Purchase of securities	0	0	0	0	107,290	0	23,479
Purchase of transport vehicles	0	0	0	0	7,375	0	111
Consumption credit	0	0	0	0	1,228,247	0	529,642
Sovereign	1,471,863	143,500	107,821	3,142,295	1,309,275	40,364	766
Others	0	0	5,282	128,602	1,034,530	0	421,050
	1,960,947	332,476	352,699	5,802,488	21,823,695	69,502	4,381,565

[^] Excludes allowance for diminution in value of available-for-sale securities amounting to RM50,276,000 (Group and Bank).

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

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 30.

37 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 2006 (continued)**37 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

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

In addition, fair value information is not provided for non-financial instruments and financial instruments that are excluded from the scope of FRS 132 which requires fair value information to be disclosed. These include property, plant and equipment, investment property and interests in subsidiaries.

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

Group	2006		2005	
	Fair value RM'000	Carrying value RM'000	Fair value RM'000	Carrying value RM'000
Financial Assets				
Assets for which fair value approximates carrying value	4,004,629	4,004,629	2,224,916	2,224,916
Deposits and placements with financial Institutions	2,280,746	2,280,746	332,476	332,476
Held-for-trading securities	529,805	529,805	352,699	352,699
Available-for-sale securities	5,641,394	5,641,394	5,752,212	5,752,212
Loans, advance and financing	23,052,183	23,032,197	20,955,061	20,936,458
Statutory deposits with Bank Negara Malaysia	866,086	866,086	785,086	785,086
Financial Liabilities				
Deposits from customers	24,646,720	24,646,667	19,778,635	19,778,540
Deposits and placements of banks and other financial institutions	2,965,448	2,965,448	3,066,763	3,066,763
Obligations on securities sold under repurchase agreements	3,075,577	3,075,577	2,611,796	2,611,796
Liabilities for which fair value approximates carrying value	2,336,539	2,336,539	1,761,247	1,761,247
Amount due to Cagamas	688,806	689,298	915,035	921,782
Subordinated term loan / bonds	698,522	698,522	533,709	533,709

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**37 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

	2006		2005	
	Fair value RM'000	Carrying value RM'000	Fair value RM'000	Carrying value RM'000
Bank				
Financial Assets				
Assets for which fair value approximates carrying value	4,004,551	4,004,551	2,221,899	2,221,899
Deposits and placements with financial institutions	2,280,746	2,280,746	332,476	332,476
Held-for-trading securities	529,805	529,805	352,699	352,699
Available-for-sale securities	5,641,394	5,641,394	5,752,212	5,752,212
Loans, advance and financing	23,051,812	23,031,826	20,954,431	20,935,828
Statutory deposits with Bank Negara Malaysia	866,086	866,086	785,086	785,086
Financial Liabilities				
Deposits from customers	24,660,937	24,660,884	19,792,370	19,792,275
Deposits and placements of banks and other financial institutions	2,965,448	2,965,448	3,066,763	3,066,763
Obligations on securities sold under repurchase agreements	3,075,577	3,075,577	2,611,796	2,611,796
Liabilities for which fair value approximates carrying value	2,336,430	2,336,430	1,758,188	1,758,188
Amount due to Cagamas	688,806	689,298	915,035	921,782
Subordinated term loan / bonds	698,522	698,522	533,709	533,709

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**37 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

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

Short term financial instruments

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

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
<u>Financial Assets</u>				
Cash and short term funds	3,647,179	1,960,947	3,647,179	1,960,947
Other assets	357,450	263,969	357,372	260,952
	<u>4,004,629</u>	<u>2,224,916</u>	<u>4,004,551</u>	<u>2,221,899</u>
<u>Financial liabilities</u>				
Bills and acceptances payable	1,818,185	1,340,850	1,818,185	1,340,850
Other liabilities	518,354	420,397	518,245	417,338
	<u>2,336,539</u>	<u>1,761,247</u>	<u>2,336,430</u>	<u>1,758,188</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)

37 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Deposits and placements with / from financial institutions

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

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

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

Loans and advances

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

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

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

Deposits from customers

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

Obligations on securities sold under repurchase agreements

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

Amount due to Cagamas

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

Subordinated Term Loan

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

Financial derivatives

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**38 CAPITAL ADEQUACY**

	Bank	
	2006 RM'000	2005 RM'000
The capital adequacy ratios of the Bank are as follows:-		
Tier-1 capital	2,033,414	1,923,574
Eligible Tier-2 capital	1,073,806	873,371
Total capital	<u>3,107,220</u>	<u>2,796,945</u>
Less : Investment in subsidiaries and holding of other financial institution's capital	(1,611)	(1,611)
Total capital base	<u><u>3,105,609</u></u>	<u><u>2,795,334</u></u>
<u>Capital Ratios</u>		
Excluding proposed final dividend :		
Core-capital ratio	7.80%	8.48%
Risk-weighted capital ratio	11.91%	12.33%
Including proposed final dividend :		
Core-capital ratio	7.00%	7.42%
Risk-weighted capital ratio	11.12%	11.26%
i) Components of Tier-1 and Tier-2 capital are as follows:		
<u>Tier-1 capital</u>		
Paid-up share capital	287,500	287,500
Paid-up non-cumulative perpetual preference shares	4,000	4,000
Share premium	858,500	858,500
Retained profit	677,425	582,136
Other reserves	322,000	322,000
	<u>2,149,425</u>	<u>2,054,136</u>
Less: Deferred tax assets	(116,011)	(130,562)
Total Tier-1 capital	<u>2,033,414</u>	<u>1,923,574</u>
<u>Tier-2 capital</u>		
General allowance for bad and doubtful debts and financing	344,385	306,855
Subordinated term loan	729,421	566,516
Total Tier-2 capital	<u>1,073,806</u>	<u>873,371</u>
Total capital	3,107,220	2,796,945
Less :		
Investment in subsidiaries	(1,611)	(1,611)
Capital base	<u>3,105,609</u>	<u>2,795,334</u>

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

	2006		2005	
	Principal RM'000	Risk- Weighted RM'000	Principal RM'000	Risk- Weighted RM'000
Risk Weighted Assets for Credit Risk :				
0 %	9,821,154	0	7,463,626	0
10%	66,075	6,607	727,976	72,798
20%	3,426,000	685,200	2,252,277	450,455
50%	6,380,658	3,190,329	6,104,334	3,052,167
100%	21,594,474	21,594,474	18,389,433	18,389,433
	<u>41,288,361</u>	<u>25,476,610</u>	<u>34,937,646</u>	<u>21,964,853</u>
Risk Weighted Assets for Market Risk	579,151	579,151	703,290	703,290
	<u>41,867,512</u>	<u>26,055,761</u>	<u>35,640,936</u>	<u>22,668,143</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**38 CAPITAL ADEQUACY (continued)**

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

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

39 CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR

	Group		Bank	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Cash and short-term funds	3,647,179	1,960,947	3,647,179	1,960,947
Deposits and placements with financial institutions	2,280,746	332,476	2,280,746	332,476
	<u>5,927,925</u>	<u>2,293,423</u>	<u>5,927,925</u>	<u>2,293,423</u>

40 IMPACT ON ADOPTION OF NEW AND REVISED FRSs

The adoption of the new and revised FRSs did not result in substantial changes to the Group's and Bank's financial statements except the following:

a) Summary effects of restatement on 31 December 2005 balances

FRS 140 Investment Property

Certain property, plant and equipment in the previous year were reclassified to investment property in order to conform with the new classification and presentation of FRS 140. The effect of restatement on the 2005 financial statements comparative figures are as follows:

Group	As previously reported RM'000	Effect RM'000	As restated RM'000
Increase/(decrease)			
Balance Sheet			
Property, plant and equipment	247,669	(11,231)	236,438
Investment property	-	11,231	11,231
Bank			
Increase/(decrease)			
Balance Sheet			
Property, plant and equipment	247,651	(11,231)	236,420
Investment property	-	11,231	11,231

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**40 IMPACT ON ADOPTION OF NEW AND REVISED FRSs (continued)**

b) Summary of effects on 31 December 2006 financial statements

The effect of adopting new and revised FRSs on the financial statements as/for the financial year ended 31 December 2006 are summarised below:

Group and Bank

Increase/(decrease)	FRS 116 RM'000	FRS 140 RM'000	FRS 5 RM'000	Total effect RM'000
<u>Balance Sheet</u>				
Property, plant and equipment	(3,732)	(11,254)	(633)	(15,619)
Investment property	-	11,254	-	11,254
Non-current assets held for sale	-	-	633	633
Taxation and zakat	(1,733)	-	-	(1,733)
Reserves	(1,999)	-	-	(1,999)
<u>Income Statement</u>				
Staff cost and overhead expenses	3,732	-	-	3,732
Taxation	(1,733)	-	-	(1,733)
Net profit attributable to shareholders	<u>(1,999)</u>	<u>-</u>	<u>-</u>	<u>(1,999)</u>

41 COMPARATIVE FIGURES

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

	Group		Bank	
	As previously reported RM'000	As restated RM'000	As previously reported RM'000	As restated RM'000
Balance Sheet as at 31 December 2005:				
Loans, advances and financing	20,931,547	20,936,458	20,930,917	20,935,828
Other liabilities:	399,173	420,397	396,114	417,338
- Reclassification	399,173	404,084	396,114	401,025
- Effect of adopting cash-settled share-based payment	0	16,313	0	16,313
Reserves				
- Effect of adopting cash-settled share-based payment	1,824,041	1,807,728	1,811,595	1,795,282
	<u>1,824,041</u>	<u>1,807,728</u>	<u>1,811,595</u>	<u>1,795,282</u>

42 APPROVAL OF FINANCIAL STATEMENTS

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB)**

BALANCE SHEETS AS AT 31 December 2006

	Note	Group and Bank	
		2006	2005
ASSETS		RM'000	RM'000
Cash and short-term funds	(2)	932,498	416,930
Deposits and placements with financial institutions		200,000	0
Available-for-sale securities	(3)	305,918	457,119
Financing and other advances	(4)	1,638,339	1,399,075
Other assets	(6)	10,165	10,970
Statutory deposits with Bank Negara Malaysia		60,413	58,356
Deferred taxation assets	(20)	15,028	7,211
TOTAL ASSETS		3,162,361	2,349,661
LIABILITIES AND ISLAMIC BANKING FUNDS			
Deposits from customers	(7)	2,635,783	1,957,421
Deposits and placements of banks and other financial institutions	(8)	0	90,000
Bills and acceptances payable		367	23
Subordinated bonds	(9)	200,000	0
Other liabilities	(10)	165,100	152,607
Taxation and zakat		10,016	7,685
Total Liabilities		3,011,266	2,207,736
Islamic Banking Funds	(11)	85,000	85,000
Reserves		66,095	56,925
		151,095	141,925
TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS		3,162,361	2,349,661
COMMITMENTS AND CONTINGENCIES	(21)	826,098	584,120

The accompanying notes on pages 94 to 110 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

	Note	Group and Bank	
		2006	2005
		RM'000	RM'000
Income derived from investment of depositors' funds	(12)	92,477	43,334
Allowance for losses on loans and financing	(13)	(16,697)	(13,120)
Transfer to profit equalisation reserve (net)		(14,684)	(4,471)
Total attributable income		61,096	25,743
Income attributable to depositors	(14)	(74,855)	(39,493)
Income attributable to shareholders		(13,759)	(13,750)
Income derived from the investment of Islamic banking funds	(15)	48,838	45,142
Total net income		35,079	31,392
Personnel expenses	(16)	(2,146)	(1,758)
Other overhead expenses	(17)	(20,395)	(14,565)
Profit before zakat and taxation		12,538	15,069
Zakat	(18)	(343)	(383)
Taxation	(19)	(3,739)	(3,703)
Net profit for the financial year		8,456	10,983

The accompanying notes on pages 94 to 110 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006

	Note	Islamic Banking Fund RM'000	Fair Value Reserves RM'000	Retained Profits RM'000	Total RM'000
Group and Bank					
Balance at 1 January 2006					
- As previously stated		85,000	755	65,834	151,589
- Adjustments resulting from BNM circular	(17)	0	0	(9,664)	(9,664)
As restated		85,000	755	56,170	141,925
Net profit attributable to shareholders		0	0	8,456	8,456
Revaluation of available-for-sale securities		0	992	0	992
Deferred tax on revaluation of available-for-sale Securities		0	(278)	0	(278)
Additional funds allocated from Head Office					
Balance at 31 December 2006		85,000	1,469	64,626	151,095
Balance at 1 January 2005		64,000	2,406	45,187	111,593
Net profit attributable to shareholders		0	0	10,983	10,983
Revaluation of available-for-sale securities		0	(2,294)	0	(2,294)
Deferred tax on revaluation of available-for-sale Securities		0	643	0	643
Additional funds allocated from Head Office		21,000	0	0	21,000
Balance at 31 December 2005		85,000	755	56,170	141,925

The accompanying notes on pages 94 to 110 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2006**

	Note	Group and Bank	
		2006 RM'000	2005 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation and zakat		12,538	15,069
Adjustments for:-			
Net losses from sale of held-for-trading securities		10	0
Allowance for bad and doubtful debts and financing		16,697	13,120
Profit equalisation reserve		14,684	4,471
Amortisation of premium less accretion of discount		67	136
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		43,996	32,796
(Increase)/Decrease in Operating Assets :			
Loans, advances and financing		(255,961)	(544,781)
Other assets and statutory deposits with Bank Negara Malaysia		(1,252)	115,596
Held-for-trading securities (net)		(10)	0
Increase/(Decrease) in Operating Liabilities :			
Deposits from customers		678,362	858,880
Bills and acceptances payable		344	(1,099)
Other liabilities		(2,191)	88,945
Deposits and placements of banks and other financial institutions		(90,000)	(209,000)
Cash generated from operations		373,288	341,337
Income tax and zakat paid		(9,846)	(10,613)
NET CASH GENERATED FROM OPERATING ACTIVITIES		363,442	330,724
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment securities (net)		152,126	(6,450)
Increase in investment		0	21,000
NET CASH GENERATED FROM INVESTING ACTIVITIES		152,126	14,550
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from subordinated bonds		200,000	0
NET CASH GENERATED FROM FINANCING ACTIVITIES		200,000	0
NET INCREASE IN CASH AND CASH EQUIVALENTS		715,568	345,274
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR			
		416,930	71,656
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	(25)	1,132,498	416,930

The accompanying notes on pages 94 to 110 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)

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

(1) DISCLOSURE OF SYARIAH ADVISOR

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

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

	Group and Bank	
	2006	2005
	RM'000	RM'000
(2) CASH AND SHORT-TERM FUNDS		
Cash and balances with banks and other financial institutions	43	130
Money at call and deposit placements maturing within one month	932,455	416,800
	932,498	416,930

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(3) AVAILABLE-FOR-SALE SECURITIES**

	Group and Bank	
	2006	2005
	RM'000	RM'000
<u>At fair value</u>		
Malaysian Government investment issues	200,631	143,250
Sanadat Mudharabah Cagamas	0	64
Sanadat Cagamas (SAC)	80,287	110,433
Khazanah bonds	0	14,901
Private debt securities	0	5,058
Islamic negotiable instruments of deposits	25,000	65,000
Bankers acceptances and Islamic accepted bills	0	118,413
	<u>305,918</u>	<u>457,119</u>

(4) FINANCING AND OTHER ADVANCES

i) By type of financing and other advances

Cash financing	278,230	216,055
Term financing		
- Housing financing	152,609	167,059
- Syndicated term financing	232,777	294,487
- Hire purchase receivables	380,247	328,737
- Leasing receivables	21,130	25,669
- Other term financing	205,077	153,912
Revolving credits	452,410	305,609
Customer's liability under acceptance credits	150,834	114,999
Unearned income	(199,066)	(176,748)
Gross financing	<u>1,674,248</u>	<u>1,429,779</u>
Allowance for bad and doubtful debts and financing		
- Specific	(10,960)	(9,400)
- General	(24,949)	(21,304)
Net financing	<u>1,638,339</u>	<u>1,399,075</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

(4) FINANCING AND OTHER ADVANCES (continued)

	Group and Bank	
	2006 RM'000	2005 RM'000
ii) Financing analysed by concepts		
Bai' Bithaman Ajil	357,914	709,884
Bai-Inah	0	195,827
Qardhul-Hassan	38	24
Ijarah	21,130	23,486
Ijarah Thumma Al Bai	380,247	295,491
Other financing	914,919	205,067
	<u>1,674,248</u>	<u>1,429,779</u>
iii) Financing by type of customer		
Domestic non-bank financial institutions (of which RM Nil [2005:RM Nil] to stockbroking companies)	466	570
Domestic business enterprises		
- Small medium enterprises	202,600	164,114
- Others	1,157,962	990,798
Individuals	311,717	272,748
Foreign entities	1,503	1,549
	<u>1,674,248</u>	<u>1,429,779</u>
iv) Financing by profit rate sensitivity		
Fixed rate:		
- House financing	90,739	97,754
- Hire purchase receivables	343,097	295,491
- Other financing	555,228	436,438
Variable rate:		
- Other financing	685,184	600,096
	<u>1,674,248</u>	<u>1,429,779</u>
v) Financing according to economic sector		
Agriculture	620,204	550,267
Mining & quarrying	4,107	1,879
Manufacturing	444,001	400,771
Electricity, gas and water	0	118
Construction	60,504	36,100
Real estate	57,382	16,763
Purchase of landed property (of which : i. Residential ii. Non-residential)	96,155	100,857
	2,133	1,874
General Commerce	84,697	51,053
Transport, storage and communication	67,349	62,961
Purchase of securities	949	489
Purchase of transport vehicles	8	9
Consumption credit	212,602	169,170
Finance, insurance and business services	1,326	590
Others	22,831	36,878
	<u>1,674,248</u>	<u>1,429,779</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

(5) NON-PERFORMING FINANCING

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

	Group and Bank	
	2006	2005
	RM'000	RM'000
Balance at 1 January	16,204	12,714
Non-performing during the year	26,388	10,515
Reclassified as performing during the year	(3,738)	(1,913)
Amount recovered	(3,922)	(1,855)
Amount written off	(11,711)	(3,257)
Balance at 31 December	<u>23,221</u>	<u>16,204</u>
Specific allowance	(10,960)	(9,400)
Net non-performing financing	<u>12,261</u>	<u>6,804</u>
Ratio of net non-performing financing to net financing	<u>0.74%</u>	<u>0.48%</u>

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

<u>General allowance</u>		
Balance at 1 January	21,304	13,191
Allowance made during the year	3,645	8,113
Balance at 31 December	<u>24,949</u>	<u>21,304</u>
(as % of total financing less specific allowance)	<u>1.5%</u>	<u>1.5%</u>
<u>Specific allowance</u>		
Balance at 1 January	9,400	7,635
Allowance made during year	15,699	6,437
Amount recovered	(2,428)	(1,414)
Amount written off	(11,711)	(3,258)
Balance at 31 December	<u>10,960</u>	<u>9,400</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

(5) NON-PERFORMING FINANCING (continued)

	Group and Bank	
	2006 RM'000	2005 RM'000
iii) Non-performing financing according to economic sector is as follows:-		
Agriculture	557	69
Manufacturing	6,807	7,754
Construction	932	87
Real Estate	172	74
Purchase of landed property		
of which : i. Residential	3,848	2,850
ii. Non-residential	0	0
General commerce	2,023	3,653
Transport, storage and communication	2,764	0
Consumption credit	5,833	1,471
Others	285	246
	<u>23,221</u>	<u>16,204</u>

	Group and Bank	
	2006 RM'000	2005 RM'000
(6) OTHER ASSETS		
Income receivable	2,877	1,630
Other debtors, deposits and prepayments	7,288	9,340
	<u>10,165</u>	<u>10,970</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

	Group and Bank	
	2006	2005
	RM'000	RM'000
(7) DEPOSITS FROM CUSTOMERS		
i) By type of deposits		
Non-Mudharabah Fund:		
Demand deposits	213,425	123,789
Savings deposits	266,322	271,193
Negotiable Islamic Debt Certificate	478,756	1,113,337
Others	17,200	14,417
	<u>975,703</u>	<u>1,522,736</u>
Mudharabah Fund:		
General investment deposits	718,328	96,762
Islamic short term Mudharabah Investment	941,752	337,923
	<u>1,660,080</u>	<u>434,685</u>
Total deposits from customers	<u>2,635,783</u>	<u>1,957,421</u>
ii) The deposits are sourced from the following customers:-		
Government and statutory bodies	35,131	9
Business enterprises	1,435,438	361,084
Individuals	351,468	366,917
Others	813,746	1,229,411
	<u>2,635,783</u>	<u>1,957,421</u>
(8) DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS		
Mudharabah Fund:		
Licensed banks	0	70,000
Licensed finance companies	0	0
Other financial institutions	0	20,000
	<u>0</u>	<u>90,000</u>
Total deposits and placements of banks and other financial institutions	<u>0</u>	<u>90,000</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(9) SUBORDINATED BONDS**

On 24 November 2006, the Bank issued RM200 million redeemable Islamic subordinated bonds on a 15-year non-callable 10-year basis under the principle of Mudharabah (profit sharing contract) at a projected constant rate of 5.40% for the first 10 years and a step up of 100 basis point commencing from the beginning of the 11th year from the issue date and ending on the date of full redemption of the subordinated bonds, subject to the availability of profits and the investors' entitlement under the profit sharing ratio. Unless the call option is exercised by the Bank, the subordinated bonds shall be redeemed in full by five equal and consecutive annual payments. The call option and/or each of the annual redemption shall be subject to the prior approval of BNM and Monetary Authority of Singapore (MAS).

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

	Group and Bank	
	2006	2005
	RM'000	RM'000
(10) OTHER LIABILITIES		
Other accruals and charges	145,945	148,136
Profit equalisation reserve	19,155	4,471
	<u>165,100</u>	<u>152,607</u>
<u>Profit equalisation reserve (PER)</u>		
Balance at 1 January	4,471	0
Amount provided during the year	14,998	5,275
Amount written back during the year	(314)	(804)
Balance at 31 December	<u>19,155</u>	<u>4,471</u>

(11) ISLAMIC BANKING CAPITAL FUNDS

	Group and Bank	
	2006	2005
	RM'000	RM'000
Islamic banking funds	85,000	85,000
Reserves :		
Net unrealised gains on available-for-sale investments of which the depositors' position is RM1,381,000 (2005: RM702,000)	1,469	755
Retained profits	64,626	56,170
	<u>151,095</u>	<u>141,925</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(12) INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS**

	Group and Bank	
	2006	2005
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	25,202	2,048
(ii) Other funds	67,275	41,286
	<u>92,477</u>	<u>43,334</u>

	Group and Bank	
	General Investment Deposits	Investment of other funds
	RM'000	RM'000
2006		
<u>Finance income and hibah:</u>		
Financing and other advances	15,626	41,712
Available-for-sale securities	3,824	10,208
Money at call and deposit with financial institutions	5,767	15,395
	<u>25,217</u>	<u>67,315</u>
Amortisation of premium less accretion of discounts	(12)	(33)
	<u>25,205</u>	<u>67,282</u>
<u>Other dealing income:</u>		
Net loss from sale of held-for-trading securities	(3)	(7)
	<u>25,202</u>	<u>67,275</u>

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

	Group and Bank	
	2006	2005
(13) ALLOWANCE FOR LOSSES ON LOANS AND FINANCING	RM'000	RM'000
Allowance for bad and doubtful debts and financing:-		
Specific allowance (net)		
- Made in the financial year	15,699	6,437
- Written back	(2,428)	(1,414)
General allowance		
- Made in the financial year	3,645	8,113
Bad debts and financing		
- Recovered	(219)	(16)
	<u>16,697</u>	<u>13,120</u>
	Group and Bank	
	2006	2005
	RM'000	RM'000
(14) INCOME ATTRIBUTABLE TO DEPOSITORS		
Deposits from customers		
- Mudharabah Fund	29,732	14,042
- Non-Mudharabah Fund	12,527	5,760
Deposits and placements of banks and other financial institutions		
- Mudharabah Fund	1,335	7,305
- Non-Mudharabah Fund	31,261	12,386
	<u>74,855</u>	<u>39,493</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 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(15) INCOME DERIVED FROM INVESTMENT OF ISLAMIC BANKING FUNDS (IBF)**

	Group and Bank	
	2006 RM'000	2005 RM'000
<u>Finance income and hibah:</u>		
Financing and other advances	44,116	40,645
Available-for-sale securities	738	1,201
	<u>44,854</u>	<u>41,846</u>
Amortisation of premium less accretion of discounts	(22)	(67)
	<u>44,832</u>	<u>41,779</u>
<u>Other held-for-trading income:</u>		
Net loss from sale of held-for-trading securities	0	0
<u>Other operating income:</u>		
Others	0	1
<u>Fee and commission income:</u>		
Commission	864	271
Service charges and fees	3,142	3,091
	<u>48,838</u>	<u>45,142</u>

(16) PERSONNEL EXPENSES

Salaries and wages	1,304	975
Allowance and bonuses	188	365
Equity compensation benefit (deferred share plan)	11	5
Defined contribution plan (EPF)	239	213
Others	404	200
Total	<u>2,146</u>	<u>1,758</u>

The number of employees at the end of the financial year amounted to 21 (2005: 19) employees.

(17) OTHER OVERHEAD EXPENSES

Establishment costs (i)	53	61
Marketing expenses (ii)	696	457
Administration and general expenses (iii)	19,646	14,047
	<u>20,395</u>	<u>14,565</u>

(i) Establishment costs

Depreciation of property, plant and equipment	13	12
Repair and maintenance	31	28
Loss on disposal of property, plant and equipment	0	3
Others	9	18
	<u>53</u>	<u>61</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

(17) OTHER OVERHEAD EXPENSES (continued)

	Group and Bank	
	2006	2005
	RM'000	RM'000
(ii) Marketing expenses		
Transport and travelling	31	44
Advertisement and business promotion	663	402
Others	2	11
	<u>696</u>	<u>457</u>
(iii) Administration and general expenses		
Printing and stationery	88	81
Postage and courier	4	1
Telephone, telex and fax	19	32
Legal and consultancy fees	336	114
Allocated costs	19,004	13,422
Other administrative and general expenses	195	397
	<u>19,646</u>	<u>14,047</u>

Allocated costs refer to the attributable costs of IB transactions processed at the branches. No allocation costs were charged to Islamic Banking operation in prior years. The change was in accordance to the BNM Circular dated 11 November 2005 "Measures to Further Strengthen Islamic Banking Operations" whereby banks with Islamic Banking operations are required to apportion overhead costs and other expenditure incurred when managing the Islamic Banking portfolio, effective from 3 January 2006. As the costs were allocated from conventional banking, the overall Bank's overhead expenses remained unchanged. The prior year figure was restated for comparison purposes as disclosed in Note (26).

Remuneration paid to Syariah Committee for the financial year ended 31 December 2006 amounted to RM76,400 (2005 : RM48,900). No remuneration was paid to the Directors in 2006 (2005 : RM Nil).

(18) 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 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

	Group and Bank	
	2006	2005
	RM'000	RM'000
(19) TAXATION		
Malaysian income tax – current year	11,834	7,244
Deferred taxation :		
- relating to originating and reversal of temporary differences (Note 20)	(8,095)	(3,541)
	<u>3,739</u>	<u>3,703</u>

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

	Group and Bank	
	2006	2005
	%	%
Malaysian tax rate of 28% (2005 : 28%)	28.0	28.0
Tax effects of:		
Expenses not deductible for tax purposes	1.8	(3.0)
Average effective tax rate	<u>29.8</u>	<u>25.0</u>

(20) DEFERRED TAXATION

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

	Group and Bank	
	2006	2005
	RM'000	RM'000
Deferred tax assets (before offsetting)	15,599	7,504
Deferred tax liabilities (before offsetting)	(571)	(293)
Deferred tax assets after offsetting	<u>15,028</u>	<u>7,211</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(20) DEFERRED TAXATION (continued)**

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

	Temporary differences arising from leasing business	General allowance on financing and other advances	Unrealised gain / loss on revaluation of financial instruments	Other temporary differences	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Group and Bank					
2006					
Balance at 1 January	287	5,965	(293)	1,252	7,211
Debit to fair value reserve	0	0	(278)	0	(278)
Credited to income statement (Note (19))	2,963	1,021	0	4,111	8,095
Balance at 31 December	3,250	6,986	(571)	5,363	15,028
Group and Bank					
2005					
Balance at 1 January	372	3,591	0	0	3,963
Debit to fair value reserve	0	0	(293)	0	(293)
Credited to income statement (Note (19))	(85)	2,374	0	1,252	3,541
Balance at 31 December	287	5,965	(293)	1,252	7,211

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(21) COMMITMENTS AND CONTINGENCIES**

Group and Bank	2006			2005		
	Principal	Credit	Risk	Principal	Credit	Risk
	Amount	Equivalent	Weighted	Amount	Equivalent	Weighted
	Amount	Amount*	Amount	Amount	Amount*	Amount
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Direct credit substitute	113,400	113,400	113,400	50,000	50,000	50,000
Transaction-related contingent items	13,719	6,859	6,858	13,719	6,859	6,158
Short-term self-liquidating trade-related contingencies	429	86	86	0	0	0
Irrevocable commitments to extend credit:						
- maturity exceeding one year	362,139	181,070	181,070	302,357	151,179	151,179
- maturity not exceeding one year	336,411	0	0	218,044	0	0
	<u>826,098</u>	<u>301,415</u>	<u>301,414</u>	<u>584,120</u>	<u>208,038</u>	<u>207,337</u>

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

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

As at 31 December 2006	Up to 3 months	>3 months to 6 months	>6-12 months	>1-3 years	>3-5 years	Over 5 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets							
Cash and short term funds	932,498	0	0	0	0	0	932,498
Deposits and placements with financial institutions	200,000	0	0	0	0	0	200,000
Available-for-sale securities	25,000	147,660	44,981	88,277	0	0	305,918
Financing and other advances	551,536	47,884	23,508	291,163	523,432	200,816	1,638,339
Other assets	2,747	315	545	6,558	0	0	10,165
Statutory deposits with							
Bank Negara Malaysia	0	0	0	0	0	60,413	60,413
Deferred taxation assets	0	0	0	15,028	0	0	15,028
Total assets	<u>1,711,781</u>	<u>195,859</u>	<u>69,034</u>	<u>401,026</u>	<u>523,432</u>	<u>261,229</u>	<u>3,162,361</u>
Liabilities							
Deposits from customers	2,295,107	292,615	45,194	2,225	642	0	2,635,783
Deposits and placements of banks and other financial institutions	0	0	0	0	0	0	0
Bills and acceptances payable	42,727	(42,360)	0	0	0	0	367
Subordinated bonds	0	0	0	0	0	200,000	200,000
Other liabilities	124,020	2,206	697	38,177	0	0	165,100
Taxation and zakat	0	0	0	10,016	0	0	10,016
Total liabilities	<u>2,461,854</u>	<u>252,461</u>	<u>45,891</u>	<u>50,418</u>	<u>642</u>	<u>200,000</u>	<u>3,011,266</u>
Net liquidity gap	<u>(750,073)</u>	<u>(56,602)</u>	<u>23,143</u>	<u>350,608</u>	<u>522,790</u>	<u>61,229</u>	<u>151,095</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(22) MATURITIES OF ASSETS AND LIABILITIES BY CONTRACTUAL MATURITY PROFILE (continued)**

As at 31 December 2005	Up to 3 months RM'000	>3 months to 6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 years RM'000	Total RM'000
Assets							
Cash and short term funds	416,930	0	0	0	0	0	416,930
Deposits and placements with financial institutions	0	0	0	0	0	0	0
Available-for-sale securities	198,193	121	35,013	188,236	35,556	0	457,119
Financing and other advances	488,682	76,428	146,837	252,004	303,049	132,075	1,399,075
Other assets	1,707	0	475	8,788	0	0	10,970
Statutory deposits with							
Bank Negara Malaysia	0	0	0	0	0	58,356	58,356
Deferred tax assets	0	0	0	0	0	7,211	7,211
Total assets	1,105,512	76,549	182,325	449,028	338,605	197,642	2,349,661
Liabilities							
Deposits from customer	1,539,584	377,559	38,217	1,172	889	0	1,957,421
Deposits and placements of banks and other financial institutions	90,000	0	0	0	0	0	90,000
Bills and acceptances payable	23	0	0	0	0	0	23
Subordinated bonds	0	0	0	0	0	0	0
Other liabilities	127,362	785	1,960	22,500	0	0	152,607
Taxation and zakat	0	0	0	7,685	0	0	7,685
Total liabilities	1,756,969	378,344	40,177	31,357	889	0	2,207,736
Net liquidity gap	(651,457)	(301,795)	142,148	417,671	337,716	197,642	141,925

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

	Group and Bank	
	2006	2005
	RM'000	RM'000
(23) CAPITAL ADEQUACY		
The capital adequacy ratios of the Islamic Banking operations of the Bank are as follows:-		
Tier 1 capital	134,027	133,666
Eligible Tier 2 capital	91,964	21,304
Total capital base	<u>225,991</u>	<u>154,970</u>
Capital Ratios		
Core-capital ratio	6.87%	7.99%
Risk-weighted capital ratio	11.59%	9.27%
i) Components of Tier-1 and Tier-2 capital are as follows:		
<u>Tier-1 capital</u>		
Islamic Banking Fund	85,000	85,000
Retained profits	64,626	56,170
	<u>149,626</u>	<u>141,170</u>
Less: Deferred tax assets	(15,599)	(7,504)
Total Tier-1 capital	<u>134,027</u>	<u>133,666</u>
<u>Tier-2 capital</u>		
Approved capital instruments		
- Subordinated bonds	67,015	0
General allowance for bad and doubtful debts and financing	24,949	21,304
Total Tier-2 capital	<u>91,964</u>	<u>21,304</u>
Total capital base	<u>225,991</u>	<u>154,970</u>

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

	2006		2005	
	Principal RM'000	Risk- Weighted RM'000	Principal RM'000	Risk- Weighted RM'000
0 %	1,381,393	0	529,312	0
10%	45,980	4,598	46,088	4,609
20%	74,334	14,867	354,137	70,827
50%	84,971	42,485	92,478	46,239
100%	1,887,021	1,887,021	1,549,777	1,549,777
	<u>3,473,699</u>	<u>1,948,971</u>	<u>2,571,792</u>	<u>1,671,452</u>

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2006 (continued)**43 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(24) NET INCOME FROM ISLAMIC BANKING OPERATIONS**

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

	Group and Bank	
	2006	2005
	RM'000	RM'000
Income derived from investment of depositors' funds	92,477	43,334
Transfer to profit equalisation reserve	(14,684)	(4,471)
Total attributable income	<u>77,793</u>	<u>38,863</u>
Income attributable to the depositors	(74,855)	(39,493)
Income attributable to the Bank	2,938	(630)
Income derived from the investment of Islamic Banking funds	<u>48,838</u>	<u>45,142</u>
Net income from Islamic Banking operations	<u>51,776</u>	<u>44,512</u>

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

Cash and short term funds	932,498	416,930
Deposits and placements with financial institutions	200,000	0
	<u>1,132,498</u>	<u>416,930</u>

(26) COMPARATIVE FIGURES

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

	As previously reported	As restated
	RM'000	RM'000
Balance Sheet as at 31 December 2005:		
Financing and other advances	1,399,016	1,399,075
Other liabilities	139,126	152,607
Taxation and zakat	11,443	7,685
Reserves	<u>66,589</u>	<u>56,925</u>
Income Statement for the year ended 31 December 2005:		
Other overhead expenses	1,143	14,565
Taxation	<u>7,461</u>	<u>3,703</u>