

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

31 DECEMBER 2007

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS – 31 DECEMBER 2007

CONTENTS	PAGE
DIRECTORS' REPORT	3 - 17
STATEMENT BY DIRECTORS	18
STATUTORY DECLARATION	18
REPORT OF THE AUDITORS	19
BALANCE SHEETS	20
INCOME STATEMENTS	21
STATEMENTS OF CHANGES IN EQUITY	22 - 23
CASH FLOW STATEMENTS	24 - 25
SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES	26 - 35
NOTES TO THE FINANCIAL STATEMENTS	36 - 115

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

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 2007.

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
	2007	2007
	RM'000	RM'000
Profit before taxation and zakat	717,674	717,525
Taxation	(206,422)	(206,372)
Zakat	784	784
Net profit attributable to shareholders	<u>512,036</u>	<u>511,937</u>

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (continued)

DIVIDENDS

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

- i. a final gross dividend of 95.0 sen per share less tax on 20 March 2007 in respect of the previous financial year amounting to RM199.38 million on the fully issued and paid-up ordinary shares of the Bank;
- ii. an interim dividend of 20.0 sen per share less tax on 22 August 2007 in respect of the current financial year amounting to RM41.98 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 19 March 2007 and 19 September 2007 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 RM8.99 million to the preference shareholders and a final gross dividend of 20.0 sen per share less tax in respect of the current financial year amounting to RM42.55 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 2007 (continued)

CONTINGENT AND OTHER LIABILITIES

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

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

FINANCIAL PERFORMANCE

The Bank achieved another year of strong growth with profit before taxation and zakat rising 19% to RM718 million for the financial year ended 31 December 2007, while net profit also grew significantly, by 19%, to RM512 million. The achievements were driven mainly by higher operating profits, which rose 15% or RM97 million to RM763 million compared to last year. The increase in operating profit is attributable to a 16% or RM118 million rise in net interest income to RM867 million, and a growth of 26% or RM74 million in non-interest income to RM 357 million.

A 20% or RM6.2 billion increase in average interest earning assets to RM37 billion outpaced the lower net interest margins of 9 bps, contributing significantly to the improved net interest income. The increase in non-interest income came mainly from higher fees and commissions and foreign exchange gains. Overhead expenses surged 30% or RM125 million to RM542 million, mainly due to a rise in personnel costs, new business promotion campaigns and higher establishment costs, each deriving from the implementation of new systems in line with business activities and volume increases.

Net allowances for the year were lower at RM45 million. While RM58 million had been provided for general allowances to cater for loans growth, and RM20 million for specific allowances, a total of RM33 million in bad debts were recovered. NPLs decreased by RM200 million to RM1.1 billion, resulting in a lower net NPL ratio of 2.55% (2006 : 3.24%).

The bank's gross loans grew by 14% or RM3.5 billion to RM27.4 billion (2006 : RM24.0 billion). The growth was attributed to higher business loans of RM3.1 billion and consumer loans of RM0.4 billion. Consequently, total assets grew by 15% to RM42.2 billion.

Shareholders' funds stood at RM2.5 billion while the risk weighted capital ratio (RWCR) was 10.95% as at 31 December 2007. With the proposed final dividend, RWCR would be reduced to 10.80%.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (continued)

ACTIVITIES & ACHIEVEMENTS

With origins that trace back almost eight decades, OCBC Bank remains among the leading foreign banks in Malaysia. It is currently 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.

The Bank continues to maintain a healthy mix of customers in Malaysia, ranging from individuals of diverse demographic groups to corporate and SME customers, and sole proprietorships and partnerships. 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.

In 2007, the Bank was named Malaysia's Best Trade Finance Bank by *The Asset Triple A Transaction Banking Awards*; and, in a move that demonstrates confidence in the future prospects of OCBC Bank, RAM Rating Services Berhad revised the outlook on all of the Bank's long-term ratings of AA1, moving these from stable to positive.

To diversify and strengthen its Tier-2 capital to support the ongoing expansion of the banking business, OCBC Bank raised RM400 million from the issue of Redeemable Subordinated Bonds on 30 November 2007. The bonds are rated AA2 (positive outlook) by RAM Rating Services Berhad.

Following from the liberalisation initiatives introduced by Bank Negara Malaysia in 2006, the Bank added another branch to its network – at Bukit Damansara, Kuala Lumpur – raising the total to 29 branches across Peninsular and East Malaysia. In addition, it relocated one of its Ipoh-based branches to Taman Molek in Johor in order to tap further into the economic viability of the region.

During the year, the Bank also rolled out a nationwide branch transformation exercise as part of a regional initiative aimed at offering customers enhanced levels of service, interaction and convenience. The newly opened branches at Bukit Damansara and Taman Molek became the first in Malaysia to showcase the new look, with other branches expected to follow suit in stages.

In the area of business banking, the Bank continued to perform well, witnessing strong revenue growth involving both SMEs and large corporates, catalysed, in part, by strong initiatives in new customer acquisition and cross-selling of investment banking, trade and treasury products. Emphasis was also placed on liability products and cash management transactions through GIRO, the financial process exchange (FPX) and the launch of *Easi-CheckDrop*, the Bank's first physical offsite banking facility and *Easi-BizCard*, an ATM card specially developed for the SME segment.

The division also 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. Of particular note was the Bank's three-month education programme to update its trade finance customers on changes that would affect the industry globally with the roll out of the International Chamber of Commerce's (ICC) sixth revision of its Uniform Customs and Practice for Documentary Credits, UCP600, on 1 July 2007.

The Bank also made strides in investment banking, successfully executing nine syndicated transactions and six bonds totaling more than RM5.2 billion. Among the notable syndications which OCBC Bank lead-arranged during 2007 were a RM1.21 billion structured M&A financing for Pantai Irama Ventures Sdn Bhd and RM600 million in structured refinancing facilities for Malaysian Newsprint Industries Sdn Bhd.

Another landmark transaction was the USD169 million project financing initiative for Zelan Consortium to finance a construction contract for a power project, representing the first cross border transaction for a Malaysian company in Indonesia and also the first USD loan syndication combining conventional and Islamic principles to facilitate participation by domestic and offshore banks including a Middle Eastern Islamic bank.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (continued)

ACTIVITIES & ACHIEVEMENTS (Continued)

In consumer banking, OCBC Bank rolled out the country's first retailer co-branded Platinum Card, *OCBC Robinsons Platinum Card*, in collaboration with Robinson & Co. The Card offers unique benefits including cross border privileges for patrons of Robinsons and Marks and Spencer in Malaysia and Singapore. In addition, credit cards, together with the other units of the consumer financial services division, continued to maximise the cross-selling synergy between the Bank and Great Eastern Life Assurance, enhancing value propositions for both Bank customers and policyholders.

In the area of wealth management, the Bank made significant in-roads into the area of structured products by offering floating rate negotiable instruments of deposits (FRNID) where returns are based on underlying investments. The FRNID launched included Malaysia's first-of-its-kind *Precious Water FRNID* – whose key distinctive lies in global water-related stocks – with three tranches being issued during the course of the year. The Bank also launched the three-year *China All Weather FRNID* by aligning with three of China's growth proxies, namely the *FTSE/Xinhua China 25*, *Copper Spot* and *Chinese Yuan/USD*.

OCBC Bank's Islamic Banking division continued its steady growth, achieving RM3.7 billion in assets, RM2.8 billion in customer deposits, and RM1.8 billion in outstanding financing as at end-2007, representing growth rates of 16.3%, 6.9% and 11.4% respectively. Among the highlights for the year were the Bank's launch of Malaysia's first Syariah-compliant equity-linked structured investment product: a three-year, close-ended, medium-risk offering based on the Islamic contract of *Wakalah fi al-Istithmar*; and the introduction of its internet and ATM *zakat* (Muslim tithe) contribution services. The Bank continued to participate in a variety of exhibitions and forums to promote Islamic Banking and, as in the past twelve years, contributed *zakat* in line with the Syariah principle of providing for the poor and needy in society.

Perhaps the most exciting news for OCBC Bank's Islamic Banking efforts came in the form of the in-principle approval from Bank Negara Malaysia for it to carry on Islamic Banking business under the Islamic Banking Act 1983 (IBA) and to establish an Islamic Banking subsidiary under section 29 of the Banking & Financial Institutions Act 1989 (BAFIA) in 2008. Under the IBA licence, the Islamic Banking subsidiary, when established, will be permitted to conduct the full range of Syariah-compliant universal banking business. The approval from Bank Negara Malaysia provides the Bank with the opportunity to raise its Islamic Banking business to the next level and be better positioned to develop into a one-stop centre for Islamic Banking.

MAJOR BUSINESS PLANS & ACTIVITIES FOR YEAR 2008

OCBC Bank expects to see strong growth in its retail business in 2008, with the aim of becoming a market leader in the mass affluent segment and expanding its reach to Bumiputra customers via an Islamic banking subsidiary, following Bank Negara Malaysia's approval to set up the latter. To foster growth in the mass affluent segment, the Bank's Consumer Financial Services division (CFS) plans to embark on a new value proposition to provide a differentiated banking experience to its mass affluent customers. In addition, with the impending setting up of new branches under the Islamic banking subsidiary, CFS will be better positioned to serve the Bumiputra segment in new geographies that OCBC under-served in the past. The growth strategy is further augmented by a conscious effort to widen product offerings in both conventional and Islamic products via wealth management, home financing and lifestyle products.

Product distribution will be reinforced and widened by growing the direct sales and mobile sales forces as well as by building on tie-ups with strategic partners such as Great Eastern Life Assurance, Robinsons and external distribution parties. With OCBC Bank's BEE (Building Emotional Engagement) programme in its second year now, multiple activities will be put in place to ensure there is continuity and persistency in quality and a differentiated service experience in order to better engage customers.

OCBC will continue to serve and meet the needs of its Business Banking customers by bringing innovation to its business model, and by developing an enhanced strategy that emphasizes efficiency and lower costs, particularly in the small business and community banking sectors. Ongoing efforts will continue to be directed at improving and streamlining processes, further strengthening product & service innovations through technology and greater emphasis on liability products. OCBC will continue to provide extended support to customers with regionally-oriented businesses and overseas ventures in countries such as Indonesia, China and Vietnam. The Bank plans also to leverage on its branch distribution to continue focusing on customer acquisition, credit quality and effective account management. Strategic alliances with business partners for business collaborations will also be strengthened as part of the ongoing initiative to grow the business.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (continued)

MAJOR BUSINESS PLANS & ACTIVITIES FOR YEAR 2008 (continued)

For 2008, the Bank's Treasury division will build that segment of the business by continuing to offer innovative treasury products for customers, growing wallet share of the market and penetrating the existing customer base more deeply. To do so, the Bank will continue to invest in infrastructure and its talent pool.

Where existing treasury products are concerned, OCBC will continue to work on improving efficiencies and productivity by improving the product value chain. This will help the Bank better position itself along cost and pricing capability lines for the benefit of customers. Areas where special attention would be paid – besides growing the customer business and improving processes – include expanding existing product lines such as derivatives and building enhanced capabilities in these new areas.

The Islamic Banking Division will continue to act as a leading provider of innovative products among foreign banks for affluent individuals, medium sized businesses and selected corporate customers across all communities, particularly the Bumiputra segment, through differentiated services nationwide.

RATINGS BY EXTERNAL AGENCIES

The Bank is rated by an external agency, RAM Rating Services Berhad. The Bank received AA1 for long term rating (indicates sound credit profiles and without significant problems) and P1 for short term rating (indicates superior capabilities for timely payments of obligations), the outlook of which was upgraded from "stable" to "positive" in November 2007 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, Dr Raja Lope Bin Raja Shahrome, Mr Soon Tit Koon, Ms Tan Siok Choo and Colonel (Rtd) David Wong Cheong Fook.

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, Dr Raja Lope Bin Raja Shahrome, Ms Tan Siok Choo and Colonel (Rtd) David Wong Cheong Fook.

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (continued)

CORPORATE GOVERNANCE

Board Composition and Independence (continued)

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.

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 Management Committee the quality of the risk management processes and systems; and
- Reviewing any transaction for the acquisition or disposal of assets that is material to the Bank.

In 2007, 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 6 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.

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (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 Audit Committee may meet at any time with the internal auditors and external auditors. It meets with the Bank's auditors to approve the audit plans and review the scope of audits. The Committee reviews the financial statements of the Bank, related party transactions and the auditors' report thereon and submits them to the Board of Directors. In addition to the review of the financial statements, the Committee reviews and evaluates with the internal auditors and external auditors, the adequacy of the systems of internal controls, governance procedures, risk management and compliance. The reviews include the scope and results of the audits, the cost effectiveness of the audits, and the independence and objectivity of the auditors.

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

Internal Audit reports on the adequacy and effectiveness of the 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 Practice of Internal Auditing of The Institute of Internal Auditors, Guidelines on Minimum Audit Standards for Internal Auditors of Financial Institutions (GP10) of Bank Negara Malaysia, as well as other applicable local regulatory requirements for Internal Audit.

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

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (continued)

CORPORATE GOVERNANCE (continued)

Internal Audit Function (continued)

Internal Audit also actively participates in major new product and system developments, process improvement activities and special projects, to help evaluate risk exposures and ensure that proposed mitigating internal controls are adequately evaluated and implemented on a timely basis. It also ensures that the internal controls result in prompt and accurate recording of transactions and proper safeguarding of assets, and that the Bank complies with laws and regulations, adheres to established policies and takes appropriate steps to address control deficiencies.

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

Internal Controls

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

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

MANAGEMENT INFORMATION

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

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

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (continued)**CORPORATE GOVERNANCE (continued)****DIRECTORS' ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS IN 2007**

Name of Director	Number of Meetings attended in 2007							
	Board		Audit Committee		Nominating Committee		Risk Management Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Tan Sri Dato' Nasruddin Bin Bahari	6	6	6	6	2	2	6	6
David Conner	6	6			2	2	6	6
Ching Wei Hong	6	5					6	5
Dr Raja Lope Bin Raja Shahrome	6	5					6	5
Soon Tit Koon	6	6			2	2	6	6
Tan Siok Choo	6	6	6	6	2	2	6	6
Dato' Yeoh Beow Tit	6	6						
Col (Rtd) David Wong Cheong Fook	6	6	6	6	2	2	6	6

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

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

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

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, OCBC Overseas Investments Pte Ltd, Asean Supreme Fund Limited (in voluntary liquidation), Asian Pacific Bankers Club and Dr Goh Keng Swee Scholarship Fund. 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.

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (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.

Dr Raja Lope Bin Raja Shahrome

Dr Raja Lope Bin Raja Shahrome was appointed to the Board on 10 March 2007. He holds an Honours Degree in Economics from the University of Malaya in Singapore, an MA from the University of Pennsylvania and a PhD from the London School of Economics. His working experience was mainly with central and commercial banking except for a few years when he was working in a rating agency. He currently sits on the Board of Directors/Governors of Sawell Sdn Bhd, First Nationwide Holdings Sdn Bhd, Pac Lease Bhd, Tandem Holdings Sdn Bhd, Spring Hill Bioventures Sdn Bhd, PacificMas Asset Management and Standard London (Asia) 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. He is also presently a Director of OCBC Overseas Investment Pte Ltd, OCBC Securities Pte. Ltd, Lion Capital Management Limited, Overseas Investment Research Pte Ltd, Ningbo Commercial Bank, Excel Holdings Private Limited, Fraser & Neave Limited (Alternate Director), Bank of Singapore Limited and OCBC Bank (China) Limited

Ms Tan Siok Choo

Ms Tan was appointed to the Board on 27 July 2000. Ms Tan holds a Bachelor of Law from the University of Bristol, passed her Bar Finals at College of Law, London and has been admitted as a Barrister-at-law in Lincoln's Inn, London and the Malaysian Bar. She is presently Vice-President and Editor of Noordin Sopiee & Associates Sdn Bhd and a visiting fellow at the Institute of Strategic and International Studies (ISIS) with specific interests in the Malaysian economy, the financial sector and capital markets. She also serves as a Director of United Malacca Rubber Estates Bhd, Meridian Plantations Sdn Bhd, Sinneo Sdn Bhd, Studio Gratika Sdn Bhd and Zitan Corporation Consultant Sdn Bhd. She 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, Ascendas-MGM Funds Management Ltd, Banking Computer Services Pte Ltd, BCS Information Systems Pte Ltd, Teva Pharmaceutical Investments Singapore Pte Ltd, Jurong International Holdings Pte Ltd, LMA International NV, National Environment Agency (NEA) and APL Japan Trust Management (Singapore) Limited. 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 2007 (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
- Soon Tit Koon
- Tan Siok Choo
- Dato' Yeoh Beow Tit
- Tan Sri Yong Poh Kon (resigned w.e.f. 10 March 2007)
- Ching Wei Hong
- Dr Raja Lope Bin Raja Shahrome (appointed w.e.f. 10 March 2007)

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

In accordance with Article 110 of the Bank's Articles of Association, Dr Raja Lope Bin Raja Shahrome retires from the Board at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance to Section 129 of the Companies Act 1965, Tan Sri Dato' Nasruddin Bin Bahari and Dr Raja Lope Bin Raja Shahrome retire from the Board at the forthcoming Annual General Meeting, and being eligible, offer themselves for re-election to hold office until the conclusion of the next Annual General Meeting.

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

Oversea-Chinese Banking Corporation Limited

Number of ordinary shares

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

	<u>As at 1.1.2007</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2007</u>
Dato' Yeoh Beow Tit	213,783	548,552	370,000	392,335
David Conner	573,919	435,474	0	1,009,393
Ching Wei Hong	0	195,740	168,000	27,740
Soon Tit Koon	287,871	48,386	196,000	140,257
Tan Sri Dato' Nasruddin Bin Bahari	9,600	4,800	0	14,400
Col (Rtd) David Wong Cheong Fook	16,800	4,800	0	21,600

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (continued)**DIRECTORS AND THEIR INTEREST IN SHARES AND OPTIONS (continued)**Oversea-Chinese Banking Corporation LimitedNumber of ordinary sharesShareholdings registered in the name of Directors or in which
Directors have a direct interest (continued)

	<u>As at 1.1.2007</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2007</u>
<u>Class G Preference Shares</u>				
David Conner	50,000	0	0	50,000

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

	<u>As at 1.1.2007</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2007</u>
Dato' Yeoh Beow Tit	29,175	6,959	10,832	25,302
David Conner	285,145	88,031	85,158	288,018
Ching Wei Hong	44,804	15,695	7,740	52,759
Soon Tit Koon	172,986	63,076	48,386	187,676
Tan Siok Choo	3,530,550	0	0	3,530,550
<u>Class G Preference Shares</u>				
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.

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

Number of unissued ordinary shares

Share Options held by Directors in their own name

	<u>As at 1.1.2007</u>	<u>Offered</u>	<u>Exercised</u>	<u>As at 31.12.2007</u>	<u>Date option expire</u>
David Conner	3,464,000	551,000	620,000	3,395,000	8/4/2012 – 13/3/2017
Ching Wei Hong	320,280	60,000	188,000	192,280	14/3/2015 – 13/3/2017
Soon Tit Koon	648,000	100,000	0	748,000	8/4/2012 – 13/3/2017
Dato' Yeoh Beow Tit	600,360	50,000	517,720	132,640	13/3/2016 – 13/3/2017

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (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 1.1.2007</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2007</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 25 to the financial statements, or the fixed salary of full-time employees of the Bank or related companies) by reason of a contract made by the Bank or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

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, shares granted under the OCBC Deferred Share Plan which will vest three years from the grant date and will lapse when the Director ceases employment during the vesting period and acquisition rights under the OCBC Employee Share Purchase Plan.

ULTIMATE HOLDING COMPANY

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

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (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 18 February 2008.

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 115 are drawn up in accordance with the provisions of the Companies Act, 1965, and applicable approved Financial Reporting Standards 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 2007 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 18 February 2008.

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 115 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 18 February 2008) 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 115. 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 Financial Reporting Standards 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 2007 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 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.

KPMG
Firm Number: AF 0758
Chartered Accountants

Foong Mun Kong
Partner
Approval Number: 2613/12/08(J)

Kuala Lumpur
Date: 18 February 2008

BALANCE SHEETS AS AT 31 DECEMBER 2007

	Note	Group		Bank	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
ASSETS					
Cash and short-term funds	2	5,636,115	3,647,179	5,636,115	3,647,179
Securities purchased under resale agreements		358,344	0	358,344	0
Deposits and placements with financial institutions	3	230,399	2,280,746	230,399	2,280,746
Held-for-trading securities	4	1,872,798	529,805	1,872,798	529,805
Available-for-sale securities	4	5,850,023	5,641,394	5,850,023	5,641,394
Loans, advances and financing	5	26,611,930	23,068,124	26,611,747	23,067,753
Other assets	7	445,658	312,552	445,656	312,474
Statutory deposits with Bank Negara Malaysia	8	843,608	866,086	843,608	866,086
Investment in subsidiary companies	9	0	0	1,611	1,611
Property, plant and equipment	10	221,683	231,495	221,675	231,482
Investment property	11	10,066	11,030	10,066	11,030
Prepaid lease payments	12	2,981	0	2,981	0
Non-current assets held for sale	13	2,092	544	2,092	544
Deferred taxation asset	14	100,056	102,143	100,345	102,459
TOTAL ASSETS		42,185,753	36,691,098	42,187,460	36,692,563
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits from customers	15	31,467,966	24,646,667	31,482,621	24,660,884
Deposits and placements of banks and other financial institutions	16	4,064,268	2,965,448	4,064,268	2,965,448
Obligations on securities sold under repurchase agreements		0	3,075,577	0	3,075,577
Bills and acceptances payable		1,682,232	1,818,185	1,682,232	1,818,185
Amount due to Cagamas		628,680	689,298	628,680	689,298
Subordinated term loan / bonds	17	1,089,210	698,522	1,089,210	698,522
Other liabilities	18	702,377	509,383	702,240	509,274
Taxation and zakat		65,637	58,070	65,556	58,058
Total Liabilities		39,700,370	34,461,150	39,714,807	34,475,246
Financed by :					
Share capital	19	291,500	291,500	291,500	291,500
Reserves	20	2,193,883	1,938,448	2,181,153	1,925,817
Shareholders' Equity		2,485,383	2,229,948	2,472,653	2,217,317
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		42,185,753	36,691,098	42,187,460	36,692,563
COMMITMENTS AND CONTINGENCIES	31	59,568,827	37,915,353	59,568,827	37,915,353

The accounting policies on pages 26 to 35 and notes on pages 36 to 115 form an integral part of the financial statements.

INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

	Note	Group		Bank	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Interest income	21	1,896,050	1,597,153	1,896,050	1,597,153
Interest expense	22	(1,029,113)	(847,929)	(1,029,464)	(848,360)
Net interest income		<u>866,937</u>	<u>749,224</u>	<u>866,586</u>	<u>748,793</u>
Islamic Banking income	44(24)	81,564	51,776	81,564	51,776
		<u>948,501</u>	<u>801,000</u>	<u>948,150</u>	<u>800,569</u>
Non-interest income	23	357,290	282,834	357,289	282,834
Net income		<u>1,305,791</u>	<u>1,083,834</u>	<u>1,305,439</u>	<u>1,083,403</u>
Staff cost and overhead expenses	24	(542,760)	(417,623)	(542,475)	(417,374)
Operating profits before allowances		<u>763,031</u>	<u>666,211</u>	<u>762,964</u>	<u>666,029</u>
Allowance for losses on loans, advances and financing	26	(44,053)	(62,623)	(44,135)	(62,670)
Provision for commitment and contingencies	18(b)	(1,304)	(293)	(1,304)	(293)
Impairment losses on property, plant and equipment	10	0	(350)	0	(350)
Profit before taxation and zakat		<u>717,674</u>	<u>602,945</u>	<u>717,525</u>	<u>602,716</u>
Taxation	28	(206,422)	(171,343)	(206,372)	(171,299)
Zakat		784	(343)	784	(343)
Net profit attributable to shareholders		<u>512,036</u>	<u>431,259</u>	<u>511,937</u>	<u>431,074</u>
Basic earnings per share (sen)	29	<u>171.8</u>	<u>143.7</u>	<u>171.8</u>	<u>143.6</u>
Dividend per ordinary share – 40.0 sen gross (2006 : 136.5 sen) less income tax (sen)	30	<u>29.4</u>	<u>99.2</u>	<u>29.4</u>	<u>99.2</u>

The accounting policies on pages 26 to 35 and notes on pages 36 to 115 form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

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 2007								
- As previously stated	291,500	858,500	322,000	56,619	67,892	36,750	596,687	2,229,948
- Reclassification of general reserve to retained profits	42 0	0	0	0	0	(36,750)	36,750	0
As restated	291,500	858,500	322,000	56,619	67,892	0	633,437	2,229,948
Revaluation of available-for-sale securities (net)	0	0	0	0	720	0	0	720
Deferred tax on revaluation of available-for-sale securities (net)	0	0	0	0	2,075	0	0	2,075
Net gains recognised directly in equity	0	0	0	0	2,795	0	0	2,795
Net profit attributable to shareholders	0	0	0	0	0	0	512,036	512,036
Total recognised income and expense for the year	0	0	0	0	2,795	0	512,036	514,831
Dividends paid on ordinary shares in respect of :								
- Final 2006	30 0	0	0	0	0	0	(199,381)	(199,381)
- Interim 2007	30 0	0	0	0	0	0	(41,975)	(41,975)
Dividends paid on preference shares	30 0	0	0	0	0	0	(18,040)	(18,040)
Balance at 31 December 2007	291,500	858,500	322,000	56,619	70,687	0	886,077	2,485,383
Balance at 1 January 2006								
- As previously stated	291,500	858,500	322,000	56,619	32,646	36,750	501,213	2,099,228
- Reclassification of general reserve to retained profits	0	0	0	0	0	(36,750)	36,750	0
As restated	291,500	858,500	322,000	56,619	32,646	0	537,963	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	30 0	0	0	0	0	0	(231,840)	(231,840)
- Interim 2006	30 0	0	0	0	0	0	(85,905)	(85,905)
Dividends paid on preference shares	30 0	0	0	0	0	0	(18,040)	(18,040)
Balance at 31 December 2006	291,500	858,500	322,000	56,619	67,892	0	633,437	2,229,948

**STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007
(continued)**

Note	Share capital	Non-distributable			Distributable		Total
		Share premium	Statutory reserve	Fair value reserve	Retained profits		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Bank							
Balance at 1 January 2007	291,500	858,500	322,000	67,892	677,425	2,217,317	
Revaluation of available-for-sale securities (net)	0	0	0	720	0	720	
Deferred tax on revaluation of available-for-sale securities (net)	0	0	0	2,075	0	2,075	
Net gains recognised directly in equity	0	0	0	2,795	0	2,795	
Net profit attributable to shareholders	0	0	0	0	511,937	511,937	
Total recognised income and expense for the year	0	0	0	2,795	511,937	514,732	
Dividends paid on ordinary shares in respect of :							
- Final 2006	30	0	0	0	(199,381)	(199,381)	
- Interim 2007	30	0	0	0	(41,975)	(41,975)	
Dividends paid on preference shares	30	0	0	0	(18,040)	(18,040)	
Balance at 31 December 2007	<u>291,500</u>	<u>858,500</u>	<u>322,000</u>	<u>70,687</u>	<u>929,966</u>	<u>2,472,653</u>	
Balance at 1 January 2006	291,500	858,500	322,000	32,646	582,136	2,086,782	
Revaluation of available-for-sale securities (net)	0	0	0	47,762	0	47,762	
Deferred tax on revaluation of available-for-sale securities (net)	0	0	0	(12,516)	0	(12,516)	
Net gains recognised directly in equity	0	0	0	35,246	0	35,246	
Net profit attributable to shareholders	0	0	0	0	431,074	431,074	
Total recognised income and expense for the year	0	0	0	35,246	431,074	466,320	
Dividends paid on ordinary shares in respect of :							
- Final 2005	30	0	0	0	(231,840)	(231,840)	
- Interim 2006	30	0	0	0	(85,905)	(85,905)	
Dividends paid on preference shares	30	0	0	0	(18,040)	(18,040)	
Balance at 31 December 2006	<u>291,500</u>	<u>858,500</u>	<u>322,000</u>	<u>67,892</u>	<u>677,425</u>	<u>2,217,317</u>	

The accounting policies on pages 26 to 35 and notes on pages 36 to 115 form an integral part of the financial statements.

CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

	Note	Group		Bank	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation and zakat		717,674	602,945	717,525	602,716
Adjustments for:-					
Net gains from sale of held-for-trading securities		(6,910)	(14,166)	(6,910)	(14,166)
Net (gains) / losses from sale of available-for-sale securities		(4,784)	1,459	(4,784)	1,459
Dividends received		(5,619)	(1,553)	(5,619)	(1,553)
Depreciation of property, plant and equipment		25,859	23,598	25,856	23,593
Depreciation of investment property		163	181	163	181
Amortisation of prepaid lease payments		71	0	71	0
Impairment losses on property, plant and equipment		0	350	0	350
Gain on disposal of property, plant and equipment (net)		(114)	(1,265)	(113)	(1,265)
Gain on disposal of investment property		0	(475)	0	(475)
Gain on disposal of non-current assets held for sale		(1,851)	(1,461)	(1,851)	(1,461)
Allowance for losses on loans, advances and financing		44,053	62,623	44,135	62,670
Profit equalisation reserve		(4,083)	14,684	(4,083)	14,684
Amortisation of premium less accretion of discount		43,272	47,584	43,272	47,584
Provision for commitment and contingencies		1,304	293	1,304	293
Equity compensation benefits		3,418	3,647	3,418	3,647
Unrealised (gains) / losses on revaluation (net)		(16,071)	11,687	(16,071)	11,687
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		796,382	750,131	796,313	749,944
(Increase) / Decrease in Operating Assets :					
Loans, advances and financing		(3,623,786)	(2,158,362)	(3,624,056)	(2,158,668)
Other assets and statutory deposits with Bank Negara Malaysia		23,335	(120,117)	23,259	(123,056)
Held-for-trading securities (net)		(1,341,504)	(161,091)	(1,341,504)	(161,091)
Securities purchased under resale agreements		(358,344)	49,976	(358,344)	49,976
Increase / (Decrease) in Operating Liabilities :					
Deposits from customers		6,821,299	4,868,127	6,821,737	4,868,609
Bills and acceptances payable		(135,953)	477,335	(135,953)	477,335
Amount due to Cagamas		(60,618)	(232,484)	(60,618)	(232,484)
Other liabilities		138,761	14,872	138,733	17,822
Obligations on securities sold under repurchase agreements		(3,075,577)	463,781	(3,075,577)	463,781
Deposits and placements of banks and other financial institutions		1,098,820	(101,315)	1,098,820	(101,315)
Subordinated term loan / bonds		(32,262)	(38,626)	(32,262)	(38,626)
Cash generated from operations		250,553	3,812,227	250,548	3,812,227
Income tax and zakat paid		(193,909)	(136,702)	(193,901)	(136,702)
NET CASH GENERATED FROM OPERATING ACTIVITIES		56,644	3,675,525	56,647	3,675,525

CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (continued)

	Note	Group		Bank	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES					
(Purchase of) / proceeds from sale of available-for-sale securities (net)		(246,397)	109,537	(246,397)	109,537
Purchase of property, plant and equipment		(19,771)	(20,192)	(19,771)	(20,192)
Purchase of investment property		(1,309)	(498)	(1,309)	(498)
Proceeds from sale of property, plant and equipment		804	2,321	801	2,321
Proceeds from sale of investment property		0	485	0	485
Proceeds from sale of non-current assets held for sale		2,395	1,556	2,395	1,556
Dividends received		5,619	1,553	5,619	1,553
NET CASH (UTILISED IN) / GENERATED FROM INVESTING ACTIVITIES		(258,659)	94,762	(258,662)	94,762
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid		(259,396)	(335,785)	(259,396)	(335,785)
Proceeds from subordinated term loan/ bonds		400,000	200,000	400,000	200,000
NET CASH GENERATED FROM / (UTILISED IN) FINANCING ACTIVITIES		140,604	(135,785)	140,604	(135,785)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(61,411)	3,634,502	(61,411)	3,634,502
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		5,927,925	2,293,423	5,927,925	2,293,423
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	40	5,866,514	5,927,925	5,866,514	5,927,925

The accounting policies on pages 26 to 35 and notes on pages 36 to 115 form an integral part of the financial statements.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007****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 Financial Reporting Standards 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 (operations 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 Syariah principles.

The accounting policies adopted by the Group and the Bank are consistent with those adopted in previous years except for the adoption of FRS 117 Leases and FRS 124 Related Party Disclosures issued by MASB that is effective for the Group's annual reporting date, 31 December 2007. The principal effects of the change in accounting policy resulting from the adoption of FRS 117 are disclosed in Note 41.

The following revised Financial Reporting Standards (FRSs), amendments to FRSs and IC Interpretations issued by MASB during the financial year 2007 have not been adopted by the Group in preparing the financial statements for the year ended 31 December 2007:

	Effective Date	Date of adoption by the Group and Bank
FRS 107 Cash Flow Statements	On or after 1 July 2007	1 January 2008
FRS 111 Construction Contracts	On or after 1 July 2007	Not applicable
FRS 112 Income Taxes	On or after 1 July 2007	1 January 2008
FRS 118 Revenue	On or after 1 July 2007	1 January 2008
FRS 119 Employee Benefits	On or after 1 July 2007	1 January 2008
FRS 120 Accounting for Government Grants and Disclosure of Government Assistance	On or after 1 July 2007	Not applicable
FRS 126 Accounting and Reporting by Retirement Benefit Plans	On or after 1 July 2007	Not applicable
FRS 129 Financial Reporting in Hyperinflationary Economies	On or after 1 July 2007	Not applicable
FRS 134 Interim Financial Reporting	On or after 1 July 2007	Not applicable
FRS 137 Provisions, Contingent Liabilities and Contingent Assets	On or after 1 July 2007	1 January 2008
FRS 139 Financial Instruments: Recognition and Measurement	To be announced by MASB	No tentative date
IC Interpretation 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities	On or after 1 July 2007	Not applicable
IC Interpretation 2, Members' Shares in Co-operative Entities and Similar Instruments	On or after 1 July 2007	Not applicable
IC Interpretation 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	On or after 1 July 2007	Not applicable
IC Interpretation 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	On or after 1 July 2007	Not applicable
IC Interpretation 7, Applying the Restatement Approach under FRS 129, Financial Reporting in Hyperinflationary Economies	On or after 1 July 2007	Not applicable
IC Interpretation 8, Scope of FRS 2	On or after 1 July 2007	1 January 2008

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

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

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (continued)**

B. Basis of Consolidation

The Group financial statements include the audited financial statements of the Bank and all its subsidiary companies made up to the financial year ended 31 December 2007. Subsidiary companies are those companies in which the Group has power to exercise control over the financials and operating policies so as to benefit from their activities.

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

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

C. Recognition of Interest Income / Financing Income

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

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

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

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.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (continued)**

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

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.

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 providers, BNM) or valuation techniques. Where mid prices are used, a bid-offer spread adjustment will be made to ensure that all net long positions are marked to bid prices. All realised and unrealised gains and losses arising from revaluing that contract to fair value are included in the income statement. Reclassification of securities in and out of held-for-trading portfolio is disallowed.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (continued)**

G. Securities (continued)

ii) Available-for-sale securities

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

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

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

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

H. Investment in Subsidiary Companies

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

Investments in subsidiary companies are stated in the Bank's balance sheet at cost less impairment losses, and written down when the Directors consider that there is a 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. Leasehold land that has an indefinite economic life and title is not expected to pass to the Bank by the end of the lease term is treated as an operating lease and reclassified as prepaid lease payments as stated in Section K of the accounting policies.

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

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (continued)**

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

The principal annual rates are:-

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

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

J. Investment Property

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

Leasehold land that has an indefinite economic life and title is not expected to pass to the Group by the end of the lease term is treated as an operating lease and reclassified as prepaid lease payments as stated in Section K of the accounting policies.

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

K. Assets under Lease

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

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

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

In previous years, all leasehold land were classified as finance lease and the amount of prepaid lease payments were recognised as properties within property, plant and equipment and investment properties. Following the adoption of FRS 117 Leases, the Group treats such leases as operating leases, with the unamortised carrying amount classified as prepaid lease payments and are amortised over the remaining lease terms. The change in accounting policy is applied prospectively from 1 January 2007.

L. Bills and Acceptances Payable

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

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (continued)**

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>2007</u>	<u>2006</u>
Foreign currency	RM	RM
1 US Dollar	3.31	3.52
1 Australian Dollar	2.91	2.79
100 Japanese Yen	2.95	2.97

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.

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 recognised to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences can be utilised.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (continued)**

P. Zakat Contribution

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. There were no statutory requirements for the Bank to pay zakat as its Islamic Banking business is operated under an Islamic window. Hence, any payment of zakat is subject to the discretion of the Bank.

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.

S. Employee Benefits

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

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (continued)**

S. Employee Benefits (continued)

iii) Equity compensation benefits

a) Deferred Share Plan

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

b) Share Option Scheme

Share Option Schemes are offered to executives of the rank of Manager and above, including executive directors. Options granted 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 18.

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.

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.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (continued)**

W. Use of Estimates and Judgements

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

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

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

- a) Section E – Allowance for Bad and Doubtful Debts and Financing
- b) Note 31 – Commitments and Contingencies
- c) Note 38 – 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.

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).

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007 (continued)**

Y. Hedging (continued)

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 2007**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 2,747 (2006: 2,122) employees in the Group and 2,745 (2006: 2,120) employees in the Bank. The number of employees seconded to e2 Power Sdn Bhd, a related company amounted to 486 (2006: 593).

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	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Cash and balances with banks and other financial institutions	280,408	138,842	280,408	138,842
Money at call and deposit placements maturing within one month	5,355,707	3,508,337	5,355,707	3,508,337
	<u>5,636,115</u>	<u>3,647,179</u>	<u>5,636,115</u>	<u>3,647,179</u>

3 DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Licensed banks	130,399	679,746	130,399	679,746
Bank Negara Malaysia	100,000	1,601,000	100,000	1,601,000
	<u>230,399</u>	<u>2,280,746</u>	<u>230,399</u>	<u>2,280,746</u>

4 SECURITIES PORTFOLIO

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
i) Held-for-trading securities				
<u>At fair value</u>				
Malaysian Government treasury bills	38,410	0	38,410	0
Malaysian Government securities	234,984	14,996	234,984	14,996
Government Investment Certificate	93,704	0	93,704	0
Bank Negara Malaysia bills	224,022	146,677	224,022	146,677
Bank Negara Malaysia negotiable notes	53,750	16,237	53,750	16,237
Private debt securities	1,225,322	350,429	1,225,322	350,429
Quoted shares in Malaysia	2,606	1,466	2,606	1,466
	<u>1,872,798</u>	<u>529,805</u>	<u>1,872,798</u>	<u>529,805</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**4 SECURITIES PORTFOLIO (continued)**

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
ii) Available-for-sale securities				
<i>At fair value</i>				
Malaysian Government treasury bills	28,973	0	28,973	0
Malaysian Government securities	2,757,797	2,881,368	2,757,797	2,881,368
Government Investment Certificate	1,069,944	934,862	1,069,944	934,862
Bank Negara Malaysia Negotiable notes	153,162	0	153,162	0
Cagamas bonds / notes	35,280	100,303	35,280	100,303
Private debt securities	1,040,538	594,557	1,040,538	594,557
Negotiable instruments of deposit	625,000	1,065,000	625,000	1,065,000
Quoted shares in Malaysia	93,889	19,179	93,889	19,179
Unquoted shares in Malaysia	51,673	46,696	51,673	46,696
Debentures	188	188	188	188
	<u>5,856,444</u>	<u>5,642,153</u>	<u>5,856,444</u>	<u>5,642,153</u>
Allowance for impairment losses in available-for-sale securities :				
- Unquoted shares in Malaysia	(121)	(121)	(121)	(121)
- Private debt securities	(6,300)	(638)	(6,300)	(638)
	<u>(6,421)</u>	<u>(759)</u>	<u>(6,421)</u>	<u>(759)</u>
	<u>5,850,023</u>	<u>5,641,394</u>	<u>5,850,023</u>	<u>5,641,394</u>

Included in available-for-sale securities is an amount of RM Nil (2006: RM3,155,199,000) 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	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	759	50,276	759	50,276
Amount transferred from allowance for losses on loans, advances and financing	5,662	0	5,662	0
Amount written off	0	(49,517)	0	(49,517)
Balance at 31 December	<u>6,421</u>	<u>759</u>	<u>6,421</u>	<u>759</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**5 LOANS, ADVANCES AND FINANCING**

i) By type

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Overdrafts	3,261,190	3,433,629	3,261,190	3,433,629
Term loans/financing :				
Housing loans/financing	6,762,610	6,427,839	6,762,610	6,427,839
Syndicated term loan/financing	1,560,204	930,687	1,560,204	930,687
Hire purchase	449,570	381,785	449,570	381,785
Lease receivables	24,465	22,066	23,714	21,130
Other term loans	9,448,499	7,714,720	9,448,499	7,714,720
Credit/charge cards receivables	583,652	516,055	583,652	516,055
Bills receivable	79,123	94,094	79,123	94,094
Trust receipts	114,657	96,129	114,657	96,129
Claims on customers under acceptance credits	2,356,607	2,169,791	2,356,607	2,169,791
Block discounting	330	330	330	330
Loans to banks and other financial institutions	218,050	343,768	218,050	343,768
Revolving credit	2,032,899	1,646,941	2,032,899	1,646,941
Staff loans (of which RM Nil [2006 : RM Nil] to Directors)	114,217	118,169	114,217	118,169
Other loans	665,208	266,403	665,208	266,403
	<u>27,671,281</u>	<u>24,162,406</u>	<u>27,670,530</u>	<u>24,161,470</u>
Unearned interest and income	(238,406)	(199,201)	(238,381)	(199,170)
Gross loans, advances and financing	<u>27,432,875</u>	<u>23,963,205</u>	<u>27,432,149</u>	<u>23,962,300</u>
Allowance for bad and doubtful debts and financing :				
- Specific	(418,833)	(550,681)	(418,305)	(550,162)
- General	(402,112)	(344,400)	(402,097)	(344,385)
Net loans, advances and financing	<u>26,611,930</u>	<u>23,068,124</u>	<u>26,611,747</u>	<u>23,067,753</u>

ii) By type of customer

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Domestic banking institutions	33,272	226,601	33,074	226,215
Domestic non-bank financial institutions				
- Stockbroking companies	50,161	0	50,161	0
- Others	235,908	196,656	235,908	196,656
Domestic business enterprises				
- Small medium enterprises ("SME")	4,677,986	3,552,260	4,677,808	3,552,091
- Non-SME	12,441,181	10,273,370	12,440,831	10,273,020
Government and statutory bodies	219,651	422,557	219,651	422,557
Individuals	9,712,221	9,237,997	9,712,221	9,237,997
Other domestic entities	2,666	2,546	2,666	2,546
Foreign entities	59,829	51,218	59,829	51,218
	<u>27,432,875</u>	<u>23,963,205</u>	<u>27,432,149</u>	<u>23,962,300</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**5 LOANS, ADVANCES AND FINANCING (continued)**

iii) By interest/profit rate sensitivity

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Fixed rate				
Housing loans/financing	78,618	90,739	78,618	90,739
Hire purchase receivables	406,910	343,778	406,910	343,778
Other fixed rate loan/financing	2,400,288	1,817,764	2,399,562	1,816,859
Variable rate				
BLR plus	16,566,038	14,649,030	16,566,038	14,649,030
Cost-plus	3,818,288	3,192,608	3,818,288	3,192,608
Other variable rates	4,162,733	3,869,286	4,162,733	3,869,286
	<u>27,432,875</u>	<u>23,963,205</u>	<u>27,432,149</u>	<u>23,962,300</u>

iv) By sector

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Agriculture	1,651,442	1,524,203	1,651,442	1,524,203
Mining and quarrying	275,747	32,763	275,747	32,763
Manufacturing	5,124,990	4,133,497	5,124,990	4,133,497
Electricity, gas and water	240,038	15,440	240,038	15,440
Construction	1,326,049	1,101,309	1,325,700	1,100,959
Real estate	2,821,911	2,329,361	2,821,911	2,329,361
Purchase of landed property				
of which : i. Residential	6,817,415	6,613,330	6,817,415	6,613,330
ii. Non-residential	861,242	777,464	861,242	777,464
General commerce	3,661,575	3,118,096	3,661,396	3,117,927
Transport, insurance and business services	1,344,427	1,105,071	1,344,427	1,105,071
Purchase of securities	213,284	120,738	213,284	120,738
Purchase of transport vehicles	8,503	10,051	8,503	10,051
Consumption credit	1,367,660	1,270,630	1,367,462	1,270,244
Sovereign	219,651	422,557	219,651	422,557
Others	1,498,941	1,388,695	1,498,941	1,388,695
	<u>27,432,875</u>	<u>23,963,205</u>	<u>27,432,149</u>	<u>23,962,300</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**6 NON-PERFORMING LOANS, ADVANCES AND FINANCING**

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

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	1,307,988	1,352,617	1,307,469	1,352,101
Non-performing during the year (gross)	490,377	499,905	490,368	499,902
Reclassified as performing during the year	(171,768)	(137,348)	(171,768)	(137,348)
Amount converted to available-for-sale securities	(5,662)	0	(5,662)	0
Amount recovered	(365,502)	(328,667)	(365,502)	(328,667)
Amount written off	(147,053)	(78,519)	(147,053)	(78,519)
Balance at 31 December	1,108,380	1,307,988	1,107,852	1,307,469
Specific allowance	(418,833)	(550,681)	(418,305)	(550,162)
Net non-performing loans, advances and financing	<u>689,547</u>	<u>757,307</u>	<u>689,547</u>	<u>757,307</u>
Ratio of net non-performing loans, advances and financing to gross loans, advances and financing less specific allowance	<u>2.55%</u>	<u>3.24%</u>	<u>2.55%</u>	<u>3.24%</u>

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

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
<u>General allowance</u>				
Balance at 1 January	344,400	306,870	344,385	306,855
Allowance made during the year	57,712	37,530	57,712	37,530
Balance at 31 December	<u>402,112</u>	<u>344,400</u>	<u>402,097</u>	<u>344,385</u>
As % of gross loans, advances and financing less specific allowance	<u>1.50%</u>	<u>1.50%</u>	<u>1.50%</u>	<u>1.50%</u>
<u>Specific allowance</u>				
Balance at 1 January	550,681	581,528	550,162	581,012
Allowance made during the year	248,125	222,435	248,116	222,432
Amount transferred to allowance for impairment losses for available-for-sale securities	(3,795)	0	(3,795)	0
Amount written back in respect of recoveries	(229,126)	(174,762)	(229,126)	(174,762)
Amount written off	(147,052)	(78,520)	(147,052)	(78,520)
Balance at 31 December	<u>418,833</u>	<u>550,681</u>	<u>418,305</u>	<u>550,162</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**6 NON-PERFORMING LOANS, ADVANCES AND FINANCING (continued)**

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

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Agriculture	17,871	21,326	17,871	21,326
Manufacturing	323,981	327,811	323,981	327,811
Construction	60,266	105,430	59,916	105,080
Real estate	132,105	185,815	132,105	185,815
Purchase of landed property				
of which : i. Residential	230,798	183,453	230,798	183,453
ii. Non-residential	57,825	47,667	57,825	47,667
General commerce	180,046	262,084	179,868	261,915
Transport, insurance and business services	8,320	13,268	8,320	13,268
Purchase of securities	21,436	32,828	21,436	32,828
Purchase of transport vehicles	54	39	54	39
Consumption credit	51,285	47,550	51,285	47,550
Others	24,393	80,717	24,393	80,717
	<u>1,108,380</u>	<u>1,307,988</u>	<u>1,107,852</u>	<u>1,307,469</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)

7 OTHER ASSETS	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Interest receivable	97,182	91,898	97,182	91,898
Derivative assets (a)	261,577	162,899	261,577	162,899
Other debtors, deposits and prepayments	86,899	57,755	86,897	57,677
	<u>445,658</u>	<u>312,552</u>	<u>445,656</u>	<u>312,474</u>

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

<u>Group and Bank</u>	2007			2006		
	Contract or underlying principal amount RM'000	Fair value		Contract or underlying principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
Financial derivatives						
Trading:						
Foreign exchange derivatives						
- forward	2,524,600	14,178	20,266	1,893,461	8,545	12,397
- swaps	7,539,447	80,105	85,368	2,869,458	31,442	40,385
- currency option	3,227,591	10,415	11,162	294,091	4,223	1,553
Interest rate derivatives						
- swaps	23,438,918	113,593	66,434	16,289,451	104,410	74,971
- option	1,329,485	5,815	1,115	818,193	2,401	2,836
- swaption	900,000	4,278	934	200,000	2,082	64
- futures	19,841	0	0	0	0	0
Equity and commodity derivatives						
- option	358,023	33,128	33,128	60,625	9,796	9,784
	<u>39,337,905</u>	<u>261,512</u>	<u>218,407</u>	<u>22,425,279</u>	<u>162,899</u>	<u>141,990</u>
Hedging:						
Interest rate derivatives						
- swaps	586,039	65	8,481	528,300	0	30,899
	<u>39,923,944</u>	<u>261,577</u>	<u>226,888</u>	<u>22,953,579</u>	<u>162,899</u>	<u>172,889</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 2007 (continued)**9 INVESTMENT IN SUBSIDIARY COMPANIES**

	Bank	
	2007 RM'000	2006 RM'000
Unquoted shares at cost		
- in Malaysia	1,617	1,617
Less : Allowance for diminution in value	(6)	(6)
	1,611	1,611

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

Name	Principal activities	Percentage of equity held	
		2007 %	2006 %
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 2007	Balance at 1 January RM'000	Adjustment on adoption of FRS 117 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	188,284	0	188,284	1,449	0	0	189,733
Leasehold land and buildings:							
- less than 50 years	6,551	(3,047)	3,504	71	0	0	3,575
- 50 years or more	10,736	(3,745)	6,991	27	0	0	7,018
Office equipment and furniture	62,632	0	62,632	3,296	(1,054)	0	64,874
Computer equipment	125,416	0	125,416	14,285	(558)	0	139,143
Motor vehicles	4,418	0	4,418	574	(2,273)	0	2,719
<u>Assets under lease:-</u>							
Computer/office equipment and furniture	1,829	0	1,829	69	0	0	1,898
	399,866	(6,792)	393,074	19,771	(3,885)	0	408,960
	Balance at 1 January RM'000	Adjustment on adoption of FRS 117 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	21,791	0	21,791	7,042	0	0	28,833
Leasehold land and buildings :							
- less than 50 years	1,107	(349)	758	94	0	0	852
- 50 years or more	1,538	(248)	1,290	140	0	0	1,430
Office equipment and furniture	45,967	0	45,967	3,315	(955)	0	48,327
Computer equipment	82,595	0	82,595	14,879	(414)	0	97,060
Motor vehicles	2,912	0	2,912	316	(1,826)	0	1,402
<u>Assets under lease:-</u>							
Computer/office equipment and furniture	1,608	0	1,608	73	0	0	1,681
	157,518	(597)	156,921	25,859	(3,195)	0	179,585

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**10 PROPERTY, PLANT AND EQUIPMENT (continued)**

Group (Continued) 2007	Balance at 1 January	Adjustment on adoption of FRS 117	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	4,172	0	4,172	0	0	0	4,172
Leasehold land and buildings :							
- less than 50 years	2,639	(1,554)	1,085	0	0	0	1,085
- 50 years or more	2,335	(1,607)	728	0	0	0	728
Office equipment and furniture	1,707	0	1,707	0	0	0	1,707
	<u>10,853</u>	<u>(3,161)</u>	<u>7,692</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,692</u>

	Balance at 31 December
	RM'000
<u>Carrying amounts</u>	
Freehold land and buildings	156,728
Leasehold land and buildings :	
- less than 50 years	1,638
- 50 years or more	4,860
Office equipment and furniture	14,840
Computer equipment	42,083
Motor vehicles	1,317
<u>Assets under lease:-</u>	
Computer/office equipment and furniture	217
	<u>221,683</u>

Bank 2007	Balance at 1 January	Adjustment on adoption of FRS 117	As restated	Additions	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>Cost</u>							
Freehold land and buildings	188,284	0	188,284	1,449	0	0	189,733
Leasehold land and buildings:							
- less than 50 years	6,551	(3,047)	3,504	71	0	0	3,575
- 50 years or more	10,736	(3,745)	6,991	27	0	0	7,018
Office equipment and furniture	62,615	0	62,615	3,296	(1,051)	0	64,860
Computer equipment	125,327	0	125,327	14,285	(558)	0	139,054
Motor vehicles	4,418	0	4,418	574	(2,273)	0	2,719
<u>Assets under lease:-</u>							
Computer/office equipment and furniture	1,829	0	1,829	69	0	0	1,898
	<u>399,760</u>	<u>(6,792)</u>	<u>392,968</u>	<u>19,771</u>	<u>(3,882)</u>	<u>0</u>	<u>408,857</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**10 PROPERTY, PLANT AND EQUIPMENT (continued)**

Bank (Continued) 2007	Balance at 1 January	Adjustment on adoption of FRS 117	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	21,791	0	21,791	7,042	0	0	28,833
Leasehold land and buildings :							
- less than 50 years	1,107	(349)	758	94	0	0	852
- 50 years or more	1,538	(248)	1,290	140	0	0	1,430
Office equipment and furniture	45,962	0	45,962	3,312	(954)	0	48,320
Computer equipment	82,507	0	82,507	14,879	(414)	0	96,972
Motor vehicles	2,912	0	2,912	316	(1,826)	0	1,402
<u>Assets under lease:-</u>							
Computer/office equipment and furniture	1,608	0	1,608	73	0	0	1,681
	<u>157,425</u>	<u>(597)</u>	<u>156,828</u>	<u>25,856</u>	<u>(3,194)</u>	<u>0</u>	<u>179,490</u>

	Balance at 1 January	Adjustment on adoption of FRS 117	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	4,172	0	4,172	0	0	0	4,172
Leasehold land and buildings :							
- less than 50 years	2,639	(1,554)	1,085	0	0	0	1,085
- 50 years or more	2,335	(1,607)	728	0	0	0	728
Office equipment and furniture	1,707	0	1,707	0	0	0	1,707
	<u>10,853</u>	<u>(3,161)</u>	<u>7,692</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,692</u>

	Balance at 31 December
	RM'000
<u>Carrying amounts</u>	
Freehold land and buildings	156,728
Leasehold land and buildings :	
- less than 50 years	1,638
- 50 years or more	4,860
Office equipment and furniture	14,833
Computer equipment	42,082
Motor vehicles	1,317
<u>Assets under lease:-</u>	
Computer/office equipment and furniture	217
	<u>221,675</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**10 PROPERTY, PLANT AND EQUIPMENT (continued)**

Group 2006	Balance at 1 January	Additions	Disposal/ written off	Reclassified to investment property	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000	RM'000
Cost					
Freehold land and buildings	188,167	1,005	(238)	(650)	188,284
Leasehold land and buildings:					
- less than 50 years	6,445	106	0	0	6,551
- 50 years or more	10,712	24	0	0	10,736
Office equipment and furniture	61,783	2,841	(1,992)	0	62,632
Computer equipment	113,774	14,882	(3,240)	0	125,416
Motor vehicles	8,625	1,284	(5,491)	0	4,418
Assets under lease:-					
Computer/office equipment and furniture	1,779	50	0	0	1,829
	391,285	20,192	(10,961)	(650)	399,866
	Balance at 1 January	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
Accumulated depreciation					
Freehold land and buildings	15,412	7,035	(137)	(519)	21,791
Leasehold land and buildings :					
- less than 50 years	929	178	0	0	1,107
- 50 years or more	1,337	201	0	0	1,538
Office equipment and furniture	44,262	3,370	(1,665)	0	45,967
Computer equipment	73,089	12,385	(2,879)	0	82,595
Motor vehicles	7,891	245	(5,224)	0	2,912
Assets under lease:-					
Computer/office equipment and furniture	1,424	184	0	0	1,608
	144,344	23,598	(9,905)	(519)	157,518
	Balance at 1 January	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
Impairment losses					
Freehold land and buildings	3,822	350	0	0	4,172
Leasehold land and buildings :					
- less than 50 years	2,639	0	0	0	2,639
- 50 years or more	2,335	0	0	0	2,335
Office equipment and furniture	1,707	0	0	0	1,707
	10,503	350	0	0	10,853

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)

10 PROPERTY, PLANT AND EQUIPMENT (continued)

Group (Continued) 2006	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	14,958
Computer equipment	42,821
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	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	188,167	1,005	(238)	(650)	188,284
Leasehold land and buildings:					
- less than 50 years	6,445	106	0	0	6,551
- 50 years or more	10,712	24	0	0	10,736
Office equipment and furniture	61,766	2,841	(1,992)	0	62,615
Computer equipment	113,685	14,882	(3,240)	0	125,327
Motor vehicles	8,625	1,284	(5,491)	0	4,418
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	1,779	50	0	0	1,829
	<u>391,179</u>	<u>20,192</u>	<u>(10,961)</u>	<u>(650)</u>	<u>399,760</u>

	Balance at 1 January 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	15,412	7,035	(137)	(519)	21,791
Leasehold land and buildings :					
- less than 50 years	929	178	0	0	1,107
- 50 years or more	1,337	201	0	0	1,538
Office equipment and furniture	44,261	3,366	(1,665)	0	45,962
Computer equipment	73,002	12,384	(2,879)	0	82,507
Motor vehicles	7,891	245	(5,224)	0	2,912
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	1,424	184	0	0	1,608
	<u>144,256</u>	<u>23,593</u>	<u>(9,905)</u>	<u>(519)</u>	<u>157,425</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**10 PROPERTY, PLANT AND EQUIPMENT (continued)**

Bank (Continued) 2006	Balance at 1 January	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
<u>Impairment losses</u>					
Freehold land and buildings	3,822	350	0	0	4,172
Leasehold land and buildings :					
- less than 50 years	2,639	0	0	0	2,639
- 50 years or more	2,335	0	0	0	2,335
Office equipment and furniture	1,707	0	0	0	1,707
	<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					<u>221</u>
					<u>231,482</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**11 INVESTMENT PROPERTY**

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
<u>Cost</u>				
Balance at 1 January	15,402	14,973	15,402	14,973
- Adjustment on adoption of FRS 117	(2,000)	0	(2,000)	0
As restated	13,402	14,973	13,402	14,973
Reclassified from property, plant and equipment (Note 10)	0	650	0	650
Reclassified to non-current assets held for sale (Note 13)	(1,717)	(709)	(1,717)	(709)
Addition	1,309	498	1,309	498
Disposal	0	(10)	0	(10)
Balance at 31 December	<u>12,994</u>	<u>15,402</u>	<u>12,994</u>	<u>15,402</u>
<u>Accumulated depreciation</u>				
Balance at 1 January	2,173	1,543	2,173	1,543
- Adjustment on adoption of FRS 117	(160)	0	(160)	0
As restated	2,013	1,543	2,013	1,543
Reclassified from property, plant and equipment (Note 10)	0	519	0	519
Reclassified to non-current assets held for sale (Note 13)	(354)	(70)	(354)	(70)
Charge for the year	163	181	163	181
Balance at 31 December	<u>1,822</u>	<u>2,173</u>	<u>1,822</u>	<u>2,173</u>
<u>Impairment losses</u>				
Balance at 1 January	2,199	2,199	2,199	2,199
- Adjustment on adoption of FRS 117	(691)	0	(691)	0
As restated	1,508	2,199	1,508	2,199
Reclassified to non-current assets held for sale (Note 13)	(402)	0	(402)	0
Balance at 31 December	<u>1,106</u>	<u>2,199</u>	<u>1,106</u>	<u>2,199</u>
<u>Carrying amounts</u>				
Balance at 31 December	<u>10,066</u>	<u>11,030</u>	<u>10,066</u>	<u>11,030</u>
Fair value at 31 December	<u>54,830</u>	<u>55,981</u>	<u>54,830</u>	<u>55,981</u>
Included in carrying amounts are:				
Freehold land and buildings	10,066	8,904	10,066	8,904
Leasehold land and building:-				
- 50 years or more	0	2,126	0	2,126
	<u>10,066</u>	<u>11,030</u>	<u>10,066</u>	<u>11,030</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**12 PREPAID LEASE PAYMENTS**

	Group and Bank		
	2007		
	Leasehold land		Total RM'000
Unexpired period less than 50 years RM'000	Unexpired period 50 years or more RM'000		
<u>Cost</u>			
Balance at 1 January	0	0	0
- Adjustment on adoption of FRS 117	3,047	5,745	8,792
As restated	<u>3,047</u>	<u>5,745</u>	<u>8,792</u>
Reclassified to non-current assets held for sale (Note 13)	0	(2,000)	(2,000)
Balance at 31 December	<u><u>3,047</u></u>	<u><u>3,745</u></u>	<u><u>6,792</u></u>
<u>Accumulated amortisation</u>			
Balance at 1 January	0	0	0
- Adjustment on adoption of FRS 117	349	408	757
As restated	<u>349</u>	<u>408</u>	<u>757</u>
Amortisation for the year	36	35	71
Reclassified to non-current assets held for sale (Note 13)	0	(178)	(178)
Balance at 31 December	<u><u>385</u></u>	<u><u>265</u></u>	<u><u>650</u></u>
<u>Impairment losses</u>			
Balance at 1 January	0	0	0
- Adjustment on adoption of FRS 117	1,554	2,298	3,852
As restated	<u>1,554</u>	<u>2,298</u>	<u>3,852</u>
Reclassified to non-current assets held for sale (Note 13)	0	(691)	(691)
Balance at 31 December	<u><u>1,554</u></u>	<u><u>1,607</u></u>	<u><u>3,161</u></u>
<u>Carrying amounts</u>			
Balance at 31 December	<u><u>1,108</u></u>	<u><u>1,873</u></u>	<u><u>2,981</u></u>

No comparatives have been provided for prepaid lease payments as the change in accounting policy on adoption of FRS 117 was applied prospectively from 1 January 2007.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**13 NON-CURRENT ASSETS HELD FOR SALE**

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Balance at 1 January	544	0	544	0
Amount reclassified from investment property :				
- Cost	1,717	709	1,717	709
- Accumulated depreciation	(354)	(70)	(354)	(70)
- Impairment losses	(402)	0	(402)	0
Amount reclassified from prepaid lease payments				
- Cost	2,000	0	2,000	0
- Amortised lease payment	(178)	0	(178)	0
- Impairment losses	(691)	0	(691)	0
Disposal	(544)	(95)	(544)	(95)
Balance at 31 December	<u>2,092</u>	<u>544</u>	<u>2,092</u>	<u>544</u>

14 DEFERRED TAXATION

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

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Deferred tax assets (before offsetting)	191,780	185,369	191,780	185,369
Deferred tax liabilities (before offsetting)	(91,724)	(83,226)	(91,435)	(82,910)
Deferred tax assets after offsetting	<u>100,056</u>	<u>102,143</u>	<u>100,345</u>	<u>102,459</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**14 DEFERRED TAXATION (continued)**

	Balance at 1 January 2007 <u>RM'000</u>	Credit to reserves <u>RM'000</u>	Credit / (charged) to income statement (Note 28) <u>RM'000</u>	Balance at 31 December 2007 <u>RM'000</u>
Bank				
Allowance for impairment loss in available-for-sale securities	213	0	(16)	197
Temporary differences arising from leasing business	3,250	0	62	3,312
Excess of capital allowance over depreciation	(13,020)	0	664	(12,356)
General allowance on loans, advances and financing	96,428	0	8,117	104,545
Unrealised gains / losses on revaluation of financial instruments	(18,458)	2,075	(3,828)	(20,211)
Impairment on loans, advances and financing	23,182	0	(6,625)	16,557
Other temporary differences	10,864	0	(2,563)	8,301
Total	<u>102,459</u>	<u>2,075</u>	<u>(4,189)</u>	<u>100,345</u>
	Balance at 1 January 2006 <u>RM'000</u>	Debit to reserves <u>RM'000</u>	Credit / (charged) to income statement (Note 28) <u>RM'000</u>	Balance at 31 December 2006 <u>RM'000</u>
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 2007 (continued)**14 DEFERRED TAXATION (continued)**

	Balance at 1 January 2006 RM'000	Debit to reserves RM'000	Credit / (charged) to income statement (Note 28) RM'000	Balance at 31 December 2006 RM'000
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

15 DEPOSITS FROM CUSTOMERS

i) By type of deposit

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Demand deposits	4,160,825	3,242,274	4,175,460	3,242,657
Savings deposits	1,931,446	1,795,538	1,931,446	1,795,538
Fixed deposits	17,334,211	13,941,537	17,334,231	13,955,371
Negotiable instruments of deposits	138,833	3,308,451	138,833	3,308,451
Short-term money market deposits	7,272,115	941,752	7,272,115	941,752
Structured investments	594,447	1,397,102	594,447	1,397,102
Others	36,089	20,013	36,089	20,013
	31,467,966	24,646,667	31,482,621	24,660,884

ii) By type of customer

Government and statutory bodies	80,248	123,373	80,248	123,373
Business enterprises	14,722,391	8,167,992	14,722,391	8,167,992
Individuals	13,597,992	12,346,078	13,597,992	12,346,078
Others	3,067,335	4,009,224	3,081,990	4,023,441
	31,467,966	24,646,667	31,482,621	24,660,884

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**16 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS**

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Licensed banks	1,746,978	2,380,698	1,746,978	2,380,698
Bank Negara Malaysia	1,653,463	493,080	1,653,463	493,080
Other financial institutions	663,827	91,670	663,827	91,670
	<u>4,064,268</u>	<u>2,965,448</u>	<u>4,064,268</u>	<u>2,965,448</u>

17 SUBORDINATED TERM LOAN / BONDS

		Group		Bank	
		2007	2006	2007	2006
		RM'000	RM'000	RM'000	RM'000
USD 100 million	2003/2013 (a)	326,090	332,348	326,090	332,348
USD 50 million	2004/2014 (b)	163,045	166,174	163,045	166,174
RM 200 million	2006/2021 (c)	200,000	200,000	200,000	200,000
RM 400 million	2007/2017 (d)	400,075	0	400,075	0
		<u>1,089,210</u>	<u>698,522</u>	<u>1,089,210</u>	<u>698,522</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. Only the USD100 million 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 2007 (continued)**17 SUBORDINATED TERM LOAN / BONDS (continued)**

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

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

18 OTHER LIABILITIES

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Accruals for personnel costs *	54,571	39,438	54,519	39,429
Equity compensation benefits (a)	5,274	6,163	5,274	6,163
Obligations under finance lease	198	380	198	380
Provision for commitments and contingencies (b)	3,936	2,632	3,936	2,632
Interest payable	186,182	157,045	186,182	157,045
Other accruals and charges	210,256	111,681	210,171	111,581
Derivatives liabilities [Note 7 (a)]	226,888	172,889	226,888	172,889
Profit equalisation reserve [Note 44(10)]	15,072	19,155	15,072	19,155
	702,377	509,383	702,240	509,274

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

a) Equity compensation benefits

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

Included in equity compensation benefits are:

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**18 OTHER LIABILITIES (continued)**a) Equity compensation benefits (continued)

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

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

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

1) Share option schemes

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

	2007		2006	
	Number of share options	Weighted average acquisition price S\$	Number of shares options	Weighted average acquisition price S\$
At 1 January	12,275,214	5.111	16,935,352	4.955
Granted	328,200	8.590	469,789	6.820
Exercised	(4,360,472)	5.032	(4,803,465)	4.648
Lapsed	28,934	4.998	(326,462)	5.180
At 31 December	<u>8,271,876</u>		<u>12,275,214</u>	
Exercisable options at end of financial year	<u>7,466,773</u>	5.131	<u>10,859,456</u>	5.014
Weighted average share price for options exercised (S\$)		8.904		6.840

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**18 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 2007 determined using the binomial valuation model was S\$579,000 (2006 : S\$531,000). The significant inputs into the model were average share price, calculated from grant date to acceptance date, of \$9.00 (2006: \$6.74), expected volatility based on Bloomberg's 250-day historical price volatility as of acceptance date of 20.21% (2006: 16.04%), expected dividend yield of 2.56% (2006: 2.85%), exercise multiple of 1.57 times (2006: 1.57 times) and annual risk-free interest rate based on SGS 10-year bond yield of 2.74% (2006: 3.94%). 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:

	2007		2006	
	Number of acquisition rights	Weighted average acquisition price S\$	Number of acquisition rights	Acquisition price S\$
At 1 January	1,137,344	6.450	479,647	5.050
Acquisition	0	-	1,160,048	6.450
Lapsed	(95,499)	6.450	(30,797)	6.269
Exercised	(104,283)	6.450	(471,554)	5.050
At 31 December	<u>937,562</u>		<u>1,137,344</u>	

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

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Balance at 1 January	2,632	2,339	2,632	2,339
Amount provided during the year (net)	<u>1,304</u>	<u>293</u>	<u>1,304</u>	<u>293</u>
Balance at 31 December	<u>3,936</u>	<u>2,632</u>	<u>3,936</u>	<u>2,632</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 2007 (continued)**19 SHARE CAPITAL**

	Group		Bank	
	2007	2006	2007	2006
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).

20 RESERVES

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

The statutory reserve is maintained in compliance with Section 36 of the Banking and Financial Institutions Act, 1989 and is not distributable as cash dividends. General reserve is accumulated from the transfer of profits and is distributable as cash dividends, the balance as at 31 December 2007 was transferred to retained profits as both reserves records accumulated profits and are distributable as cash dividends to shareholders. 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 2007. The Malaysian Budget 2008 introduced a single tier company income tax system with effect from year of assessment 2008. As such, the Section 108 tax credit as at 31 December 2007 will be available to the Bank until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013, whichever is earlier.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**21 INTEREST INCOME**

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Loans and advances				
- Interest income other than recoveries from NPL	1,380,209	1,232,200	1,380,209	1,232,200
- Recoveries from NPL	27,838	23,494	27,838	23,494
Money at call and deposit placements with financial institutions	203,410	117,732	203,410	117,732
Held-for-trading securities	63,681	21,661	63,681	21,661
Available-for-sale securities	262,357	245,776	262,357	245,776
Others	1,827	3,874	1,827	3,874
	<u>1,939,322</u>	<u>1,644,737</u>	<u>1,939,322</u>	<u>1,644,737</u>
Amortisation of premium less accretion of discount	(43,272)	(47,584)	(43,272)	(47,584)
	<u>1,896,050</u>	<u>1,597,153</u>	<u>1,896,050</u>	<u>1,597,153</u>

22 INTEREST EXPENSE

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Deposits and placements of banks and other financial institutions	140,084	129,945	140,084	129,945
Deposits from other customers	773,440	560,858	773,771	561,248
Loans sold to Cagamas	28,129	32,632	28,129	32,632
Subordinated term loan / bonds	30,755	31,170	30,755	31,170
Others	56,705	93,324	56,725	93,365
	<u>1,029,113</u>	<u>847,929</u>	<u>1,029,464</u>	<u>848,360</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**23 NON-INTEREST INCOME**

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Fee income:				
Commission	109,042	92,135	109,042	92,135
Service charges and fees	74,118	65,620	74,118	65,620
Guarantee fees	17,576	8,780	17,576	8,780
Other fee income	15,391	14,278	15,391	14,278
	<u>216,127</u>	<u>180,813</u>	<u>216,127</u>	<u>180,813</u>
Income from securities (net):				
Net gains from sale of held-for-trading securities	6,910	14,166	6,910	14,166
Net gains / (losses) from sale of available-for-sale securities	4,784	(1,459)	4,784	(1,459)
Unrealised (losses) / gains on revaluation of held-for-trading securities (net)	(5,421)	1,849	(5,421)	1,849
Gross dividends from Malaysia:				
- available-for-sale securities	5,619	1,553	5,619	1,553
	<u>228,019</u>	<u>196,922</u>	<u>228,019</u>	<u>196,922</u>
Other income (net):				
Gains arising from dealing in foreign currency (net)	104,115	87,770	104,115	87,770
(Losses) / gains arising from trading derivatives (net)	(3,529)	2,140	(3,529)	2,140
Unrealised gains / (losses) on revaluation of derivatives (net)	21,826	(12,005)	21,826	(12,005)
Rental income	4,951	4,478	4,951	4,478
Gain on disposal of property, plant and equipment	403	1,749	402	1,749
Gain on disposal of investment property	0	475	0	475
Gain on disposal of non-current assets held for sale	1,851	1,461	1,851	1,461
Others	(346)	(156)	(346)	(156)
	<u>129,271</u>	<u>85,912</u>	<u>129,270</u>	<u>85,912</u>
	<u>357,290</u>	<u>282,834</u>	<u>357,289</u>	<u>282,834</u>

24 STAFF COST AND OVERHEAD EXPENSES

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Personnel costs (i)	252,790	188,934	252,579	188,742
Establishment costs (ii)	51,785	43,766	51,767	43,742
Marketing expenses (iii)	45,221	27,897	45,221	27,896
Administration and general expenses (iv)	192,964	157,026	192,908	156,994
	<u>542,760</u>	<u>417,623</u>	<u>542,475</u>	<u>417,374</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**24 STAFF COST AND OVERHEAD EXPENSES (continued)**

The above expenditure includes the following statutory disclosures:

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Directors' remuneration (Note 25)	2,410	2,242	2,378	2,210
Rental of premises	4,747	3,566	4,734	3,549
Auditors' remuneration	238	238	220	220
Depreciation of property, plant and equipment	25,859	23,598	25,856	23,593
Depreciation of investment property	163	181	163	181
Amortisation of prepaid lease payments	71	0	71	0
Loss on disposal of property, plant and equipment	289	484	289	484

i) Personnel costs

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Wages, salaries and bonus	181,530	136,490	181,388	136,357
Defined contribution plan (EPF)	29,881	22,656	29,858	22,633
Equity compensation benefits	3,418	3,647	3,418	3,647
Employee benefits	919	788	919	788
Other personnel costs	37,042	25,353	36,996	25,317
	252,790	188,934	252,579	188,742

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 costs

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Rental of premises	4,747	3,566	4,734	3,549
Depreciation of property, plant and equipment	25,859	23,598	25,856	23,593
Depreciation of investment property	163	181	163	181
Amortisation of prepaid lease payments	71	0	71	0
Repair and maintenance	7,481	8,205	7,480	8,205
Others	13,464	8,216	13,463	8,214
	51,785	43,766	51,767	43,742

iii) Marketing expenses

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Transport and travelling	6,951	5,259	6,951	5,258
Advertisement and business promotion	36,120	21,155	36,120	21,155
Others	2,150	1,483	2,150	1,483
	45,221	27,897	45,221	27,896

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**24 STAFF COST AND OVERHEAD EXPENSES (continued)****iv) Administration and general expenses**

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Printing and stationery	10,467	7,887	10,466	7,886
Postage and courier	4,575	4,794	4,575	4,794
Telephone, telex and fax	5,553	5,500	5,552	5,499
Legal and consultancy fees	7,888	5,391	7,851	5,361
Transaction processing fees*	120,623	105,571	120,623	105,571
Other administrative and general expenses	43,858	27,883	43,841	27,883
	<u>192,964</u>	<u>157,026</u>	<u>192,908</u>	<u>156,994</u>

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

25 DIRECTORS' REMUNERATION

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

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Executive Director (CEO):				
- Salary	1,129	1,097	1,129	1,097
- Bonuses	413	337	413	337
- Benefits-in-kind (BIK)	35	24	35	24
- Defined contribution retirement plan (EPF)	246	229	246	229
- Other employee benefits	111	93	111	93
Non-Executive Directors:				
- Fees	511	486	479	454
- Benefits-in-kind (BIK)	29	16	29	16
Total	<u>2,474</u>	<u>2,282</u>	<u>2,442</u>	<u>2,250</u>
Total excluding BIK	<u>2,410</u>	<u>2,242</u>	<u>2,378</u>	<u>2,210</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**25 DIRECTORS' REMUNERATION (continued)**

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

	Group		Bank	
	2007	2006	2007	2006
	Number of Directors	Number of Directors	Number of Directors	Number of Directors
<u>Executive</u>				
More than RM1,400,000 but less than RM1,450,000	0	1	0	1
More than RM1,500,000 but less than RM1,550,000	1	0	1	0
<u>Non-executive</u>				
Less than RM50,000	2	0	2	0
More than RM50,000 but less than RM100,000	2	3	2	3
More than RM250,000 but less than RM300,000	1	1	1	1

26 ALLOWANCE FOR LOSSES ON LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Allowance for / (write back of) losses on loans, advances and financing:				
Specific allowance				
- Made in the financial year	248,125	222,435	248,116	222,432
- Written back	(229,126)	(174,762)	(229,126)	(174,762)
General allowance				
- Made in the financial year	57,712	37,530	57,712	37,530
Other allowance	390	702	390	702
Bad debts and financing				
- Written off	246	240	246	240
- Recovered	(33,294)	(23,522)	(33,203)	(23,472)
	<u>44,053</u>	<u>62,623</u>	<u>44,135</u>	<u>62,670</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

Related parties of the Bank are as follows:

- (a) Holding company is Oversea-Chinese Banking Corporation Limited;
 (b) Subsidiary companies of the Bank are as disclosed in Note 9;
 (c) Other related companies are in the Oversea-Chinese Banking Corporation Limited Group.
 (d) Key management (including Directors) of the Bank (including their immediate family members) and entities in which they have control, joint control or significant influence.

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

	Holding Company	Subsidiary Companies	Other Related Companies	Key Management
2007	RM '000	RM '000	RM '000	RM '000
Income :				
Interest on deposits and placements	15,873	0	0	0
Commission income	0	0	3,674	0
Rental income	0	0	5,160	0
	<u>15,873</u>	<u>0</u>	<u>8,834</u>	<u>0</u>
Expenditure :				
Interest on fixed deposits	0	332	1,870	209
Interest on other deposits	0	0	0	46
Interest on deposits and placements	61,910	0	1,552	0
Interest on subordinated term loans	29,160	0	0	0
Interest on loans and advances	0	20	0	0
Management fees	0	0	47	0
Rental expenses	0	0	603	0
Transaction processing fees	0	0	120,623	0
	<u>91,070</u>	<u>352</u>	<u>124,695</u>	<u>255</u>
Reimbursement from various expenses	<u>0</u>	<u>0</u>	<u>45,532</u>	<u>0</u>
Amount due from :				
Current account	115,487	0	0	0
Deposits and placements	603,495	0	0	0
Interest receivable	3,901	0	0	0
	<u>722,883</u>	<u>0</u>	<u>0</u>	<u>0</u>
Amount due to :				
Current account and fixed deposits	9,137	14,655	102,199	7,897
Other deposits	0	0	0	1,323
Deposits and placements	981,535	0	43,386	0
Subordinated term loan / bonds	489,135	0	0	0
Loans and advances	0	198	0	0
Interest payable	7,572	0	0	0
	<u>1,487,379</u>	<u>14,853</u>	<u>145,585</u>	<u>9,220</u>
Commitments:				
Foreign exchange derivatives	183,597	0	3,671	0
Interest rate derivatives	1,371,382	0	0	0
Equity derivatives	29,650	0	0	0
	<u>1,584,629</u>	<u>0</u>	<u>3,671</u>	<u>0</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

	Holding Company	Subsidiary Companies	Other Related Companies	Key Management
2006	RM '000	RM '000	RM '000	RM '000
Income :				
Interest on deposits and placements	15,387	0	0	0
Commission income	0	0	1,718	0
Rental income	0	17	3,471	0
	<u>15,387</u>	<u>17</u>	<u>5,189</u>	<u>0</u>
Expenditure :				
Interest on fixed deposits	0	391	1,567	111
Interest on other deposits	0	0	0	20
Interest on deposits and placements	72,816	0	0	0
Interest on subordinated term loans	31,170	0	0	0
Interest on loans and advances	0	41	0	0
Interest on repurchase agreement	0	0	1,622	0
Management fees	0	0	526	0
Rental expenses	0	0	502	0
Transaction processing fees	0	0	105,571	0
	<u>103,986</u>	<u>432</u>	<u>109,788</u>	<u>131</u>
Reimbursement from various expenses	<u>0</u>	<u>0</u>	<u>49,879</u>	<u>0</u>
Amount due from :				
Current account	17,219	0	0	0
Deposits and placements	409,208	0	0	0
Interest receivable	8,329	0	0	0
	<u>434,756</u>	<u>0</u>	<u>0</u>	<u>0</u>
Amount due to :				
Current account and fixed deposits	17,893	14,217	120,819	5,844
Other deposits	0	0	0	1,520
Deposits and placements	1,791,264	0	0	0
Repurchase agreement	0	0	46,767	0
Subordinated term loan / bonds	498,522	0	0	0
Loans and advances	0	379	0	0
Interest payable	9,185	0	0	0
	<u>2,316,864</u>	<u>14,596</u>	<u>167,586</u>	<u>7,364</u>
Commitments:				
Foreign exchange derivatives	117,122	0	6,151	0
Interest rate derivatives	829,351	0	0	0
Equity derivatives	25,171	0	0	0
	<u>971,644</u>	<u>0</u>	<u>6,151</u>	<u>0</u>

Interest rates on all related party transactions arising from the ordinary course of business are at normal commercial rates.

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**27 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

ii) Key management personnel compensation

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Short-term employee benefits	12,782	10,989	12,782	10,989
Post employment benefits	131	0	131	0
Other long term benefits	3	1	3	1
Termination benefits	232	241	232	241
Share-based benefits	1,237	1,150	1,237	1,150
	<u>14,385</u>	<u>12,381</u>	<u>14,385</u>	<u>12,381</u>

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

28 TAXATION

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax – current year	202,260	156,759	202,183	156,747
Deferred taxation :				
- relating to originating and reversal of temporary differences	(4,295)	14,584	(4,289)	14,552
- relating to changes in tax rates	8,457	0	8,478	0
Total charged to income statements (Note 14)	<u>4,162</u>	<u>14,584</u>	<u>4,189</u>	<u>14,552</u>
	<u>206,422</u>	<u>171,343</u>	<u>206,372</u>	<u>171,299</u>

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

	Group		Bank	
	2007	2006	2007	2006
	%	%	%	%
Malaysian tax rate of 27% (2006: 28%)	27.0	28.0	27.0	28.0
Tax effects of:				
Expenses not deductible for tax purposes	0.7	0.4	0.7	0.4
Income not subject to tax	(0.2)	0	(0.2)	0
Deferred tax relating to changes in tax rate	1.2	0	1.2	0
Average effective tax rate	<u>28.7</u>	<u>28.4</u>	<u>28.7</u>	<u>28.4</u>

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**29 BASIC EARNINGS PER SHARE**

The earnings per ordinary share of the Group and the Bank have been calculated based on the net profit attributable to shareholders less preference shares dividends of RM493,996,000 and RM493,897,000 respectively (2006: RM413,219,000 and RM413,034,000) and on the 287,500,000 (2006: 287,500,000) ordinary shares of RM1.00 each in issue during the financial year.

30 DIVIDENDS

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
In respect of previous financial year:				
Final dividend of 95.0 sen (2006: 112.0 sen)				
less income tax at 27% (2006: 28%)	199,381	231,840	199,381	231,840
In respect of current financial year :				
Interim dividend of 20.0 sen (2006: 41.5 sen)				
less income tax at 27% (2006: 28%)	41,975	85,905	41,975	85,905
Dividends paid on preference shares	18,040	18,040	18,040	18,040

A final gross dividend of 20.0 sen per share less tax amounting to RM42.55 million on the fully issued and paid up ordinary shares of the Bank in respect of the financial year ended 31 December 2007 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 2008 when approved by the shareholders.

The net cash dividend of 4.51% (on the issue price) amounting to RM8.99 million to the preference shareholders in respect of the financial year ended 31 December 2007 will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2008 when declared by the Board of Directors and approved by Bank Negara Malaysia.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**31 COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Group and the Bank make various commitments and incurs certain contingent liabilities with legal recourse to their customers. Apart from the provision for commitments and contingencies already made in the financial statements (Note 18), no material losses are anticipated as a result of these transactions.

	31 December 2007			31 December 2006		
	Principal Amount RM'000	Credit	Risk	Principal Amount RM'000	Credit	Risk
		Equivalent Amount* RM'000	Weighted Amount RM'000		Equivalent Amount* RM'000	Weighted Amount RM'000
Group and Bank						
Direct credit substitutes	1,119,803	1,119,803	1,114,337	659,587	659,587	651,690
Transaction-related contingent items	1,172,085	586,042	559,760	709,632	354,816	331,054
Short-term self-liquidating trade-related contingencies	413,645	82,729	82,618	257,192	51,438	50,994
Obligations under underwriting agreement	76,000	38,000	38,000	60,000	30,000	30,000
Irrevocable commitments to extend credit:						
- maturity exceeding one year	8,835,582	4,417,791	4,417,791	6,677,501	3,338,750	3,338,750
- maturity not exceeding one year	7,894,166	0	0	6,582,863	0	0
Foreign exchange related contracts						
- less than one year	12,726,356	239,586	66,171	4,935,542	91,465	25,905
- one year to less than five years	467,519	64,310	17,762	121,468	9,296	1,615
- five years and above	97,763	14,665	4,050	0	0	0
Interest rate contracts						
- less than one year	5,859,413	16,664	4,352	4,099,620	10,385	109,785
- one year to less than five years	19,237,098	535,190	139,777	12,985,490	395,843	17,544
- five years and above	1,177,772	95,811	25,023	750,833	54,917	16,730
Equity and commodity related contracts	358,023	74,853	41,453	60,625	19,011	19,011
Miscellaneous	133,602	0	0	15,000	0	0
Total	59,568,827	7,285,444	6,511,094	37,915,353	5,015,508	4,593,078

*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 2007 (continued)**32 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 :-

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Less than one year	3,691	4,401	3,691	4,401
One to five years	3,373	4,073	3,373	4,073
	<u>7,064</u>	<u>8,474</u>	<u>7,064</u>	<u>8,474</u>

33 CAPITAL COMMITMENTS

	Group		Bank	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Capital expenditure in respect of property, plant and equipment:-				
- authorised and contracted for	24,437	19,197	24,437	19,197
- authorised but not contracted for	63,000	1,946	63,000	1,946
	<u>87,437</u>	<u>21,143</u>	<u>87,437</u>	<u>21,143</u>

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

Credit risk is the risk of loss due to borrower or counterparty default on payment. Such risk arises from lending, underwriting, trading and other activities undertaken by the 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 2007 (continued)

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market Risk Management

Market risk is defined as the uncertainty in the future values of the 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 2007 (continued)

34 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 2007 (continued)

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Asset and Liability Management (ALM) (continued)

Liquidity Risk

The objective of liquidity management is to ensure that the 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, Equity Option and Exchange Traded Futures Contracts. These instruments allow the Bank and its customers to transfer, modify or reduce their foreign exchange, equity and interest rate risks. The following outlines the nature and terms of the most common types of derivatives used:

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

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

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

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

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

Currency options are also used to create Structured Investment products.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Financial Derivatives (continued)

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

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

Caps, floors and collars are different types of interest rate options transactions designed to hedge interest rate exposures. A cap is a contract whereby the seller agrees to pay to the purchaser, in return for an upfront premium or a series of annuity payments, the difference between a reference rate and an agreed strike rate when the reference rate exceeds the strike rate. A floor is a contract whereby the seller agrees to pay to the purchaser, in return for an upfront premium, the difference between a reference rate and an agreed strike rate should the strike rate exceed the reference rate.

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**35 INTEREST / PROFIT RATE RISK**

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

<u>Group</u>	← Non Trading Book →						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			
As at 31 December 2007	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Assets									
Cash and short-term funds	5,540,690	0	0	0	0	95,425	0	5,636,115	4.08
Securities purchased under resale agreements	181,828	176,516	0	0	0	0	0	358,344	3.55
Deposits and placements with financial institutions	0	142,990	87,409	0	0	0	0	230,399	4.08
Held-for-trading securities	0	0	0	0	0	0	1,872,798	1,872,798	4.20
Available-for-sale securities	200,000	593,670	364,153	3,870,549	682,323	139,328 [^]	0	5,850,023	4.02
Loans, advances and financing									
- performing	20,713,714	1,600,222	538,835	1,228,642	222,505	1,618,465 [*]	0	25,922,383	6.02
- non-performing	0	0	0	0	0	689,547 [#]	0	689,547	-
Other assets	0	0	0	0	0	184,146	261,512	445,658	-
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	843,608	0	843,608	-
Property, plant and equipment	0	0	0	0	0	221,683	0	221,683	-
Investment property	0	0	0	0	0	10,066	0	10,066	-
Prepaid lease payment	0	0	0	0	0	2,981	0	2,981	-
Non-current assets held for sale	0	0	0	0	0	2,092	0	2,092	-
Deferred taxation asset	0	0	0	0	0	100,056	0	100,056	-
Total assets	26,636,232	2,513,398	990,397	5,099,191	904,828	3,907,397	2,134,310	42,185,753	
Liabilities									
Deposits from customers	15,404,972	5,428,247	6,243,058	552,199	0	3,839,490	0	31,467,966	2.94
Deposits and placements of banks and other financial institutions	3,799,498	57,401	34,763	60,659	111,947	0	0	4,064,268	3.98
Obligations on securities sold under repurchase agreements	0	0	0	0	0	0	0	0	-
Bills and acceptances payable	0	0	0	0	0	1,682,232	0	1,682,232	-
Amount due to Cagamas	0	0	144,644	440,454	43,582	0	0	628,680	4.30
Subordinated term loan / bonds	0	0	0	358,754	730,456	0	0	1,089,210	5.59
Other liabilities	0	0	0	0	0	483,970	218,407	702,377	-
Taxation and zakat	0	0	0	0	0	65,637	0	65,637	-
Total liabilities	19,204,470	5,485,648	6,422,465	1,412,066	885,985	6,071,329	218,407	39,700,370	
On-balance sheet interest sensitivity gap	7,431,762	(2,972,250)	(5,432,068)	3,687,125	18,843	(2,163,932)	1,915,903	2,485,383	
Off-balance sheet interest sensitivity gap	(90,000)	(165,346)	(330,693)	453,762	132,277	0	0	0	
Total interest sensitivity gap	7,341,762	(3,137,596)	(5,762,761)	4,140,887	151,120	(2,163,932)	1,915,903	2,485,383	

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**35 INTEREST / PROFIT RATE RISK (continued)****Bank**

As at 31 December 2007	Non Trading Book						Trading Book	Total	Average interest rate
	Up to 1 Month	>1-3 months	>3-12 months	>1-5 years	Over 5 years	Non-interest sensitive			
Assets	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Cash and short-term funds	5,540,690	0	0	0	0	95,425	0	5,636,115	4.08
Securities purchased under resale agreements	181,828	176,516	0	0	0	0	0	358,344	3.55
Deposits and placements with financial institutions	0	142,990	87,409	0	0	0	0	230,399	4.08
Held-for-trading securities Available-for-sale securities	0	0	0	0	0	0	1,872,798	1,872,798	4.20
Loans, advances and Financing									
- performing	20,713,714	1,600,222	538,835	1,228,466	222,484	1,618,479*	0	25,922,200	6.02
- non-performing	0	0	0	0	0	689,547#	0	689,547	-
Other assets	0	0	0	0	0	184,144	261,512	445,656	-
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	843,608	0	843,608	-
Investment in subsidiary companies	0	0	0	0	0	1,611	0	1,611	-
Property, plant and equipment	0	0	0	0	0	221,675	0	221,675	-
Investment property	0	0	0	0	0	10,066	0	10,066	-
Prepaid lease payment	0	0	0	0	0	2,981	0	2,981	-
Non-current assets held for sale	0	0	0	0	0	2,092	0	2,092	-
Deferred taxation asset	0	0	0	0	0	100,345	0	100,345	-
Total assets	26,636,232	2,513,398	990,397	5,099,015	904,807	3,909,301	2,134,310	42,187,460	
Liabilities									
Deposits from customers	15,404,972	5,428,247	6,243,078	552,199	0	3,854,125	0	31,482,621	2.94
Deposits and placements of banks and other financial institutions	3,799,498	57,401	34,763	60,659	111,947	0	0	4,064,268	3.98
Obligations on securities sold under repurchase agreements	0	0	0	0	0	0	0	0	-
Bills and acceptances payable	0	0	0	0	0	1,682,232	0	1,682,232	-
Amount due to Cagamas	0	0	144,644	440,454	43,582	0	0	628,680	4.30
Subordinated term loan / bonds	0	0	0	358,754	730,456	0	0	1,089,210	5.59
Other liabilities	0	0	0	0	0	483,833	218,407	702,240	-
Taxation and zakat	0	0	0	0	0	65,556	0	65,556	-
Total liabilities	19,204,470	5,485,648	6,422,485	1,412,066	885,985	6,085,746	218,407	39,714,807	
On-balance sheet interest sensitivity gap	7,431,762	(2,972,250)	(5,432,088)	3,686,949	18,822	(2,176,445)	1,915,903	2,472,653	
Off-balance sheet interest sensitivity gap	(90,000)	(165,346)	(330,693)	453,762	132,277	0	0	0	
Total interest sensitivity gap	7,341,762	(3,137,596)	(5,762,781)	4,140,711	151,099	(2,176,445)	1,915,903	2,472,653	

^ The amount includes allowance for diminution in value of investment securities in accordance with the Bank's accounting policy amounting to RM 6,421,000 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 402,112,000 for Group and RM 402,097,000 for Bank.

The amount includes specific allowance for loans, advances and financing in accordance with the Bank's accounting policy amounting to RM 418,833,000 for Group and RM 418,305,000 for Bank.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)

35 INTEREST / PROFIT RATE RISK (continued)

Group

As at 31 December 2006	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	3,569,792	0	0	0	0	77,387	0	3,647,179	4.19
Securities purchased under resale agreements	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 Available-for-sale	0	0	0	0	0	0	529,805	529,805	4.37
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	1,615,237 [*]	0	22,310,817	6.27
- non-performing	0	0	0	0	0	757,307 [#]	0	757,307	-
Other assets	0	0	0	0	0	149,653	162,899	312,552	-
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	866,086	0	866,086	-
Property, plant and Equipment	0	0	0	0	0	231,495	0	231,495	-
Investment property	0	0	0	0	0	11,030	0	11,030	-
Prepaid lease payment	0	0	0	0	0	0	0	0	-
Non-current assets held for sale	0	0	0	0	0	544	0	544	-
Deferred taxation asset	0	0	0	0	0	102,143	0	102,143	-
Total assets	21,655,897	4,146,348	1,729,055	4,072,924	516,663	3,877,507	692,704	36,691,098	
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	-
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	367,393	141,990	509,383	-
Taxation and zakat	0	0	0	0	0	58,070	0	58,070	-
Total liabilities	15,354,626	5,729,664	5,231,335	2,136,573	591,672	5,275,290	141,990	34,461,150	
On-balance sheet interest sensitivity gap	6,301,271	(1,583,316)	(3,502,280)	1,936,351	(75,009)	(1,397,783)	550,714	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	(1,397,783)	550,714	2,229,948	

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**35 INTEREST / PROFIT RATE RISK (continued)****Bank**

As at 31 December 2006	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	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	-
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 Available-for-sale securities	0	0	0	0	0	0	529,805	529,805	4.37
Loans, advances and financing									
- performing	17,496,105	1,472,824	690,443	971,900	63,923	1,615,251*	0	22,310,446	6.27
- non-performing	0	0	0	0	0	757,307#	0	757,307	-
Other assets	0	0	0	0	0	149,575	162,899	312,474	-
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	866,086	0	866,086	-
Investment in subsidiary companies	0	0	0	0	0	1,611	0	1,611	-
Property, plant and equipment	0	0	0	0	0	231,482	0	231,482	-
Investment property	0	0	0	0	0	11,030	0	11,030	-
Prepaid lease payment	0	0	0	0	0	0	0	0	-
Non-current assets held for sale	0	0	0	0	0	544	0	544	-
Deferred taxation asset	0	0	0	0	0	102,459	0	102,459	-
Total assets	21,655,897	4,146,348	1,728,870	4,072,723	516,664	3,879,357	692,704	36,692,563	
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	-
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	367,284	141,990	509,274	-
Taxation and zakat	0	0	0	0	0	58,058	0	58,058	-
Total liabilities	15,368,440	5,729,664	5,231,335	2,136,573	591,672	5,275,572	141,990	34,475,246	
On-balance sheet interest sensitivity gap	6,287,457	(1,583,316)	(3,502,465)	1,936,150	(75,008)	(1,396,215)	550,714	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	(1,396,215)	550,714	2,217,317	

^ The negative amount includes allowance for impairment losses in investment securities in accordance with the Bank's accounting policy amounting to RM 759,000 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 344,400,000 for Group and RM 344,385,000 for Bank.

The amount includes specific allowance for loans, advances and financing in accordance with the Bank's accounting policy amounting to RM 550,681,000 for Group and RM 550,162,000 for Bank

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)

35 INTEREST / PROFIT RATE RISK (continued)

Derivative financial instruments used for hedging

The Bank has entered into interest rate swap contracts that entitle it to receive/pay interest at fixed rates on notional principal amounts and obliges it to pay/receive interest at floating rates on the same amounts. Under the interest rate swaps, the Bank agrees with other parties to exchange, at agreed intervals, the differences between fixed rate and floating rate interest amounts calculated by reference to the agreed notional principal amounts. The floating rates of the 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 RM586.0 million (2006: RM528.0 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 fixed rate borrowings at balance sheet date was 5.5% (2006: 5.7%) per annum. After the interest rate swap, the Bank's weighted average interest rate at balance sheet date was 7.2% (2006: 7.0%) per annum.

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

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

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

Group

As at 31 December 2007	Up to 3 Months	> 3 -6 Months	>6-12 Months	>1-3 Years	>3-5 Years	Over 5 Years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets							
Cash and short-term funds	5,636,115	0	0	0	0	0	5,636,115
Securities purchased under resale agreements	358,344	0	0	0	0	0	358,344
Deposits and placements with financial institutions	142,990	87,409	0	0	0	0	230,399
Held-for-trading securities	100,424	229,667	113,492	133,257	396,521	899,437	1,872,798
Available-for-sale securities	793,670	96,166	267,987	1,861,528	2,008,968	821,704	5,850,023
Loans, advances and financing	7,732,134	1,526,259	1,448,662	4,899,542	2,160,318	8,845,015	26,611,930
Other assets	155,557	28,211	15,771	241,792	26	4,301	445,658
Statutory deposits with							
Bank Negara Malaysia	0	0	0	0	0	843,608	843,608
Property, plant and equipment	0	0	0	0	0	221,683	221,683
Investment property	0	0	0	0	0	10,066	10,066
Prepaid lease payments	0	0	0	0	0	2,981	2,981
Non-current assets held for sale	0	0	0	0	0	2,092	2,092
Deferred taxation asset	0	0	0	100,056	0	0	100,056
Total assets	14,919,234	1,967,712	1,845,912	7,236,175	4,565,833	11,650,887	42,185,753
Liabilities							
Deposits from customers	24,672,710	2,745,644	3,594,262	287,224	168,126	0	31,467,966
Deposits and placements of banks and other financial institutions	3,856,899	31,154	3,609	6,602	54,057	111,947	4,064,268
Obligations on securities sold under repurchase Agreements	0	0	0	0	0	0	0
Bills and acceptances Payable	1,534,272	147,960	0	0	0	0	1,682,232
Amount due to Cagamas	0	144,644	0	98,559	341,895	43,582	628,680
Subordinated term loan / bonds	0	0	0	163,070	195,684	730,456	1,089,210
Other liabilities	405,518	65,806	51,485	179,568	0	0	702,377
Taxation and zakat	0	0	0	65,637	0	0	65,637
Total liabilities	30,469,399	3,135,208	3,649,356	800,660	759,762	885,985	39,700,370
Net Liquidity gap	(15,550,165)	(1,167,496)	(1,803,444)	6,435,515	3,806,071	10,764,902	2,485,383

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

As at 31 December 2007	Up to 3 Months	>3 -6 Months	>6-12 Months	>1-3 Years	>3-5 Years	Over 5 Years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Assets							
Cash and short term-funds	5,636,115	0	0	0	0	0	5,636,115
Securities purchased under resale agreements	358,344	0	0	0	0	0	358,344
Deposits and placements with financial institutions	142,990	87,409	0	0	0	0	230,399
Held-for-trading securities	100,424	229,667	113,492	133,257	396,521	899,437	1,872,798
Available-for-sale securities	793,670	96,166	267,987	1,861,528	2,008,968	821,704	5,850,023
Loans, advances and financing	7,732,134	1,526,259	1,448,662	4,899,475	2,160,209	8,845,008	26,611,747
Other assets	155,557	28,211	15,769	241,792	26	4,301	445,656
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	843,608	843,608
Investment in subsidiary companies	0	0	0	0	0	1,611	1,611
Property, plant and equipment	0	0	0	0	0	221,675	221,675
Investment property	0	0	0	0	0	10,066	10,066
Prepaid lease payments	0	0	0	0	0	2,981	2,981
Non-current assets held for sale	0	0	0	0	0	2,092	2,092
Deferred taxation asset	0	0	0	100,345	0	0	100,345
Total assets	14,919,234	1,967,712	1,845,910	7,236,397	4,565,724	11,652,483	42,187,460
Liabilities							
Deposits from customers	24,687,345	2,745,664	3,594,262	287,224	168,126	0	31,482,621
Deposits and placements of Banks and other financial institutions	3,856,899	31,154	3,609	6,602	54,057	111,947	4,064,268
Obligations on securities sold under repurchase agreements	0	0	0	0	0	0	0
Bills and acceptances payable	1,534,272	147,960	0	0	0	0	1,682,232
Amount due to Cagamas	0	144,644	0	98,559	341,895	43,582	628,680
Subordinated term loan / bonds	0	0	0	163,070	195,684	730,456	1,089,210
Other liabilities	405,518	65,806	51,367	179,549	0	0	702,240
Taxation and zakat	0	0	0	65,556	0	0	65,556
Total liabilities	30,484,034	3,135,228	3,649,238	800,560	759,762	885,985	39,714,807
Net Liquidity gap	(15,564,800)	(1,167,516)	(1,803,328)	6,435,837	3,805,962	10,766,498	2,472,653

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

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 agreements	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	6,561,267	1,260,247	1,561,560	4,494,050	1,338,918	7,852,082	23,068,124
Other assets	105,746	4,095	13,487	184,880	0	4,344	312,552
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
Prepaid lease payments	0	0	0	0	0	0	0
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	13,577,716	1,610,361	2,430,613	6,478,457	2,992,952	9,600,999	36,691,098
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	240,220	59,059	32,542	177,484	78	0	509,383
Taxation and zakat	0	0	0	58,070	0	0	58,070
Total liabilities	25,946,545	2,643,626	2,907,102	924,573	1,447,633	591,671	34,461,150
Net Liquidity gap	(12,368,829)	(1,033,265)	(476,489)	5,553,884	1,545,319	9,009,328	2,229,948

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**36 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 agreements	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	6,561,265	1,260,215	1,561,409	4,493,933	1,338,849	7,852,082	23,067,753
Other assets	105,668	4,095	13,487	184,880	0	4,344	312,474
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
Prepaid lease payments	0	0	0	0	0	0	0
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	13,577,636	1,610,329	2,430,462	6,478,656	2,992,883	9,602,597	36,692,563
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	240,143	59,079	32,490	177,484	78	0	509,274
Taxation and zakat	0	0	0	58,058	0	0	58,058
Total liabilities	25,960,685	2,643,646	2,907,050	924,561	1,447,633	591,671	34,475,246
Net Liquidity gap	(12,383,049)	(1,033,317)	(476,588)	5,554,095	1,545,250	9,010,926	2,217,317

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

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

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

Group

As at 31 December 2007

	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
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	128,926	64,771	1,651,442	0	386,208
Mining and quarrying	0	0	0	0	275,747	0	108,977
Manufacturing	0	0	10,080	45,380	5,124,990	0	1,063,483
Electricity, gas and water	0	0	0	16,012	240,038	0	44,041
Construction	0	0	104,937	182,066	1,326,049	0	698,039
Real estate	0	0	0	0	2,821,911	0	649,919
Purchase of landed property (of which :							
i. Residential	0	0	0	0	6,817,415	0	878,205
ii. Non-residential)	0	0	0	0	861,242	0	193,422
General commerce	0	0	59,796	66,839	3,661,575	0	790,465
Transport, insurance and business services	1,709,076	130,399	140,091	705,658	1,344,427	55,478	1,387,378
Purchase of securities	0	0	0	0	213,284	0	120,956
Purchase of transport vehicles	0	0	0	0	8,503	0	939
Consumption credit	0	0	0	0	1,367,660	0	732,529
Government	3,927,039	100,000	644,870	4,009,876	219,651	41,704	10,658
Others	0	0	784,098	765,842	1,498,941	0	220,225
	5,636,115	230,399	1,872,798	5,856,444	27,432,875	97,182	7,285,444

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

As at 31 December 2007

	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
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	128,926	64,771	1,651,442	0	386,208
Mining and quarrying	0	0	0	0	275,747	0	108,977
Manufacturing	0	0	10,080	45,380	5,124,990	0	1,063,483
Electricity, gas and water	0	0	0	16,012	240,038	0	44,041
Construction	0	0	104,937	182,066	1,325,700	0	698,039
Real estate	0	0	0	0	2,821,911	0	649,919
Purchase of landed property (of which :							
i. Residential	0	0	0	0	6,817,415	0	878,205
ii. Non-residential)	0	0	0	0	861,242	0	193,422
General commerce	0	0	59,796	66,839	3,661,396	0	790,465
Transport, insurance and business services	1,709,076	130,399	140,091	705,658	1,344,427	55,478	1,387,378
Purchase of securities	0	0	0	0	213,284	0	120,956
Purchase of transport vehicles	0	0	0	0	8,503	0	939
Consumption credit	0	0	0	0	1,367,462	0	732,529
Government	3,927,039	100,000	644,870	4,009,876	219,651	41,704	10,658
Others	0	0	784,098	765,842	1,498,941	0	220,225
	5,636,115	230,399	1,872,798	5,856,444	27,432,149	97,182	7,285,444

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

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

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

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

As at 31 December 2006

	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
	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	1,277,653	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	23,963,205	91,898	5,015,508

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

As at 31 December 2006

	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
	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	1,277,267	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	23,962,300	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 31.

38 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Quoted and observable market prices, where available, are used as the measure of fair values. However, for a significant portion of the 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 2007 (continued)**38 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

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

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

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

Group	2007		2006	
	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	6,081,773	6,081,773	3,959,731	3,959,731
Securities purchased under resale agreements	358,344	358,344	0	0
Deposits and placements with financial institutions	230,399	230,399	2,280,746	2,280,746
Held-for-trading securities	1,872,798	1,872,798	529,805	529,805
Available-for-sale securities	5,850,023	5,850,023	5,641,394	5,641,394
Loans, advances and financing	26,630,670	26,611,930	23,088,110	23,068,124
Statutory deposits with Bank Negara Malaysia	843,608	843,608	866,086	866,086
Financial Liabilities				
Deposits from customers	31,468,326	31,467,966	24,646,720	24,646,667
Deposits and placements of banks and other financial institutions	4,064,268	4,064,268	2,965,448	2,965,448
Obligations on securities sold under repurchase agreements	0	0	3,075,577	3,075,577
Liabilities for which fair value approximates carrying value	2,384,609	2,384,609	2,327,568	2,327,568
Amount due to Cagamas	629,810	628,680	688,806	689,298
Subordinated term loan / bonds	1,113,060	1,089,210	698,522	698,522

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**38 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

	2007		2006	
	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	6,081,771	6,081,771	3,959,653	3,959,653
Securities purchased under resale agreements	358,344	358,344	0	0
Deposits and placements with financial institutions	230,399	230,399	2,280,746	2,280,746
Held-for-trading securities	1,872,798	1,872,798	529,805	529,805
Available-for-sale securities	5,850,023	5,850,023	5,641,394	5,641,394
Loans, advances and financing	26,630,487	26,611,747	23,086,356	23,067,753
Statutory deposits with Bank Negara Malaysia	843,608	843,608	866,086	866,086
Financial Liabilities				
Deposits from customers	31,482,981	31,482,621	24,660,937	24,660,884
Deposits and placements of banks and other financial institutions	4,064,268	4,064,268	2,965,448	2,965,448
Obligations on securities sold under repurchase agreements	0	0	3,075,577	3,075,577
Liabilities for which fair value approximates carrying value	2,384,472	2,384,472	2,327,459	2,327,459
Amount due to Cagamas	629,810	628,680	688,806	689,298
Subordinated term loan / bonds	1,113,060	1,089,210	698,522	698,522

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**38 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

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

Short term financial instruments

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

	Group		Bank	
	2007	2006	2007	2006
	RM'000	RM'000	RM'000	RM'000
<u>Financial Assets</u>				
Cash and short term funds	5,636,115	3,647,179	5,636,115	3,647,179
Other assets	445,658	312,552	445,656	312,474
	<u>6,081,773</u>	<u>3,959,731</u>	<u>6,081,771</u>	<u>3,959,653</u>
<u>Financial liabilities</u>				
Bills and acceptances payable	1,682,232	1,818,185	1,682,232	1,818,185
Other liabilities	702,377	509,383	702,240	509,274
	<u>2,384,609</u>	<u>2,327,568</u>	<u>2,384,472</u>	<u>2,327,459</u>

Securities purchased under resale agreements

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

Deposits and placements with / from financial institutions

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

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

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

Loans 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.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)

38 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Deposits from customers

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

Obligations on securities sold under repurchase agreements

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

Amount due to Cagamas

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

Subordinated Term Loan

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

Financial derivatives

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**39 CAPITAL ADEQUACY**

	Bank	
	2007 RM'000	2006 RM'000
The capital adequacy ratios of the Bank are as follows:-		
Tier-1 capital	2,290,145	2,033,414
Eligible Tier-2 capital	1,334,269	1,073,806
Total capital	3,624,414	3,107,220
Less : Investment in subsidiaries and holding of other financial institution's capital	(1,611)	(1,611)
Total capital base	<u>3,622,803</u>	<u>3,105,609</u>
<u>Capital Ratios</u>		
Excluding proposed final dividend :		
Core-capital ratio	6.92%	7.80%
Risk-weighted capital ratio	10.95%	11.91%
Including proposed final dividend :		
Core-capital ratio	6.77%	7.00%
Risk-weighted capital ratio	10.80%	11.12%
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 profits	929,966	677,425
Other reserves	322,000	322,000
	<u>2,401,966</u>	<u>2,149,425</u>
Less: Deferred tax assets	(111,821)	(116,011)
Total Tier-1 capital	<u>2,290,145</u>	<u>2,033,414</u>
<u>Tier-2 capital</u>		
General allowance for bad and doubtful debts and financing	402,097	344,385
Subordinated term loan / bonds	932,172	729,421
Total Tier-2 capital	<u>1,334,269</u>	<u>1,073,806</u>
Total capital	3,624,414	3,107,220
Less :		
Investment in subsidiaries	(1,611)	(1,611)
Capital base	<u>3,622,803</u>	<u>3,105,609</u>

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

	2007		2006	
	Principal RM'000	Risk- Weighted RM'000	Principal RM'000	Risk- Weighted RM'000
Risk Weighted Assets for Credit Risk :				
0 %	9,870,082	0	9,821,154	0
10%	835	84	66,075	6,607
20%	4,005,433	801,086	3,426,000	685,200
50%	6,703,462	3,351,731	6,380,658	3,190,329
100%	26,984,484	26,984,484	21,594,474	21,594,474
	<u>47,564,296</u>	<u>31,137,385</u>	<u>41,288,361</u>	<u>25,476,610</u>
Risk Weighted Assets for Market Risk	1,912,384	1,912,384	579,151	579,151
Large Exposure Risk Requirement Risk Weighted Assets	7,786	7,786	0	0
	<u>49,484,466</u>	<u>33,057,555</u>	<u>41,867,512</u>	<u>26,055,761</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**39 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.

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

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

40 CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR

	<u>Group</u>		<u>Bank</u>	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Cash and short-term funds	5,636,115	3,647,179	5,636,115	3,647,179
Deposits and placements with financial institutions	230,399	2,280,746	230,399	2,280,746
	<u>5,866,514</u>	<u>5,927,925</u>	<u>5,866,514</u>	<u>5,927,925</u>

41 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:

Summary of effects on 31 December 2007 financial statements

The effect of adopting FRS 117 on the financial statements as / for the financial year ended 31 December 2007 is summarised below:

Group and Bank

Increase/(decrease)	FRS 117 RM'000
<u>Balance Sheet – Opening Balance</u>	
Property, plant and equipment	(3,034)
Investment property	(1,149)
Prepaid lease payments	4,183
<u>Income Statement</u>	
Staff cost and overhead expenses	<u>(118)</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**42 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 2006:				
Loans, advances and financing	23,032,197	23,068,124	23,031,826	23,067,753
Other assets	357,450	312,552	357,372	312,474
Other liabilities	518,354	509,383	518,245	509,274
	<hr/>	<hr/>	<hr/>	<hr/>
Statements of Changes in Equity for the financial year ended 31 December 2006:				
General reserve	36,750	0	0	0
Retained profits	596,687	633,437	677,425	677,425
	<hr/>	<hr/>	<hr/>	<hr/>

43 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 18 February 2008.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**44 THE OPERATION OF ISLAMIC BANKING (IB)**

BALANCE SHEETS AS AT 31 DECEMBER 2007

	Note	Group and Bank	
		2007	2006
ASSETS		RM'000	RM'000
Cash and short-term funds	(2)	1,165,604	932,498
Deposits and placements with financial institutions		0	200,000
Available-for-sale securities	(3)	556,500	305,918
Financing and other advances	(4)	1,825,661	1,638,339
Other assets	(6)	23,571	10,165
Statutory deposits with Bank Negara Malaysia		91,913	60,413
Deferred taxation assets	(20)	14,695	15,028
TOTAL ASSETS		3,677,944	3,162,361
LIABILITIES AND ISLAMIC BANKING FUNDS			
Deposits from customers	(7)	2,817,443	2,635,783
Deposits and placements of banks and other financial institutions	(8)	270,000	0
Bills and acceptances payable		3,999	367
Subordinated bonds	(9)	200,000	200,000
Other liabilities	(10)	217,260	165,100
Taxation and zakat		4,754	10,016
Total Liabilities		3,513,456	3,011,266
Capital funds		85,000	85,000
Reserves		79,488	66,095
Islamic Banking Funds	(11)	164,488	151,095
TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS		3,677,944	3,162,361
COMMITMENTS AND CONTINGENCIES	(21)	1,249,213	826,098

The accompanying notes on pages 98 to 115 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)

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

INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

	Note	Group and Bank	
		2007	2006
		RM'000	RM'000
Income derived from investment of depositors' funds	(12)	157,713	130,444
Allowance for losses on financing and other advances	(13)	(23,444)	(16,697)
Transfer from / (to) profit equalisation reserve (net)		4,083	(14,684)
Total attributable income		138,352	99,063
Income attributable to depositors	(14)	(92,661)	(74,855)
Income attributable to shareholders		45,691	24,208
Income derived from the investment of Islamic Banking funds	(15)	12,429	10,871
Total net income		58,120	35,079
Personnel expenses	(16)	(2,720)	(2,146)
Other overhead expenses	(17)	(33,940)	(20,395)
Profit before zakat and taxation		21,460	12,538
Zakat	(18)	784	(343)
Taxation	(19)	(6,620)	(3,739)
Net profit for the financial year		15,624	8,456

The accompanying notes on pages 98 to 115 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**44 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**STATEMENT OF CHANGES IN ISLAMIC BANKING FUNDS FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2007

	Capital Funds	Fair Value Reserves	Retained Profits	Total
	RM'000	RM'000	RM'000	RM'000
Group and Bank				
Balance at 1 January 2007	85,000	1,469	64,626	151,095
Net profit attributable to shareholders	0	0	15,624	15,624
Revaluation of available-for-sale securities (net)	0	(3,069)	0	(3,069)
Deferred tax on revaluation of available-for-sale securities	0	838	0	838
Balance at 31 December 2007	<u>85,000</u>	<u>(762)</u>	<u>80,250</u>	<u>164,488</u>
Balance at 1 January 2006	85,000	755	56,170	141,925
Net profit attributable to shareholders	0	0	8,456	8,456
Revaluation of available-for-sale securities (net)	0	992	0	992
Deferred tax on revaluation of available-for-sale securities	0	(278)	0	(278)
Balance at 31 December 2006	<u>85,000</u>	<u>1,469</u>	<u>64,626</u>	<u>151,095</u>

The accompanying notes on pages 98 to 115 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**44 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2007

	Note	Group and Bank	
		2007	2006
		RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before zakat and taxation		21,460	12,538
Adjustments for:-			
Net losses from sale of held-for-trading securities		0	10
Allowance for losses on financing and other advances		23,444	16,697
Profit equalisation reserve		(4,083)	14,684
Amortisation of premium less accretion of discount		41	67
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		40,862	43,996
 (Increase) / Decrease in Operating Assets :			
Loans, advances and financing		(210,766)	(255,961)
Other assets and statutory deposits with Bank Negara Malaysia		(44,906)	(1,252)
Held-for-trading securities (net)		0	(10)
 Increase / (Decrease) in Operating Liabilities :			
Deposits from customers		181,660	678,362
Bills and acceptances payable		3,632	344
Other liabilities		63,983	(2,191)
Deposits and placements of banks and other financial institutions		270,000	(90,000)
Cash generated from operations		304,465	373,288
Income tax and zakat paid		(17,667)	(9,846)
NET CASH GENERATED FROM OPERATING ACTIVITIES		286,798	363,442
 CASH FLOWS FROM INVESTING ACTIVITY			
(Purchase of) / proceeds from sale of available-for-sale securities (net)		(253,692)	152,126
NET CASH (UTILISED IN) / GENERATED FROM INVESTING ACTIVITY		(253,692)	152,126
 CASH FLOWS FROM FINANCING ACTIVITY			
Proceeds from subordinated bonds		0	200,000
NET CASH GENERATED FROM FINANCING ACTIVITY		0	200,000
 NET INCREASE IN CASH AND CASH EQUIVALENTS		33,106	715,568
 CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR		1,132,498	416,930
 CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	(25)	1,165,604	1,132,498

The accompanying notes on pages 98 to 115 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)

44 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.

(2) CASH AND SHORT-TERM FUNDS

	Group and Bank	
	2007	2006
	RM'000	RM'000
Cash and balances with banks and other financial institutions	9	43
Money at call and deposit placements maturing within one month	1,165,595	932,455
	<u>1,165,604</u>	<u>932,498</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**44 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(3) AVAILABLE-FOR-SALE SECURITIES**

	Group and Bank	
	2007	2006
	RM'000	RM'000
<i>At fair value</i>		
Malaysian Government investment issues	194,871	200,631
Bank Negara Negotiable Notes	153,162	0
Sanadat Cagamas (SAC)	35,281	80,287
Private debt securities	119,212	0
Malaysian Government Islamic treasury bills	28,974	0
Islamic negotiable instruments of deposits	25,000	25,000
	<u>556,500</u>	<u>305,918</u>

(4) FINANCING AND OTHER ADVANCES

	Group and Bank	
	2007	2006
	RM'000	RM'000
i) By type of financing and other advances		
Cash financing	324,263	278,230
Term financing		
- Housing financing	131,272	152,609
- Syndicated term financing	235,536	232,777
- Hire purchase receivables	449,077	380,247
- Leasing receivables	23,714	21,130
- Other term financing	380,973	205,077
Revolving credits	323,357	452,410
Customer's liability under acceptance credits	241,548	150,834
Unearned income	(238,281)	(199,066)
Gross financing	<u>1,871,459</u>	<u>1,674,248</u>
Allowance for bad and doubtful debts and financing		
- Specific	(17,986)	(10,960)
- General	(27,812)	(24,949)
Net financing	<u>1,825,661</u>	<u>1,638,339</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**44 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

(4) FINANCING AND OTHER ADVANCES (continued)

	Group and Bank	
	2007 RM'000	2006 RM'000
ii) Financing analysed by concepts		
Bai' Bithaman Ajil	512,570	357,914
Qardhul-Hassan	46	38
Ijarah	23,714	21,130
Ijarah Thumma Al Bai	449,077	380,247
Other financing	886,052	914,919
	<u>1,871,459</u>	<u>1,674,248</u>
iii) Financing by type of customer		
Domestic non-bank financial institutions (of which RM Nil [2006: RM Nil] to stockbroking companies)	353	466
Domestic business enterprises		
- Small medium enterprises	307,366	202,600
- Others	1,238,119	1,157,962
Individuals	324,166	311,717
Foreign entities	1,455	1,503
	<u>1,871,459</u>	<u>1,674,248</u>
iv) Financing by profit rate sensitivity		
Fixed rate:		
- House financing	78,618	90,739
- Hire purchase receivables	406,605	343,097
- Other financing	827,343	555,228
Variable rate:		
- Other financing	558,893	685,184
	<u>1,871,459</u>	<u>1,674,248</u>
v) Financing according to economic sector		
Agriculture	479,339	620,204
Mining & quarrying	19,608	4,107
Manufacturing	572,187	444,001
Construction	94,749	60,504
Real estate	103,678	57,382
Purchase of landed property (of which : i. Residential ii. Non-residential)	83,856	96,143
	1,606	2,133
General Commerce	118,062	84,697
Transport, insurance and business services	123,782	68,691
Purchase of securities	899	949
Purchase of transport vehicles	6	8
Consumption credit	238,406	212,624
Others	35,281	22,805
	<u>1,871,459</u>	<u>1,674,248</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**44 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(5) NON-PERFORMING FINANCING AND OTHER ADVANCES**

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

	Group and Bank	
	2007	2006
	RM'000	RM'000
Balance at 1 January	23,221	16,204
Non-performing during the year	28,231	26,388
Reclassified as performing during the year	(6,075)	(3,738)
Amount recovered	(3,423)	(3,922)
Amount written off	(14,544)	(11,711)
Balance at 31 December	<u>27,410</u>	<u>23,221</u>
Specific allowance	(17,986)	(10,960)
Net non-performing financing and other advances	<u>9,424</u>	<u>12,261</u>
Ratio of net non-performing financing and other advances to net financing and other advances	<u>0.51%</u>	<u>0.74%</u>

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

<u>General allowance</u>		
Balance at 1 January	24,949	21,304
Allowance made during the year	2,863	3,645
Balance at 31 December	<u>27,812</u>	<u>24,949</u>
(as % of total financing and other advances less specific allowance)	<u>1.50%</u>	<u>1.50%</u>
<u>Specific allowance</u>		
Balance at 1 January	10,960	9,400
Allowance made during year	26,017	15,699
Amount recovered	(4,447)	(2,428)
Amount written off	(14,544)	(11,711)
Balance at 31 December	<u>17,986</u>	<u>10,960</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**44 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(5) NON-PERFORMING FINANCING AND OTHER ADVANCES (continued)**

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

	Group and Bank	
	2007	2006
	RM'000	RM'000
Agriculture	561	557
Manufacturing	8,296	6,807
Construction	918	932
Real Estate	169	172
Purchase of landed property		
of which : i. Residential	4,199	3,836
ii. Non-residential	0	0
General commerce	2,202	2,023
Transport, insurance and business services	1,871	2,780
Purchase of securities	33	0
Consumption credit	8,855	5,855
Others	306	259
	<u>27,410</u>	<u>23,221</u>

(6) OTHER ASSETS

	Group and Bank	
	2007	2006
	RM'000	RM'000
Income receivable	7,669	2,877
Derivative assets (a)	4,263	0
Other debtors, deposits and prepayments	11,639	7,288
	<u>23,571</u>	<u>10,165</u>

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

Group and Bank	2007			2006		
	Contract or underlying principal amount	Fair value		Contract or underlying principal amount	Fair value	
	RM'000	Assets	Liabilities	RM'000	Assets	Liabilities
		RM'000	RM'000		RM'000	RM'000
Financial derivatives						
Trading:						
Foreign exchange derivatives						
- currency option	101,972	1,748	1,748	0	0	0
Equity and commodity related contracts	<u>73,718</u>	<u>2,515</u>	<u>2,515</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>175,690</u>	<u>4,263</u>	<u>4,263</u>	<u>0</u>	<u>0</u>	<u>0</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**44 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(7) DEPOSITS FROM CUSTOMERS**

i) By type of deposits

	Group and Bank	
	2007	2006
	RM'000	RM'000
Non-Mudharabah Fund:		
Demand deposits	324,201	213,425
Savings deposits	269,502	266,322
Negotiable Islamic Debt Certificate	47,446	478,756
Structured investment	88,232	0
Others	33,223	17,200
	<u>762,604</u>	<u>975,703</u>
Mudharabah Fund:		
General investment deposits	1,523,335	718,328
Islamic short term Mudharabah Investment	531,504	941,752
	<u>2,054,839</u>	<u>1,660,080</u>
 Total deposits from customers	 <u>2,817,443</u>	 <u>2,635,783</u>

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

Government and statutory bodies	19,011	35,131
Business enterprises	1,220,178	1,435,438
Individuals	387,463	351,468
Others	1,190,791	813,746
	<u>2,817,443</u>	<u>2,635,783</u>

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

	Group and Bank	
	2007	2006
	RM'000	RM'000
Mudharabah Fund:		
Licensed banks	30,000	0
Other financial institutions	240,000	0
	<u>270,000</u>	<u>0</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**44 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.

(10) OTHER LIABILITIES

	Group and Bank	
	2007	2006
	RM'000	RM'000
Other accruals and charges	197,925	145,945
Derivative liabilities [Note 44(6a)]	4,263	0
Profit equalisation reserve	15,072	19,155
	<u>217,260</u>	<u>165,100</u>
<u>Profit equalisation reserve (PER)</u>		
Balance at 1 January	19,155	4,471
Amount provided during the year	5,339	14,998
Amount written back during the year	(9,422)	(314)
Balance at 31 December	<u>15,072</u>	<u>19,155</u>

(11) ISLAMIC BANKING FUNDS

	Group and Bank	
	2007	2006
	RM'000	RM'000
Capital funds	85,000	85,000
Reserves :		
Net unrealised (losses) / gains on available-for-sale securities of which the depositors' position is RM 977,000 (2006: RM1,381,000)	(762)	1,469
Retained profits	80,250	64,626
	<u>164,488</u>	<u>151,095</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**44 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(12) INCOME DERIVED FROM INVESTMENT OF DEPOSITORS' FUNDS**

	Group and Bank	
	2007	2006
	RM'000	RM'000
Income derived from investment of:		
(i) General investment deposits	77,816	35,550
(ii) Other funds	79,897	94,894
	<u>157,713</u>	<u>130,444</u>

	Group and Bank	
	General Investment Deposits	Investment of other Funds
	2007	2006
	RM'000	RM'000
<u>Finance income and hibah:</u>		
Financing and other advances	55,122	56,597
Available-for-sale securities	6,850	7,033
Money at call and deposit with financial institutions	15,863	16,287
	<u>77,835</u>	<u>79,917</u>
Amortisation of premium less accretion of discounts	(19)	(20)
	<u>77,816</u>	<u>79,897</u>
<u>Other held-for-trading income:</u>		
Net gain from sale of held-for-trading securities	0	0
	<u>77,816</u>	<u>79,897</u>

	Group and Bank	
	General investment deposits	Investment of other Funds
	2006	2006
	RM'000	RM'000
<u>Finance income and hibah:</u>		
Financing and other advances	26,267	70,114
Available-for-sale securities	3,824	10,208
Money at call and deposit with financial institutions	5,479	14,625
	<u>35,570</u>	<u>94,947</u>
Amortisation of premium less accretion of discounts	(17)	(46)
	<u>35,553</u>	<u>94,901</u>
<u>Other held-for-trading income:</u>		
Net gain from sale of held-for-trading securities	(3)	(7)
	<u>35,550</u>	<u>94,894</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**44 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(13) ALLOWANCE FOR LOSSES ON FINANCING AND OTHER ADVANCES**

	Group and Bank	
	2007	2006
	RM'000	RM'000
Allowance for losses on financing and other advances:		
Specific allowance (net)		
- Made in the financial year	26,017	15,699
- Written back	(4,447)	(2,428)
General allowance		
- Made in the financial year	2,863	3,645
Bad debts and financing		
- Written off	16	0
- Recovered	(1,005)	(219)
	<u>23,444</u>	<u>16,697</u>

(14) INCOME ATTRIBUTABLE TO DEPOSITORS

	Group and Bank	
	2007	2006
	RM'000	RM'000
Deposits from customers		
- Mudharabah Fund	76,301	29,732
- Non-Mudharabah Fund	8,894	12,527
Deposits and placements of banks and other financial institutions		
- Mudharabah Fund	3,982	1,335
- Non-Mudharabah Fund	3,484	31,261
	<u>92,661</u>	<u>74,855</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 2007 (continued)**44 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(15) INCOME DERIVED FROM THE INVESTMENT OF ISLAMIC BANKING FUNDS (IBF)**

	Group and Bank	
	2007	2006
	RM'000	RM'000
<u>Finance income and hibah:</u>		
Financing and other advances	5,952	5,073
Money at call and deposits with financial institutions	1,713	1,058
Available-for-sale securities	740	738
	<u>8,405</u>	<u>6,869</u>
Amortisation of premium less accretion of discounts	(2)	(4)
	<u>8,403</u>	<u>6,865</u>
<u>Other operating income:</u>		
Unrealised gains on revaluation of derivatives (net)	133	0
Losses arising from dealing in foreign currency (net)	(80)	0
<u>Fee and commission income:</u>		
Commission	1,607	864
Service charges and fees	2,366	3,142
	<u>12,429</u>	<u>10,871</u>

(16) PERSONNEL EXPENSES

	Group and Bank	
	2007	2006
	RM'000	RM'000
Salaries and wages	1,457	1,304
Allowance and bonuses	510	188
Equity compensation benefit (deferred share plan)	18	11
Defined contribution plan (EPF)	314	239
Others	421	404
Total	<u>2,720</u>	<u>2,146</u>

The number of employees at the end of the financial year amounted to 24 (2006: 21) employees.

(17) OTHER OVERHEAD EXPENSES

	Group and Bank	
	2007	2006
	RM'000	RM'000
Establishment costs (i)	76	53
Marketing expenses (ii)	1,851	696
Administration and general expenses (iii)	32,013	19,646
	<u>33,940</u>	<u>20,395</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**44 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

(17) OTHER OVERHEAD EXPENSES (continued)

	Group and Bank	
	2007	2006
	RM'000	RM'000
(i) Establishment costs		
Depreciation of property, plant and equipment	15	13
Repair and maintenance	43	31
Loss on disposal of property, plant and equipment	1	0
Others	17	9
	<u>76</u>	<u>53</u>
(ii) Marketing expenses		
Transport and travelling	36	31
Advertisement and business promotion	1,805	663
Others	10	2
	<u>1,851</u>	<u>696</u>
(iii) Administration and general expenses		
Printing and stationery	35	88
Postage and courier	6	4
Telephone, telex and fax	25	19
Legal and consultancy fees	201	336
Allocated costs	31,643	19,004
Other administrative and general expenses	103	195
	<u>32,013</u>	<u>19,646</u>

Remuneration paid to the Syariah Committee for the financial year ended 31 December 2007 amounted to RM64,800 (2006 : RM76,400). No remuneration was paid to the Directors in 2007 (2006 : RM Nil).

(18) ZAKAT

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**44 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

(19) TAXATION

	Group and Bank	
	2007	2006
	RM'000	RM'000
Malaysian income tax – current year	5,449	11,834
Deferred taxation :		
- relating to originating and reversal of temporary differences	69	(8,095)
- relating to changes in tax rates	1,102	0
Total charged to income statement [Note 44(20)]	1,171	(8,095)
	<u>6,620</u>	<u>3,739</u>

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

	Group and Bank	
	2007	2006
	%	%
Malaysian tax rate of 27% (2006: 28%)	27.0	28.0
Tax effects of:		
Expenses not deductible for tax purposes	(1.3)	1.8
Deferred tax relating to changes in tax rate	5.1	0.0
Average effective tax rate	<u>30.8</u>	<u>29.8</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	
	2007	2006
	RM'000	RM'000
Deferred tax assets (before offsetting)	14,893	15,599
Deferred tax liabilities (before offsetting)	(198)	(571)
Deferred tax assets after offsetting	<u>14,695</u>	<u>15,028</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**44 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(20) DEFERRED TAXATION (continued)**

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

	Temporary differences arising from leasing business	General allowance on financing and other advances	Unrealised gain / loss on revaluation of financial instruments	Other temporary differences	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Group and Bank					
2007					
Balance at 1 January	3,250	6,986	(571)	5,363	15,028
Credited to fair value reserve	0	0	838	0	838
Credited / (debited) to income statements [Note 44(19)]	62	245	(34)	(1,444)	(1,171)
Balance at 31 December	3,312	7,231	233	3,919	14,695
Group and Bank					
2006					
Balance at 1 January	287	5,965	(293)	1,252	7,211
Debited to fair value reserve	0	0	(278)	0	(278)
Credited to income statements [Note 44(19)]	2,963	1,021	0	4,111	8,095
Balance at 31 December	3,250	6,986	(571)	5,363	15,028

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**44 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(21) COMMITMENTS AND CONTINGENCIES**

<u>Group and Bank</u>	2007			2006		
		Credit	Risk		Credit	Risk
	Principal Amount RM'000	Equivalent Amount* RM'000	Weighted Amount RM'000	Principal Amount RM'000	Equivalent Amount* RM'000	Weighted Amount RM'000
Direct credit substitute	107,700	107,700	107,700	113,400	113,400	113,400
Transaction-related contingent items	13,726	6,863	6,863	13,719	6,859	6,858
Short-term self-liquidating trade-related contingencies	24,215	4,843	4,843	429	86	86
Irrevocable commitments to extend credit:						
- maturity exceeding one year	381,774	190,887	190,887	362,139	181,070	181,070
- maturity not exceeding one year	546,108	0	0	336,411	0	0
Foreign exchange related contracts:						
- one year to less than five years	101,972	8,639	1,728	0	0	0
Equity and commodity related contracts	73,718	5,317	2,658	0	0	0
	1,249,213	324,249	314,679	826,098	301,415	301,414

* 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 2007 (continued)**44 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

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

Group and Bank

As at 31 December 2007	Up to 3 months RM'000	>3-6 months RM'000	>6-12 months RM'000	>1-3 years RM'000	>3-5 years RM'000	Over 5 Years RM'000	Total RM'000
Assets							
Cash and short-term funds	1,165,604	0	0	0	0	0	1,165,604
Deposits and placements with financial institutions	0	0	0	0	0	0	0
Available-for-sale securities	128,165	49,998	28,973	349,364	0	0	556,500
Financing and other advances	519,379	42,976	27,466	413,254	438,374	384,212	1,825,661
Other assets	5,448	949	506	16,668	0	0	23,571
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	91,913	91,913
Deferred taxation assets	0	0	0	14,695	0	0	14,695
Total assets	1,818,596	93,923	56,945	793,981	438,374	476,125	3,677,944
Liabilities							
Deposits from customers	2,088,370	477,617	160,048	91,408	0	0	2,817,443
Deposits and placements of banks and other financial institutions	270,000	0	0	0	0	0	270,000
Bills and acceptances payable	3,999	0	0	0	0	0	3,999
Subordinated bonds	0	0	0	0	0	200,000	200,000
Other liabilities	111,569	4,283	4,110	97,298	0	0	217,260
Taxation and zakat	0	0	0	4,754	0	0	4,754
Total liabilities	2,473,938	481,900	164,158	193,460	0	200,000	3,513,456
Net liquidity gap	(655,342)	(387,977)	(107,213)	600,521	438,374	276,125	164,488

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**44 THE OPERATION OF ISLAMIC BANKING (IB) (continued)****(22) MATURITIES OF ASSETS AND LIABILITIES BY CONTRACTUAL MATURITY PROFILE (continued)****Group and Bank**

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	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	148,736	44,981	35,306	51,895	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 tax assets	0	0	0	15,028	0	0	15,028
Total assets	1,711,781	196,935	69,034	348,055	575,327	261,229	3,162,361
Liabilities							
Deposits from customer	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	2,461,854	252,461	45,891	50,418	642	200,000	3,011,266
Net liquidity gap	(750,073)	(55,526)	23,143	297,637	574,685	61,229	151,095

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**44 THE OPERATION OF ISLAMIC BANKING (IB) (continued)**

	Bank	
	2007	2006
	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	150,822	134,027
Eligible Tier 2 capital	149,812	91,964
Total capital base	<u>300,634</u>	<u>225,991</u>
Capital Ratios		
Core-capital ratio	6.62%	6.87%
Risk-weighted capital ratio	13.21%	11.59%
i) Components of Tier-1 and Tier-2 capital are as follows:		
<u>Tier-1 capital</u>		
Capital funds	85,000	85,000
Retained profits	80,250	64,626
	<u>165,250</u>	<u>149,626</u>
Less: Deferred tax assets	(14,428)	(15,599)
Total Tier-1 capital	<u>150,822</u>	<u>134,027</u>
<u>Tier-2 capital</u>		
Approved capital instruments:		
- Subordinated bonds	122,000	67,015
General allowance for losses on financing and other advances	27,812	24,949
Total Tier-2 capital	<u>149,812</u>	<u>91,964</u>
Total capital base	<u>300,634</u>	<u>225,991</u>

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

	2007		2006	
	Principal RM'000	Risk- Weighted RM'000	Principal RM'000	Risk- Weighted RM'000
0 %	1,638,797	0	1,381,393	0
10%	835	84	45,980	4,598
20%	71,202	12,512	74,334	14,867
50%	77,697	36,190	84,971	42,485
100%	2,222,518	2,222,518	1,887,021	1,887,021
	<u>4,011,049</u>	<u>2,271,304</u>	<u>3,473,699</u>	<u>1,948,971</u>

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007 (continued)**44 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	
	2007	2006
	RM'000	RM'000
Income derived from investment of depositors' funds	157,713	130,444
Transfer from / (to) profit equalisation reserve (net)	4,083	(14,684)
Total attributable income	<u>161,796</u>	<u>115,760</u>
Income attributable to the depositors	(92,661)	(74,855)
Income attributable to the Bank	<u>69,135</u>	<u>40,905</u>
Income derived from the investment of Islamic Banking funds	12,429	10,871
Net income from Islamic Banking operations	<u>81,564</u>	<u>51,776</u>

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

	Group and Bank	
	2007	2006
	RM'000	RM'000
Cash and short-term funds	1,165,604	932,498
Deposits and placements with financial institutions	0	200,000
	<u>1,165,604</u>	<u>1,132,498</u>

(26) COMPARATIVE FIGURES

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

	Group and Bank	
	As previously reported	As restated
	RM'000	RM'000
Income Statements for the financial year ended 31 December 2006:		
Income derived from investment of depositors' funds	92,477	130,444
Income derived from the investment of Islamic Banking funds	<u>48,838</u>	<u>10,871</u>