

Company No. 295400 W

OCBC BANK (MALAYSIA) BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS

31 DECEMBER 2002

REPORTS AND FINANCIAL STATEMENTS – 31 DECEMBER 2002

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

The directors have pleasure in submitting their report and the audited financial statements of the Bank and of the Group for the financial year ended 31 December 2002.

PRINCIPAL ACTIVITIES

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

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

FINANCIAL RESULTS	GROUP	BANK
	2002 RM'000	2002 RM'000
Profit before taxation and zakat	277,151	275,511
Taxation	(97,957)	(97,957)
Zakat	(21)	(21)
Net profit attributable to shareholders	<u>179,173</u>	<u>177,533</u>
Retained profits brought forward	247,555	324,077
Dividends paid	(62,100)	(62,100)
Retained profits carried forward	<u>364,628</u>	<u>439,510</u>

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002 (continued)

DIVIDENDS

Dividends proposed and paid by the Bank since the end of the previous financial year consist of a final gross dividend of 30 sen per share less tax paid on 9 May 2002 in respect of the previous financial year amounting to RM62.10 million on the fully issued and paid-up ordinary shares of the Bank.

The directors now recommend a final gross dividend of 85 sen per share less tax in respect of the current financial year amounting to RM 175.95 million on the fully issued and paid-up ordinary shares of the Bank which is subject to approval of members at the forthcoming Annual General Meeting of the Bank.

RESERVES AND PROVISIONS

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

BAD AND DOUBTFUL DEBTS AND FINANCING

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

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

CURRENT ASSETS

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

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

VALUATION METHODS

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

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002 (continued)

CONTINGENT AND OTHER LIABILITIES

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

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

FINANCIAL PERFORMANCE

The Bank and its subsidiaries registered a pretax profit of RM277.1million for financial year 2002. The fall in pretax profit of RM43.3million or 13.5% compared against previous year of RM320.4 million was due to lower write back in allowance for diminution in debt securities, impairment losses on properties and higher allowance for losses on loans and financing arising from more pro-active classification of accounts, more updated valuations and decrease in asset value.

Before allowances, the Group's operating profit rose by 6.1% or RM27.0million to RM472.2million (Year 2001 : RM445.2million) mainly due to significant growth of 26.7% or RM 23.2million in non-interest income partially offset by a decline in net interest income of RM11.6million. The decline in net interest income was due to a narrower net interest margin of 20 bps caused by 40 bps drop in base lending rate as well squeeze in margins from stiffer competition in targeted growth sectors. Overheads were well managed and declined by RM13.8million including a one-time Voluntary Separation Scheme (VSS) payout of RM18.5million. Expense to income ratio was down to 31.8% and 29.2% if exclude the VSS payout.

Despite the difficult conditions to grow loans amid greater competition amongst banks, the Group achieved a gross loan growth of 6.0% or RM900million to RM15.9billion in year 2002. The significant growth came largely from housing loan of RM805million to RM3.65billion as a result of aggressive campaigns and the launch of two new Home Loan products. Total assets base of the Group have also increased by 5.1% or RM21.2billion to RM22.3billion.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002 (continued)

FINANCIAL PERFORMANCE (continued)

Non-performing loans (NPL) rose from RM1.5billion to RM1.7billion as at 31 December 2002 as a result of portfolio review to classify accounts more aggressively.

Shareholders' funds had increased from RM1.8billion to RM1.9billion in December 2002, while RWCR of the bank has strengthened from 13.12% to 14.46% with the inclusion of 2002 profits.

ACTIVITIES & ACHIEVEMENTS

The programme to enhance its banking facilities, streamline processes and operations, upgrade IT systems and reconfigure branches was continued in 2002. To-date, OCBC Malaysia has reconfigured a total of 20 branches to provide customers with a 'new banking experience' with truly functional layout and convenience.

Under the reconfiguration of branches, Seremban was given a fresh new look (1 March) whereas Jalan Sungai Besi branch was relocated to a strategic location at Menara Great Eastern in Jalan Ampang, Kuala Lumpur (22 July) and Kuching branch moved to a bigger premise in Sarawak's latest business district at Gateway Kuching (21 October). All three branches were fitted with 'OCBC 24 Hour' self-service banking lobbies and come complete with Premier World (PW) Centres that provide private banking areas to ensure total privacy, comfort and convenience to its members. OCBC Malaysia now has a total of 10 PW Centres within a short span of only 2 ½ years of its operations in offering personalised banking services to the Bank's high net worth customers.

The Bank launched its retail Online Banking service known as eCafe (e-Customer Activated Financial Experience) on 1 March. The eCafe service was given favourable mention in TV 3's business programme *Money Matters* when it was featured over two 5 minutes segments on 23 March and 6 April.

Year 2002 recorded good growth in consumer business, primarily fueled by two key boosters in the area of Home Loans and Wealth Management. Its Home Loan growth alone was most commendable, chalking up hefty loan approvals exceeding RM2 billion for year 2002. Two types of Home Loan were introduced and favourably accepted by customers i.e. an 8-Year fixed rate (May) and a 5-Year fixed rate (August). The launch of unit trusts campaigns and various Wealth Management products were also well received with their sales contributed significantly to fee income growth.

To strengthen its position as a business solutions provider, more cash management products were launched, such as 'Easi-Sweep' (June) and the Auto Credit/Debit & Payroll System for its customers (August) apart from improving on front-end delivery to the Lockbox enabling quick collection of premiums for its customers. Many new corporate customers also signed up for 'Velocity@ocbc', a web-based solution that offers multi-products, multi-account access and 'Easi-Check', a fully automated payable system capable of customising advices to clients in addition to cheque-cutting facility. The 'Easi-Express', which is a receivable solution covering multiple collection channels, processing, clearing, reconciliation and on-line enquiry of cash and cheque status has been well-received by all its business clients too.

During the year, numerous educational, business seminars especially in advising customers on the Bank's many varied financial services were carried out. OCBC Malaysia takes pride in being the first commercial bank in the country to conduct tele-conferencing seminars for its Treasury customers. This was done via Telekom's TM Live Suite in Kuala Lumpur, conducted live to customers in various locations in Malaysia on 13 March and 31 July. By 9 August, OCBC Malaysia was awarded the *Sahabat SMI* (Friend of SMI) Award for the foreign bank category by the SMI Association of Malaysia. This award recognises the part played by OCBC Malaysia for having shown and provided strong support to the community of the SMI.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002 (continued)

ACTIVITIES & ACHIEVEMENTS (continued)

The year also saw the rationalisation efforts to improve efficiency where the centralization/regionalisation of branches trade operations and credit administration functions were embarked on to be implemented in stages to cover all branches. All corporate accounts at Jalan Yang Kalsom branch were channeled to Ipoh Main branch. With this initiative fully implemented by 2003, customers can certainly expect an even faster turnaround time from the Bank.

To complement the rationalisation efforts and to improve productivity that will translates into cost savings in the long run, a Voluntary Separation Scheme (VSS) was implemented on 17 June. A group wide Employee Survey was also carried out with an external consultant, Hewitt Associates from 23 September to 5 October, to measure employee work sentiments and the perception of OCBC Bank as an employer. With the slogan, "We Listen, We Act, We Improve", the Bank's senior management has committed to follow up with meaningful actions to progressively improve and provide for a much better overall working environment for employees. This augur well for OCBC Malaysia as it seeks to ensure that staff are well taken of and stay motivated throughout their careers with the Bank.

As a good corporate citizen, OCBC Malaysia annually sets aside funds to support charitable organisations in various areas that will benefit people from different parts of the country. In 2002, the Bank contributed a total of RM194,000-00 and awarded 10 scholarships worth RM5,000-00 each for students to pursue tertiary education.

MAJOR BUSINESS PLANS & ACTIVITIES FOR YEAR 2003

Despite its diverse economic and commodity base, the economic climate in Year 2003 for Malaysia is very much affected by several external factors. These factors are the eventual outcome of the US economy, uncertainties in the Middle East, rising petroleum prices, or more corporate failures which may cause a further slide in consumers and investors' confidence.

These external factors pose a great challenge to the country's economy and to the banking sector in particular. In addition, the continue deregulation of financial services will no doubt intensifies the competition between banks and non-bank financial institutions. Further disintermediation of banks will also take place due to the current interest rate situation, where corporations finds it cheaper to raise long-term capital through the capital market or private debt securities.

To face these challenges, the Bank already took the definitive step to restructure its organisational set-up into customer, product and geography groups that mirrors that of OCBC Singapore to move towards a customer-centric organisation.

In this respect, the Bank will re-aligned its branches to ensure focus on customer sales and service. Branch business will consist of two main blocks of business i.e. the consumer segment and the business banking, while backroom operations and credit administration will be regionalized or centralized at Head Office. With this new re-organisation, OCBC Malaysia is well positioned to maintain as well as, take on a bigger share of the market where the Bank has its dominance.

The Bank will target key segments of its consumer business apart from reaching out to younger professionals. Acquisition and retention programmes will be implemented together with the delivery of 'customised service experience' to provide financial solutions to customers.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002 (continued)

MAJOR BUSINESS PLANS & ACTIVITIES FOR YEAR 2003 (continued)

OCBC Malaysia will continue to grow its small and medium-sized industry customers by establishing a niche strategy to reach out to small businesses and selectively growing the middle market. Cross selling of products to corporate clients will be stepped up too to increase share of customer wallet.

To counter the limited reach of branches, the Bank will build and train more mobile teams to ensure that customers will always have easy access to the Bank. This will help sustain market dominance and at the same time, enable the penetration of outlying areas.

A relatively untapped channel of distribution is its Online Banking service. **eCafe** will be actively promoted to further gain customers who are IT-savvy. With the expected launch of business Online Banking, **Velocity** in first quarter of 2003, it will certainly expand the Bank's customer base and enable OCBC Malaysia to make greater inroads as it cross sells its comprehensive range of financial products and services to a much wider audience.

Concurrently, the Bank will be investing in its infrastructure to ensure that processing and turnover time is substantially reduced so that the bank becomes more cost effective in the long run.

RATINGS BY EXTERNAL AGENCIES

The Rating Agency Malaysia (RAM) upgraded OCBC Malaysia for its long-term general bank rating from AA2 to AA1, while its short-term rating was reaffirmed with a P1. This is reflective of OCBC Malaysia's resilient asset quality, sound credit risk management, sustainable financial performance and sturdy capitalization.

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)	
Christopher Paul Matten	(resigned on 20 May 2002)
David Conner	(appointed on 25 September 2002)
Gregory Pau King - Yan	(resigned on 13 September 2002)
Helen Lim Lean See	
Lai Teck Poh	
Ooi Sin Teik	
Tan Siok Choo	
Dato' Yeoh Beow Tit	
Datuk Yong Poh Kon	

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002 (continued)

DIRECTORS AND THEIR INTEREST IN SHARES AND OPTIONS (continued)

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

In accordance with articles 110 of the Bank's Articles of Association, Mr David Conner retires from the board at the forthcoming Annual General Meeting and, being eligible, offers himself for election.

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

Oversea-Chinese Banking Corporation Limited

Number of ordinary shares of S\$ 1.00 each

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

	As at <u>1.1.2002</u>	<u>Acquired</u>	<u>Disposed</u>	As at <u>31.12.2002</u>
Helen Lim Lean See	835	24,000	24,000	835
Lai Teck Poh	22,274	-	-	22,274
Ooi Sin Teik	13,877	18,580	30,000	2,457
Dato' Yeoh Beow Tit	-	40,400	40,400	-

Number of ordinary shares of S\$ 1.00 each

Shareholdings in which directors have deemed interest

	As at <u>1.1.2002</u>	<u>Acquired</u>	<u>Disposed</u>	As at <u>31.12.2002</u>
Tan Siok Choo	15,000	-	15,000	-

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002 (continued)

DIRECTORS AND THEIR INTEREST IN SHARES AND OPTIONS (continued)

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

Number of unissued ordinary shares of S\$ 1.00 each

Share Options held by directors in their own name

	<u>As at</u> <u>1.1.2002</u>	<u>Offered</u>	<u>Exercised</u>	<u>Lapsed</u>	<u>As at</u> <u>31.12.2002</u>	<u>Dates options</u> <u>expire</u>
David Conner	-	300,000	-	-	300,000	8/4/2012
Helen Lim Lean See	186,886	40,000	24,000	-	202,886	29/1/2006-8/4/2012
Lai Teck Poh	390,969	60,000	-	-	450,969	1/2/2005-8/4/2012
Ooi Sin Teik	423,800	120,000	18,580	-	525,220	29/1/2007-8/4/2012
Dato' Yeoh Beow Tit	220,800	90,000	40,400	-	270,400	29/1/2007-8/4/2012

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 22 to the financial statements, or the fixed salary of full-time employees of the Bank) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Neither at the end of the financial year, nor at any time during the financial year, did there subsist any arrangements to which the Bank is a party whereby directors might acquire benefits by means of the acquisition of shares in, or debenture of, the Bank or any other body corporate except for the share options granted to executives of OCBC Group pursuant to the OCBC Executives' Share Option Scheme.

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002 (continued)

ULTIMATE HOLDING COMPANY

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

AUDITORS

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

In accordance with a resolution of the Board of Directors dated

TAN SRI DATO' NASRUDDIN BIN BAHARI
DIRECTOR

DATO' YEOH BEOW TIT
DIRECTOR

Kuala Lumpur

6 February 2003

BALANCE SHEETS AS AT 31 DECEMBER 2002

	Note	Group		Bank	
		2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
ASSETS					
Cash and short-term funds	2	2,044,061	1,135,079	2,044,116	1,135,273
Deposits and placements with financial institutions	3	854,521	897,300	854,521	897,300
Dealing securities	4	500,908	929,515	500,908	929,515
Investment securities	5	3,042,372	3,160,142	3,042,372	3,160,142
Loans, advances and financing	6	15,074,151	14,230,737	15,073,052	14,230,402
Other assets	7	84,715	88,878	81,626	85,524
Statutory deposits with Bank Negara Malaysia	8	510,486	568,486	510,486	568,486
Investment in subsidiary companies	9	0	0	1,611	1,611
Property, plant and equipment	10	204,477	215,058	204,460	215,024
TOTAL ASSETS		<u>22,315,691</u>	<u>21,225,195</u>	<u>22,313,152</u>	<u>21,223,277</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits from customers	11	14,361,176	12,764,827	14,385,645	12,788,680
Deposits and placements of banks and other financial institutions	12	2,234,192	2,427,357	2,234,192	2,427,357
Obligations on securities sold under repurchase agreements		907,241	1,218,897	907,241	1,218,897
Bills and acceptances payable		1,213,123	1,123,315	1,213,123	1,123,315
Amount due to Cagamas		1,439,816	1,590,720	1,439,816	1,590,720
Other liabilities	13	189,151	177,706	187,849	176,001
Taxation and zakat		36,689	100,298	29,470	93,079
Deferred taxation liability	24	4,306	9,151	4,306	9,151
Total Liabilities		<u>20,385,694</u>	<u>19,412,271</u>	<u>20,401,642</u>	<u>19,427,200</u>
Financed by :					
Share capital	14	287,500	287,500	287,500	287,500
Reserves	15	1,642,497	1,525,424	1,624,010	1,508,577
Shareholders' Equity		<u>1,929,997</u>	<u>1,812,924</u>	<u>1,911,510</u>	<u>1,796,077</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>22,315,691</u>	<u>21,225,195</u>	<u>22,313,152</u>	<u>21,223,277</u>
COMMITMENTS AND CONTINGENCIES	27	<u>10,662,451</u>	<u>11,732,170</u>	<u>10,631,296</u>	<u>11,701,015</u>

The accounting policies on pages 17 to 21 and notes on pages 22 to 66 form an integral part of the financial statements.

INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

	Note	Group		Bank	
		2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Interest income	16	1,092,254	1,179,263	1,092,001	1,179,009
Interest expense	17	(523,568)	(598,929)	(524,279)	(599,641)
Net interest income		568,686	580,334	567,722	579,368
Islamic Banking income	37(11)	13,875	12,185	13,875	12,185
		582,561	592,519	581,597	591,553
Non-interest income	18	110,138	86,947	110,135	86,947
Net income		692,699	679,466	691,732	678,500
Staff cost and overhead expenses	19	(220,480)	(234,270)	(220,287)	(234,064)
Operating profits before allowances		472,219	445,196	471,445	444,436
Allowance for losses on loans and financing	20	(192,765)	(189,936)	(193,631)	(190,761)
Transfer to profit equalisation reserve	37(9)	(1,168)	0	(1,168)	0
Allowance for diminution in value of investment securities written back in respect of recoveries (net)		9,860	65,106	9,860	65,106
Impairment losses on property, plant and equipment	10	(10,995)	0	(10,995)	0
Profit before taxation and zakat		277,151	320,366	275,511	318,781
Taxation	23	(97,957)	(99,666)	(97,957)	(99,666)
Zakat		(21)	(29)	(21)	(29)
Net profit attributable to shareholders		179,173	220,671	177,533	219,086
Basic earnings per share (sen)	25	62.3	76.8	61.8	76.2
Dividend proposed per ordinary share 85 sen gross (2001 : 102 sen) less income tax (sen)	26	61.2	73.4	61.2	73.4

The accounting policies on pages 17 to 21 and notes on pages 22 to 66 form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

	Note	Non-distributable			Distributable		Total	
		Share capital	Share premium	Statutory reserve	Capital reserve	General reserve		Retained profits
Group		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Group								
Balance at 1 January 2002:								
-as previously reported		287,500	462,500	322,000	56,619	436,750	185,455	1,750,824
-prior year adjustment		0	0	0	0	0	62,100	62,100
As restated		287,500	462,500	322,000	56,619	436,750	247,555	1,812,924
Net profit attributable to shareholders		0	0	0	0	0	179,173	179,173
Dividends paid in respect of year ended 31 December 2001	26	0	0	0	0	0	(62,100)	(62,100)
Balance at 31 December 2002		287,500	462,500	322,000	56,619	436,750	364,628	1,929,997
Bank								
Balance at 1 January 2001:								
-as previously reported		287,500	462,500	322,000	56,619	536,750	75,924	1,741,293
-prior year adjustment		0	0	0	0	0	62,100	62,100
As restated		287,500	462,500	322,000	56,619	536,750	138,024	1,803,393
Net profit attributable to shareholders		0	0	0	0	0	220,671	220,671
Transfer from general reserve	15	0	0	0	0	(100,000)	100,000	0
Dividends paid in respect of:	26							
-year ended 31 December 2001	26	0	0	0	0	0	(149,040)	(149,040)
-year ended 31 December 2000		0	0	0	0	0	(62,100)	(62,100)
Balance at 31 December 2001		287,500	462,500	322,000	56,619	436,750	247,555	1,812,924
Balance at 1 January 2002:								
-as previously reported		287,500	462,500	322,000	0	400,000	261,977	1,733,977
-prior year adjustment		0	0	0	0	0	62,100	62,100
As restated		287,500	462,500	322,000	0	400,000	324,077	1,796,077
Net profit attributable to shareholders		0	0	0	0	0	177,533	177,533
Dividends paid in respect of year ended 31 December 2001	26	0	0	0	0	0	(62,100)	(62,100)
Balance at 31 December 2002		287,500	462,500	322,000	0	400,000	439,510	1,911,510
Balance at 1 January 2001:								
-as previously reported		287,500	462,500	322,000	0	500,000	154,031	1,726,031
-prior year adjustment		0	0	0	0	0	62,100	62,100
As restated		287,500	462,500	322,000	0	500,000	216,131	1,788,131
Net profit attributable to shareholders		0	0	0	0	0	219,086	219,086
Transfer from general reserve	15	0	0	0	0	(100,000)	100,000	0
Dividends paid in respect of:								
-year ended 31 December 2001	26	0	0	0	0	0	(149,040)	(149,040)
-year ended 31 December 2000	26	0	0	0	0	0	(62,100)	(62,100)
Balance at 31 December 2001		287,500	462,500	322,000	0	400,000	324,077	1,796,077

The accounting policies on pages 17 to 21 and notes on pages 22 to 66 form an integral part of the financial statements.

CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

	Group		Bank		
	Note	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation and zakat		277,151	320,366	275,511	318,781
Adjustments for:-					
Net profit from dealing securities		(12,529)	(6,466)	(12,529)	(6,466)
Gain/(loss) from sale of investment securities		(3,735)	310	(3,735)	310
Dividends received		(767)	(877)	(767)	(877)
Depreciation of property, plant and equipment		26,225	28,062	26,208	28,045
Impairment losses on property, plant and equipment		10,995	0	10,995	0
Gain on disposal of fixed assets (net)		(509)	(867)	(509)	(867)
Allowance for bad and doubtful debts and financing		203,122	196,322	203,989	197,145
Profit Equalisation Reserve		1,168	0	1,168	0
Allowance for interest / income-in-suspense		56,370	33,289	56,445	33,152
Allowance for diminution in value of investment securities written back (net)		(9,981)	(65,106)	(9,981)	(65,106)
Amortisation of premium less accretion of discount		9,812	7,382	9,812	7,382
Property, plant and equipment written off		0	930	0	930
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		557,322	513,345	556,607	512,429
Increase in loans, advances and financing		(1,102,906)	(1,414,295)	(1,103,084)	(1,417,619)
Decrease/(increase) in other assets and statutory deposits with Bank Negara Malaysia		62,163	(89,919)	61,898	(91,392)
Increase/(decrease) in deposits from customers		1,596,349	(730,518)	1,596,965	(726,258)
Increase in bills and acceptances payable		89,808	167,872	89,808	167,872
(Decrease)/increase in loans sold to Cagamas		(150,904)	823,203	(150,904)	823,203
Increase in other liabilities		10,277	813,093	10,680	814,740
(Decrease)/increase in obligations sold under repurchase agreement		(311,656)	181,756	(311,656)	181,756
Decrease in deposits of banks and other financial institutions		(193,165)	(129,406)	(193,165)	(129,406)
Sale/(purchase) of dealing securities (net)		441,136	(517,525)	441,136	(517,525)
Cash generated from/(utilised in) operations		998,424	(382,394)	998,285	(382,200)
Income tax paid		(166,432)	(72,259)	(166,432)	(72,259)
NET CASH GENERATED FROM/(UTILISED IN) OPERATING ACTIVITIES		831,992	(454,653)	831,853	(454,459)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investment securities (net)		121,674	(325,382)	121,674	(325,382)
Purchase of property, plant and equipment		(26,649)	(55,881)	(26,649)	(55,881)
Proceeds from sale of property, plant and equipment		519	1,269	519	1,269
Dividends received		767	877	767	877
NET CASH GENERATED FROM/ (UTILISED IN) INVESTING ACTIVITIES		96,311	(379,117)	96,311	(379,117)

CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002 (continued)

	Note	Group		Bank	
		2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid		(62,100)	(211,140)	(62,100)	(211,140)
NET CASH UTILISED IN FINANCING ACTIVITIES		(62,100)	(211,140)	(62,100)	(211,140)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		866,203	(1,044,910)	866,064	(1,044,716)
Cash and cash equivalents at beginning of financial year		2,032,379	3,077,289	2,032,573	3,077,289
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	36	2,898,582	2,032,379	2,898,637	2,032,573

The accounting policies on pages 17 to 21 and notes on pages 22 to 66 form an integral part of the financial statements.

SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

A. Basis of preparation of the financial statements

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

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

B. Basis of Consolidation

The Group financial statements include the audited financial statements of the Bank and all its subsidiary companies made up to the financial year ended 31 December 2002. Subsidiary companies are those companies in which the Group has power to exercise control over the financials and operating policies so as to benefit from their activities.

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

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

C. Recognition of Interest Income

Interest income is recognised on an accrual basis. Interest income on housing and term loans is recognised by reference to rest period which is monthly.

Where an account is classified as non-performing, recognition of interest income is suspended until it is realised on a cash basis. Generally, customers' accounts are classified as non-performing where repayments are in arrears for more than three months for loans and advances, and three months after maturity date for trade bills, bankers' acceptances and trust receipts.

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

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

D. Recognition of Fees, Other Income and Income from Islamic Banking

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

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

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

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

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002 (continued)**

E. Allowance for Bad and Doubtful Debts and Financing

Specific allowances are made for non-performing debts and financing which have been individually reviewed and specifically identified as substandard, bad or doubtful. The Bank observes a staggered allowance policy of 20% upon classification of a loan and financing as non-performing at 3 months and an additional 10% for every month the loan and financing remains non-performing, accumulating to 50% at 6 months and 100% at 11 months. This compares with the minimum requirements of Bank Negara Malaysia's "Classification of Non-Performing Loans and Provision for Substandard, Bad and Doubtful Debts" where specific allowance is taken at 20% at 6 months unless overall allowances for losses on loans and financing are adequate, increasing to 50% at 9 months and 100% at 12 months.

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

G. Dealing securities

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

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

H. Investment securities

Investment securities are securities that are acquired and held for yield or capital growth or to meet minimum liquid assets requirement pursuant to the New Liquidity Framework and are usually held to maturity.

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

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

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002 (continued)**

I. Amounts Recoverable from Danaharta

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

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

J. Investment in Subsidiary Companies

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

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

K. Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation. Where an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount.

Freehold land and building-in-progress are not depreciated. Depreciation of other property, plant and equipment is calculated to write off the cost of the property, plant and equipment on a straight line basis over the expected useful life of the assets concerned. The principal annual rates are:-

Buildings on freehold land	2%
Leasehold land and buildings	2%
Office equipment and furniture	10%
Computer equipment	20%
Motor vehicles	20%

L. Assets Under Lease

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

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

M. Bills and Acceptances Payable

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

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002 (continued)**

N. Amount Due To Cagamas

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

O. Forward Exchange Contracts

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

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

P. Currency Translations and Conversion

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

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

Foreign currency	<u>2002</u> RM	<u>2001</u> RM
1 US Dollar	3.80	3.80
1 Singapore Dollar	2.19	2.05

Q. Deferred Taxation

Deferred taxation is provided using the 'liability' method for all material timing differences in the recognition of certain income and expenses for accounting and for taxation purposes. Where the timing differences give rise to deferred tax benefits, these net benefits are not recognised unless the net benefits relate to interest in suspense which could reasonably be realised within the next three years.

R. Zakat

This represents zakat payable by the Bank to comply with the principles of Syariah and as approved by the Syariah Supervisory Council.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002 (continued)**

S. Interest Rate Swaps and Futures Contracts

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

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

T. Provisions

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002

1 GENERAL INFORMATION

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

The number of employees at the financial year end amounted to 1,846 (2001 : 1,929) employees in the Group and 1,844 (2001 : 1,927) employees in the Bank.

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

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

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

2 CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Cash and balances with banks and other financial institutions	119,916	144,132	119,916	144,132
Money at call and deposit placements maturing within one month	1,924,145	990,947	1,924,200	991,141
	<u>2,044,061</u>	<u>1,135,079</u>	<u>2,044,116</u>	<u>1,135,273</u>

3 DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

Licensed banks	854,521	892,300	854,521	892,300
Other financial institutions	0	5,000	0	5,000
	<u>854,521</u>	<u>897,300</u>	<u>854,521</u>	<u>897,300</u>

4 DEALING SECURITIES

Money market instruments:-

Quoted:

Malaysian Government Treasury bills	0	122,470	0	122,470
Malaysian Government securities	4,977	97,113	4,977	97,113
Government Investment Certificate	27,413	0	27,413	0
Bank Negara Negotiable notes	49,656	67,857	49,656	67,857
Cagamas bonds / notes	9,987	84,939	9,987	84,939
Danamodal bonds	58,512	0	58,512	0
Private debt securities	111,929	58,750	111,929	58,750
	<u>262,474</u>	<u>431,129</u>	<u>262,474</u>	<u>431,129</u>

Unquoted:

Bankers' acceptances and Islamic

Accepted bills	238,434	498,386	238,434	498,386
	<u>500,908</u>	<u>929,515</u>	<u>500,908</u>	<u>929,515</u>

Included in dealing securities in 2001 was an amount of RM417,196,000 pledged to third parties in sale and repurchase agreements.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2001 (continued)

4 DEALING SECURITIES (continued)

	Group		Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Market value of quoted money market instruments:-				
Malaysian Government Treasury bills	0	123,300	0	123,300
Malaysian Government securities	5,013	97,315	5,013	97,315
Government Investment Certificate	27,459	0	27,459	0
Cagamas bonds / notes	9,987	84,994	9,987	84,994
Bank Negara Negotiable notes	49,774	68,205	49,774	68,205
Danamodal bonds	58,596	0	58,596	0
Private debt securities	112,668	58,849	112,668	58,849
	<u>263,497</u>	<u>432,663</u>	<u>263,497</u>	<u>432,663</u>

5 INVESTMENT SECURITIES

Money market instruments:-

Quoted:

Malaysian Government Treasury bills	0	213,832	0	213,832
Malaysian Government securities	629,700	497,700	629,700	497,700
Government Investment Certificate	209,328	87,477	209,328	87,477
Bank Negara Negotiable notes	49,657	49,655	49,657	49,655
Cagamas bonds / notes	777,230	870,303	777,230	870,303
Danamodal bonds	122,222	122,222	122,222	122,222
Danaharta bonds	210,303	210,303	210,303	210,303
Private debt securities	810,080	999,071	810,080	999,071
	<u>2,808,520</u>	<u>3,050,563</u>	<u>2,808,520</u>	<u>3,050,563</u>

Unquoted:

Negotiable instruments of deposit	195,000	0	195,000	0
	<u>3,003,520</u>	<u>3,050,563</u>	<u>3,003,520</u>	<u>3,050,563</u>

Unquoted securities in Malaysia :-

Private debt securities	0	50,000	0	50,000
Shares	15,650	15,650	15,650	15,650
Debentures	186	186	186	186
	<u>3,019,356</u>	<u>3,116,399</u>	<u>3,019,356</u>	<u>3,116,399</u>

Amortisation of premium less

accretion of discounts	128,176	130,391	128,176	130,391
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Allowance for diminution in value of investment securities :

-Unquoted shares in Malaysia	(114)	(114)	(114)	(114)
-Private debt securities	(105,046)	(83,913)	(105,046)	(83,913)
-Other securities	0	(2,621)	0	(2,621)
	<u>3,042,372</u>	<u>3,160,142</u>	<u>3,042,372</u>	<u>3,160,142</u>

Included in investment securities is an amount of RM952,896,000 (2001: RM836,450,000) being pledged to third parties in sale and repurchase agreements.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

5 INVESTMENT SECURITIES (continued)

i) Market value of quoted money market instruments:-

	Group		Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Malaysian Government Treasury bills	0	217,261	0	217,261
Malaysian Government securities	670,023	541,489	670,023	541,489
Government Investment Certificate	213,887	89,453	213,887	89,453
Bank Negara Negotiable Notes	49,774	49,778	49,774	49,778
Cagamas bonds / notes	782,917	880,210	782,917	880,210
Danamodal bonds	170,417	165,286	170,417	165,286
Danaharta bonds	260,131	250,500	260,131	250,500
Private debt securities	673,417	973,684	673,417	973,684
	<u>2,820,566</u>	<u>3,167,661</u>	<u>2,820,566</u>	<u>3,167,661</u>

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

	Group		Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Maturity within one year	1,062,381	648,579	1,062,381	648,579
One year to three years	1,612,509	1,755,524	1,612,509	1,755,524
Three years to five years	288,763	326,964	288,763	326,964
Over five years	39,867	319,496	39,867	319,496
	<u>3,003,520</u>	<u>3,050,563</u>	<u>3,003,520</u>	<u>3,050,563</u>

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

	Group		Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Balance at 1 January	86,648	145,986	86,648	145,986
Allowance made during the year	48,482	27,146	48,482	27,146
Amount transferred from specific allowance	19,874	5,686	19,874	5,686
Amount transferred from interest-in-suspense	1,789	0	1,789	0
Amount recognised from conversion of debts securities	14,179	0	14,179	0
Amount written back in respect of recoveries	(58,463)	(92,170)	(58,463)	(92,170)
Amount written off	(7,349)	0	(7,349)	0
	<u>105,160</u>	<u>86,648</u>	<u>105,160</u>	<u>86,648</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

6 LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Overdrafts	4,069,348	4,195,592	4,069,348	4,195,592
Term loans :				
-fixed rate	245,766	227,102	245,766	227,102
-floating rate	8,317,665	7,162,041	8,317,665	7,162,041
Credit/charge cards receivables	166,528	145,440	166,528	145,440
Bills receivable	20,599	17,776	20,599	17,776
Trust receipts	73,708	78,520	73,708	78,520
Claims on customers under acceptance credits	1,324,883	1,292,414	1,324,883	1,292,414
Hire purchase	79,731	92,550	79,731	92,550
Lease receivables	23,879	18,055	20,659	14,681
Block discounting	423	967	423	967
Other loans	1,585,141	1,787,492	1,585,141	1,787,492
Staff loans (of which RM206,000 [2001 : RM 158,899] to directors)	94,752	91,826	94,752	91,826
	<u>16,002,423</u>	<u>15,109,775</u>	<u>15,999,203</u>	<u>15,106,401</u>
Unearned interest and income	(93,335)	(99,898)	(93,073)	(99,824)
Gross loans, advances and financing	<u>15,909,088</u>	<u>15,009,877</u>	<u>15,906,130</u>	<u>15,006,577</u>
Allowance for bad and doubtful debts and financing :				
- Specific	(354,558)	(335,607)	(353,443)	(333,590)
- General	(304,861)	(289,447)	(304,846)	(289,432)
Interest-in-suspense / income-in- suspense	(175,518)	(154,086)	(174,789)	(153,153)
Net loans, advances and financing	<u>15,074,151</u>	<u>14,230,737</u>	<u>15,073,052</u>	<u>14,230,402</u>

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

	Group		Bank	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Maturity within one year	8,112,618	9,216,292	8,111,054	9,213,442
One year to three years	885,073	471,956	884,764	471,634
Three years to five years	1,182,670	806,713	1,181,586	806,585
Over five years	5,728,727	4,514,916	5,728,726	4,514,916
	<u>15,909,088</u>	<u>15,009,877</u>	<u>15,906,130</u>	<u>15,006,577</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

6 LOANS, ADVANCES AND FINANCING

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

	Group		Bank	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Agriculture	749,685	797,742	749,685	797,742
Mining and quarrying	30,870	27,830	30,870	27,830
Manufacturing	2,776,156	2,871,409	2,775,655	2,870,277
Electricity, gas and water	120,823	147,168	120,823	147,168
Construction	731,757	789,548	731,241	788,778
Real estate	1,251,142	1,193,032	1,251,142	1,193,032
Purchase of landed property				
of which : i. Residential	3,777,717	2,982,797	3,777,717	2,982,797
ii. Non-residential	740,989	827,277	740,989	827,277
General commerce	2,317,805	2,114,477	2,317,715	2,114,394
Transport, storage and communication	267,262	326,796	267,262	326,796
Finance, insurance and business services	384,393	440,264	384,392	440,155
Purchase of securities	535,685	528,814	535,654	528,814
Purchase of transport vehicles	13,150	15,026	13,150	14,995
Consumption credit	817,679	770,584	816,310	770,038
Others	1,393,975	1,177,113	1,393,525	1,176,484
	<u>15,909,088</u>	<u>15,009,877</u>	<u>15,906,130</u>	<u>15,006,577</u>

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

	Group		Bank	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	1,556,326	1,495,268	1,553,410	1,488,660
Non-performing during the year (gross)	713,283	687,546	713,070	686,994
Amount converted to investment securities	(63,367)	(5,686)	(63,367)	(5,686)
Amount recovered	(294,480)	(270,090)	(293,272)	(268,241)
Amount written off	(184,104)	(350,712)	(183,939)	(348,317)
Balance at 31 December	<u>1,727,658</u>	<u>1,556,326</u>	<u>1,725,902</u>	<u>1,553,410</u>
Net non-performing loans and financing (as % of total loans less specific allowance and interest/income-in-suspense)	<u>7.79%</u>	<u>7.35%</u>	<u>7.79%</u>	<u>7.35%</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

6 LOANS, ADVANCES AND FINANCING (continued)

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

	Group		Bank	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
<u>General allowance</u>				
Balance at 1 January	289,447	281,084	289,432	281,012
Allowance made during the year	15,414	8,363	15,414	8,420
Balance at 31 December	<u>304,861</u>	<u>289,447</u>	<u>304,846</u>	<u>289,432</u>
 (as % of total loans less specific allowance and interest/income-in-suspense)	 <u>2.1%</u>	 <u>2.1%</u>	 <u>2.1%</u>	 <u>2.1%</u>
<u>Specific allowance</u>				
Balance at 1 January	335,607	376,686	333,590	372,302
Allowance made during the year	261,179	259,330	261,098	258,731
Amount transferred to allowance for diminution in value of investment securities	(19,874)	(5,686)	(19,874)	(5,686)
Amount written back in respect of recoveries	(74,981)	(72,732)	(74,033)	(71,367)
Amount written off	(147,373)	(221,991)	(147,338)	(220,390)
Balance at 31 December	<u>354,558</u>	<u>335,607</u>	<u>353,443</u>	<u>333,590</u>
<u>Interest/income-in-suspense</u>				
Balance at 1 January	154,086	221,097	153,153	219,592
Allowance made during the year	120,296	139,881	120,114	139,334
Amount transferred to allowance for diminution in value of investment securities	(1,789)	0	(1,789)	0
Amount written back in respect of recoveries	(60,268)	(76,213)	(60,011)	(75,889)
Amount written off arising from :				
-current year	(3,659)	(30,379)	(3,659)	(30,293)
-prior year	(33,148)	(100,300)	(33,019)	(99,591)
Balance at 31 December	<u>175,518</u>	<u>154,086</u>	<u>174,789</u>	<u>153,153</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

7 OTHER ASSETS

	Group		Bank	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Interest receivable	28,989	40,813	28,989	40,809
Other debtors, deposits and prepayments	55,726	48,065	52,637	44,715
	<u>84,715</u>	<u>88,878</u>	<u>81,626</u>	<u>85,524</u>
<u>Amount recoverable from Danaharta</u>				
Balance at 1 January	0	0	0	0
Amount arising during the year 1/	13,296	0	13,296	0
Allowance made during the year	(13,296)	0	(13,296)	0
Balance at 31 December	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

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

Total amount recoverable from Danaharta before allowance was RM93.2 million (2001 : RM79.9 million).

8 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA

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

9 INVESTMENT IN SUBSIDIARY COMPANIES

	Bank	
	2002	2001
	RM'000	RM'000
Unquoted shares at cost		
- in Malaysia	1,617	1,617
Less : Allowance for diminution in value	(6)	(6)
	<u>1,611</u>	<u>1,611</u>

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

Name	Principal activities	Issued and paid up share capital	Percentage of equity held	
			2002	2001
		RM'000	%	%
OCBC Credit Berhad	Licensed credit company	15,000	← 100% →	
Malaysia Nominees (Tempatan) Sdn Bhd	Nominees services	10	← 100% →	
Malaysia Nominees (Asing) Sdn Bhd	Nominees services	10	← 100% →	

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

10 PROPERTY, PLANT AND EQUIPMENT

Group 2002	Balance at 1 January	Additions	Disposal	Balance at 31 December
<u>Cost</u>	RM'000	RM'000	RM'000	RM'000
Freehold land and buildings	92,787	899	0	93,686
Building-in-progress	39,344	11,509	0	50,853
Leasehold land and buildings :				
- less than 50 years	8,271	141	0	8,412
- 50 years or more	14,128	283	0	14,411
Office equipment and furniture	55,892	1,814	(114)	57,592
Computer equipment	136,473	10,969	(142)	147,300
Motor vehicles	8,812	14	(1,040)	7,786
<u>Assets under lease:-</u>				
Computer/office equipment and furniture	467	1,020	0	1,487
	<u>356,174</u>	<u>26,649</u>	<u>(1,296)</u>	<u>381,527</u>
	Balance at 1 January	Charge for the year	Reversed on disposal	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000
<u>Accumulated depreciation</u>				
Freehold land and buildings	9,897	1,287	0	11,184
Leasehold land and buildings :				
- less than 50 years	561	98	0	659
- 50 years or more	746	174	0	920
Office equipment and furniture	35,178	3,841	(108)	38,911
Computer equipment	89,796	19,295	(142)	108,949
Motor vehicles	4,810	1,262	(1,036)	5,036
<u>Assets under lease:-</u>				
Computer/office equipment and furniture	128	268	0	396
	<u>141,116</u>	<u>26,225</u>	<u>(1,286)</u>	<u>166,055</u>
	Balance at 1 January	Charge for the year	Reversed on disposal	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000
<u>Impairment losses</u>				
Freehold land and buildings	0	4,896	0	4,896
Leasehold land and buildings				
-Less than 50 years	0	2,993	0	2,993
-50 years or more	0	3,106	0	3,106
	<u>0</u>	<u>10,995</u>	<u>0</u>	<u>10,995</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

2002

	Balance at 31 December
<u>Net book value</u>	RM'000
Freehold land and buildings	77,606
Building-in-progress	50,853
Leasehold land and buildings :	
- less than 50 years	4,760
- 50 years or more	10,385
Office equipment and furniture	18,681
Computer equipment	38,351
Motor vehicles	2,750
<u>Assets under lease:-</u>	
Computer/office equipment and furniture	1,091
	<u>204,477</u>

Bank

2002

	Balance at 1 January	Additions	Disposal	Balance at 31 December
<u>Cost</u>	RM'000	RM'000	RM'000	RM'000
Freehold land and buildings	92,787	899	0	93,686
Building-in-progress	39,344	11,509	0	50,853
Leasehold land and buildings :				
- less than 50 years	8,271	141	0	8,412
- 50 years or more	14,128	283	0	14,411
Office equipment and furniture	55,892	1,814	(114)	57,592
Computer equipment	136,388	10,969	(142)	147,215
Motor vehicles	8,812	14	(1,040)	7,786
<u>Assets under lease:-</u>				
Computer/office equipment and furniture	467	1,020	0	1,487
	<u>356,089</u>	<u>26,649</u>	<u>(1,296)</u>	<u>381,442</u>
	Balance at 1 January	Charge for the year	Reversed on disposal	Balance at 31 December
<u>Accumulated depreciation</u>	RM'000	RM'000	RM'000	RM'000
Freehold land and buildings	9,897	1,287	0	11,184
Leasehold land and buildings :				
- less than 50 years	561	98		659
- 50 years or more	746	174		920
Office equipment and furniture	35,178	3,841	(108)	38,911
Computer equipment	89,745	19,278	(142)	108,881
Motor vehicles	4,810	1,262	(1,036)	5,036
<u>Assets under lease:-</u>				
Computer/office equipment and furniture	128	268	0	396
	<u>141,065</u>	<u>26,208</u>	<u>(1,286)</u>	<u>165,987</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

Bank (Continued)

2002	Balance at 1 January	Charge for the year	Reversed on disposal	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000
<u>Impairment losses</u>				
Freehold land and buildings	0	4,896	0	4,896
Leasehold land and buildings				
-Less than 50 years	0	2,993	0	2,993
-50 years or more	0	3,106	0	3,106
	0	10,995	0	10,995
				Balance at 31 December
				RM'000
<u>Net book value</u>				77,606
Freehold land and buildings				50,853
Building-in-progress				4,760
Leasehold land and buildings :				10,385
- less than 50 years				18,681
- 50 years or more				38,334
Office equipment and furniture				2,750
Computer equipment				1,091
Motor vehicles				204,460
<u>Assets under lease:-</u>				
Computer/office equipment and furniture				

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

Group 2001	Balance at 1 January	Additions	Disposal	Balance at 31 December
<u>Cost</u>	RM'000	RM'000	RM'000	RM'000
Freehold land and buildings	90,753	2,394	(360)	92,787
Building-in-progress	20,479	18,865	0	39,344
Leasehold land and buildings :				
- less than 50 years	7,853	418	0	8,271
- 50 years or more	13,107	1,021	0	14,128
Office equipment and furniture	52,766	3,567	(441)	55,892
Computer equipment	110,768	27,020	(1,315)	136,473
Motor vehicles	7,576	2,445	(1,209)	8,812
<u>Assets under lease:-</u>				
Computer/office equipment and furniture	316	151	0	467
	<u>303,618</u>	<u>55,881</u>	<u>(3,325)</u>	<u>356,174</u>
	Balance at 1 January	Charge for the year	Reversed on disposal	Balance at 31 December
	RM'000	RM'000	RM'000	RM'000
<u>Accumulated depreciation</u>				
Freehold land and buildings	7,840	2,063	(6)	9,897
Leasehold land and buildings :				
- less than 50 years	466	95	0	561
- 50 years or more	578	168	0	746
Office equipment and furniture	31,599	3,970	(391)	35,178
Computer equipment	69,934	20,248	(386)	89,796
Motor vehicles	4,566	1,454	(1,210)	4,810
<u>Assets under lease:-</u>				
Computer/office equipment and furniture	64	64	0	128
	<u>115,047</u>	<u>28,062</u>	<u>(1,993)</u>	<u>141,116</u>
				Balance at 31 December
<u>Net book value</u>				RM'000
Freehold land and buildings				82,890
Building-in-progress				39,344
Leasehold land and buildings :				
- less than 50 years				7,710
- 50 years or more				13,382
Office equipment and furniture				20,714
Computer equipment				46,677
Motor vehicles				4,002
<u>Assets under lease:-</u>				
Computer/office equipment and furniture				339
				<u>215,058</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

Bank

2001	Balance at 1 January RM'000	Additions RM'000	Disposal RM'000	Balance at 31 December RM'000
<u>Cost</u>				
Freehold land and buildings	90,753	2,394	(360)	92,787
Building-in-progress	20,479	18,865	0	39,344
Leasehold land and buildings :				
- less than 50 years	7,853	418	0	8,271
- 50 years or more	13,107	1,021	0	14,128
Office equipment and furniture	52,766	3,567	(441)	55,892
Computer equipment	110,683	27,020	(1,315)	136,388
Motor vehicles	7,576	2,445	(1,209)	8,812
<u>Assets under lease:-</u>				
Computer/office equipment and furniture	316	151	0	467
	<u>303,533</u>	<u>55,881</u>	<u>(3,325)</u>	<u>356,089</u>
	Balance at 1 January RM'000	Charge for the year RM'000	Reversed on disposal RM'000	Balance at 31 December RM'000
<u>Accumulated depreciation</u>				
Freehold land and buildings	7,840	2,063	(6)	9,897
Leasehold land and buildings :				
- less than 50 years	466	95	0	561
- 50 years or more	578	168	0	746
Office equipment and furniture	31,599	3,970	(391)	35,178
Computer equipment	69,900	20,231	(386)	89,745
Motor vehicles	4,566	1,454	(1,210)	4,810
<u>Assets under lease:-</u>				
Computer/office equipment and furniture	64	64	0	128
	<u>115,013</u>	<u>28,045</u>	<u>(1,993)</u>	<u>141,065</u>
				Balance at 31 December RM'000
<u>Net book value</u>				
Freehold land and buildings				82,890
Building-in-progress				39,344
Leasehold land and buildings :				
- less than 50 years				7,710
- 50 years or more				13,382
Office equipment and furniture				20,714
Computer equipment				46,643
Motor vehicles				4,002
<u>Assets under lease:-</u>				
Computer/office equipment and furniture				339
				<u>215,024</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

11 DEPOSITS FROM CUSTOMERS

	Group		Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Demand deposits	1,527,845	1,506,134	1,528,048	1,506,773
Savings deposits	1,285,030	1,199,574	1,285,030	1,199,574
Fixed deposits	10,991,058	9,409,067	11,015,324	9,432,281
Negotiable instruments of deposits	41,950	644,490	41,950	644,490
Islamic short term Mudharabah investment	510,510	0	510,510	0
Others	4,783	5,562	4,783	5,562
	<u>14,361,176</u>	<u>12,764,827</u>	<u>14,385,645</u>	<u>12,788,680</u>

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

	Group		Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Due within six months	9,418,890	8,124,304	9,443,156	8,147,518
Six months to one year	1,978,684	1,663,854	1,978,684	1,663,854
One year to three years	144,711	132,807	144,711	132,807
Three years to five years	1,233	132,592	1,233	132,592
	<u>11,543,518</u>	<u>10,053,557</u>	<u>11,567,784</u>	<u>10,076,771</u>

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

Business enterprises	4,819,071	3,097,304	4,819,071	3,097,304
Individuals	8,897,605	8,179,644	8,897,605	8,179,644
Others	644,500	1,487,879	668,969	1,511,732
	<u>14,361,176</u>	<u>12,764,827</u>	<u>14,385,645</u>	<u>12,788,680</u>

12 DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group		Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Licensed banks	2,116,354	2,076,541	2,116,354	2,076,541
Licensed finance companies	25,000	115,830	25,000	115,830
Other financial institutions	92,838	234,986	92,838	234,986
	<u>2,234,192</u>	<u>2,427,357</u>	<u>2,234,192</u>	<u>2,427,357</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

13 OTHER LIABILITIES

	Group		Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Provision for employee benefit	2,563	2,041	2,563	2,041
Obligations under finance lease	1,098	198	1,098	198
Interest payable	103,912	102,815	103,938	102,840
Other accruals and charges	80,410	72,652	77,232	69,072
Amount due to a subsidiary company	0	0	1,850	1,850
Profit equalisation reserve [Note 38 (9)]	1,168	0	1,168	0
	<u>189,151</u>	<u>177,706</u>	<u>187,849</u>	<u>176,001</u>

a) Movements in provision for employee benefits are as follows :

Balance at 1 January	2,041	0	2,041	0
Provision made during the year (net)	522	2,041	522	2,041
Balance at 31 December	<u>2,563</u>	<u>2,041</u>	<u>2,563</u>	<u>2,041</u>

This refers to a provision for short term employee benefits on leave entitlement. Under employment contract, an employee earns their leave entitlement which they are entitled to carry forward and will lapse if not utilised in the next following accounting period. A provision is made for the estimated liability for unutilised annual leave.

14 SHARE CAPITAL

Authorised:-

Ordinary shares of RM 1.00 each	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
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Issued and fully paid:-

Ordinary shares of RM 1.00 each	<u>287,500</u>	<u>287,500</u>	<u>287,500</u>	<u>287,500</u>
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15 RESERVES

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

The Bank has sufficient tax credits under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of its entire retained profits as at 31 December 2002.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

16 INTEREST INCOME	Group		Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Loans and advances	947,490	961,845	947,312	961,452
Money at call and deposit placements with financial institutions	71,746	110,717	71,746	110,719
Dealing securities	3,036	9,437	3,036	9,437
Investment securities	135,382	132,386	135,382	132,386
Others	804	5,498	804	5,498
	<u>1,158,458</u>	<u>1,219,883</u>	<u>1,158,280</u>	<u>1,219,492</u>
Amortisation of premium less Accretion of discount	(9,812)	(7,382)	(9,812)	(7,382)
Net interest suspended	(56,392)	(33,238)	(56,467)	(33,101)
	<u>1,092,254</u>	<u>1,179,263</u>	<u>1,092,001</u>	<u>1,179,009</u>
17 INTEREST EXPENSE				
Deposits and placements of banks and other financial institutions	49,249	61,981	49,919	61,981
Deposits from other customers	380,603	436,975	380,603	437,675
Loans sold to Cagamas	70,311	48,809	70,311	48,809
Others	23,405	51,164	23,446	51,176
	<u>523,568</u>	<u>598,929</u>	<u>524,279</u>	<u>599,641</u>
18 NON-INTEREST INCOME				
Fee income:-				
Commission	33,671	23,533	33,671	23,533
Service charges and fees	33,552	31,593	33,552	31,593
Guarantee fees	474	693	474	693
Other fee income	6,531	6,086	6,531	6,086
	<u>74,228</u>	<u>61,905</u>	<u>74,228</u>	<u>61,905</u>
Investment income:-				
Net profit from dealing securities	12,529	6,466	12,529	6,466
Gain/(loss) from sale of investment securities	3,735	(310)	3,735	(310)
Gross dividends from Malaysia :- Investment securities	767	877	767	877
	<u>91,259</u>	<u>68,938</u>	<u>91,259</u>	<u>68,938</u>
Other income:-				
Foreign exchange profit				
- realised	15,404	15,662	15,404	15,662
- unrealised	2,876	1,050	2,876	1,050
Rental income	65	322	65	322
Gain on disposal of property, plant and equipment	519	903	519	903
Others	15	72	12	72
	<u>18,879</u>	<u>18,009</u>	<u>18,876</u>	<u>18,009</u>
	<u>110,138</u>	<u>86,947</u>	<u>110,135</u>	<u>86,947</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

19 STAFF COST AND OVERHEAD EXPENSES

	Group		Bank	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Personnel costs	132,734	133,024	132,605	132,888
Establishment costs	55,603	57,483	55,586	57,466
Marketing expenses	5,537	12,515	5,532	12,511
Administration and general expenses	26,606	31,248	26,564	31,199
	<u>220,480</u>	<u>234,270</u>	<u>220,287</u>	<u>234,064</u>

The above expenditure includes the following statutory disclosures:-

Directors' remuneration (Note 22)	1,885	1,894	1,853	1,862
Voluntary separation scheme expenses	18,542	0	18,542	0
Rental of premises	7,326	6,399	7,326	6,399
Auditors' remuneration	248	235	230	215
Depreciation of property, plant and equipment	26,225	28,062	26,208	28,045
Loss on disposal of property, plant and equipment	10	36	10	36
Property, plant and equipment written off	0	930	0	930

20 ALLOWANCE FOR LOSSES ON LOANS AND FINANCING

Allowance for bad and doubtful debts and financing:-

-Specific allowance (net)	186,198	186,598	187,065	187,364
-General allowance	15,414	8,363	15,414	8,420
-Other allowance	1,404	1,198	1,404	1,198

Bad debts and financing :-

- written off	106	163	105	163
- recovered	(10,357)	(6,386)	(10,357)	(6,384)
	<u>192,765</u>	<u>189,936</u>	<u>193,631</u>	<u>190,761</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

21 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

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

	Holding Company	Subsidiary Companies	Other Related Companies
	RM '000	RM '000	RM '000
2002			
Income :			
Interest on advances	3,421	0	0
Expenditure :			
Interest on fixed deposit	0	672	1,116
Interest on advances	19,927	0	0
Interest on lease financing	0	41	0
	<u>19,927</u>	<u>713</u>	<u>1,116</u>
Amount due from :			
Current account and fixed deposit	72,700	0	0
Amount due to :			
Current account and fixed deposit	1,109,739	24,469	9,542
Lease financing	0	1,098	0
	<u>1,109,739</u>	<u>25,567</u>	<u>9,542</u>
2001			
Income :			
Interest on advances	18,543	0	0
Expenditure :			
Interest on fixed deposit	0	700	268
Interest on advances	26,660	0	0
Interest on lease financing	0	12	0
	<u>26,660</u>	<u>712</u>	<u>268</u>
Amount due from :			
Current account and fixed deposit	185,866	0	0
Amount due to :			
Current account and fixed deposit	958,334	23,853	20,718
Lease financing	0	198	0
	<u>958,334</u>	<u>24,051</u>	<u>20,718</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

22 DIRECTORS' REMUNERATION

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

	Group		Bank	
	2002 RM'000	201 RM'000	2002 RM'000	2001 RM'000
Executive Directors :				
- Salary and other remuneration	1,222	1,012	1,222	1,012
- Bonuses	415	619	415	619
- Benefits-in-kind	75	99	75	99
Non-Executive Directors :				
- Fees	140	155	108	123
- Other remuneration	108	108	108	108
- Benefits-in-kind	25	25	25	25
Total	1,985	2,018	1,953	1,986
Total (excluding benefits-in-kind)	1,885	1,894	1,853	1,862

The remuneration attributable to the Chief Executive Officer of the Bank, including benefits-in-kind during the financial year amounted to RM1,192,000 (2001 : RM 1,172,000).

23 TAXATION

Malaysian income tax – current year	97,179	95,696	97,179	95,696
Under-provision in previous year	5,623	0	5,623	0
Transfer (from)/to deferred taxation	(4,845)	3,970	(4,845)	3,970
	97,957	99,666	97,957	99,666

The taxation charge for the year is higher than the statutory rate of taxation as certain charges and allowances are not considered deductible for tax purposes.

24 DEFERRED TAXATION LIABILITY

	Group		Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
Balance at 1 January	9,151	5,181	9,151	5,181
Transfer (to)/from income statement	(4,845)	3,970	(4,845)	3,970
Balance at 31 December	4,306	9,151	4,306	9,151

The deferred taxation liability is in respect of the following timing differences

-excess of capital allowances over depreciation	3,174	3,580	3,174	3,580
-Other timing differences	1,132	5,571	1,132	5,571
	4,306	9,151	4,306	9,151

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

25 BASIC EARNINGS PER SHARE

The earnings per ordinary share of the Group and the Bank have been calculated based on the net profit attributable to shareholders of RM179,170,000 and RM177,533,000 respectively (2001: RM220,671,000 and RM219,086,000) and on the 287,500,000 (2001 : 287,500,000) ordinary shares of RM1.00 each in issue during the financial year.

26 DIVIDENDS

	Group		Bank	
	2002 RM'000	2001 RM'000	2002 RM'000	2001 RM'000
In respect of previous financial year:				
Interim dividend of 72 sen less income tax at 28%	0	149,040	0	149,040
Final dividend of 30 sen less income tax at 28%	62,100	62,100	62,100	62,100
	<u>62,100</u>	<u>211,140</u>	<u>62,100</u>	<u>211,140</u>

The directors have proposed a final dividend 85 sen per share less tax amounting to RM175.95 million on the fully issued and paid up ordinary shares of the Bank in respect of the financial year ended 31 December 2002. These financial statements do not reflect this final proposed dividend which will be accrued as a liability in the financial year ending 31 December 2003 when approved by shareholders.

During the financial year, the Group changed its accounting policy with respect to the recognition of liabilities in compliance with the new MASB Standard 19 "Events After the Balance Sheet Date". This change in policy has effect on the accounting treatment for dividends.

In previous financial years, dividend were accrued as a liability when proposed by directors. The Group has now changed this accounting policy to recognise dividends in shareholders' equity in the period in which the obligation to pay is established in accordance with MASB Standard 19. Therefore, interim and final dividends are now accrued as a liability after approval by board of directors at the Board of Directors Meeting and shareholders at the Annual General Meeting, respectively. This change in accounting policy has been accounted for retrospectively and the previously reported of figures are restated as follows:

	As previously reported RM'000	Effect of change in policy RM'000	As restated RM'000
Group			
At 31 December 2001/1 January 2002:			
-Retained profits	185,455	62,100	247,555
-Proposed dividends	62,100	(62,100)	0
<hr/>			
Bank			
At 31 December 2001/1 January 2002:			
-Retained profits	261,977	62,100	324,077
-Proposed dividends	62,100	(62,100)	0
<hr/>			

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

27 COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group and the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

Risk Weighted Exposures as at 31 December are as follows :

	2002		2001	
	Principal Amount	Credit Equivalent Amount*	Principal Amount	Credit Equivalent Amount*
Group	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	210,635	210,635	198,918	198,918
Transaction-related contingent items	279,774	139,887	180,709	90,354
Short-term self-liquidating trade-related contingencies	152,171	30,434	185,413	37,083
Obligations under underwriting agreement	40,000	20,000	4,670	2,335
Irrevocable commitments to extend credit:-				
- maturity exceeding one year	2,922,334	1,461,167	4,221,922	2,110,961
- maturity not exceeding one year	4,678,823	0	4,445,063	0
Foreign exchange related contracts				
-less than one year	2,337,559	30,682	2,454,320	31,054
Interest rate contracts				
-one year to less than five year	10,000	300	10,000	308
Miscellaneous	31,155	0	31,155	0
Total	10,662,451	1,893,105	11,732,170	2,471,013

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

27 COMMITMENTS AND CONTINGENCIES (continued)

	2002		2001	
	Principal Amount	Credit Equivalent Amount*	Principal Amount	Credit Equivalent Amount*
Bank	RM'000	RM'000	RM'000	RM'000
Direct credit substitutes	210,635	210,635	198,918	198,918
Transaction-related contingent items	279,774	139,887	180,709	90,354
Short-term self-liquidating trade-related contingencies	152,171	30,434	185,413	37,083
Obligations under underwriting agreement	40,000	20,000	4,670	2,335
Irrevocable commitments to extend credit:-				
- maturity exceeding one year	2,922,334	1,461,167	4,221,922	2,110,961
- maturity not exceeding one year	4,678,823	0	4,445,063	0
Foreign exchange related contracts				
-less than one year	2,337,559	30,682	2,454,320	31,054
Interest rate contracts				
-one year to less than five year	10,000	300	10,000	308
Total	10,631,296	1,893,105	11,701,015	2,471,013

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

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

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

Pursuant to Section 4.01 of the merger agreement with OCBC Credit Berhad (OCB), the Bank will assume all debts, obligations and liabilities (actual, future or contingent) owed or incurred by OCB including the liability to pay any tax in respect of carrying on of its business until 31 December 1998.

No provision has been made for years of assessment 1994 to 1999 as the Group does not agree with the treatment adopted by the Inland Revenue Board and no legal liability arises until the additional assessments are raised and paid. The Inland Revenue Board has raised additional assessments for year of assessments 1994 to 1996 and the Bank has successfully obtained a standover on the amount assessed of approximately RM14.08 million. Any legal tax liability arising will be borne by the Bank.

As at 31 December 2002, there is a litigation case against the Bank in respect of claims by a customer. The Bank has filed its defence and the parties are currently awaiting a date to be fixed for trial. No provision has been made as legal advice indicates that it is unlikely that any significant loss will eventuate.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

27 COMMITMENTS AND CONTINGENCIES (continued)

Market risk

Market risk is the potential change in value caused by movement in market rates or prices. The contractual amounts stated above provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. Exposure to market risk may be reduced through offsetting on and off-balance positions. As at 31 December 2002, the amount of contracts which were not hedged and hence, exposed to market risk was RM2,876,041 (2001 : RM 7,515,627).

Credit risk

Credit risk arises from the possibility that a counterparty may be unable to meet the terms of a contract in which the Bank has a gain position. As at 31 December 2002, the amounts of credit risk, measured in term of the cost to replace the profitable contracts was RM 6,122,825 (2001 : RM 4,891,527). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

Details of the foreign exchange related contracts and interest rate contracts at 31 December 2002 are as follows:

	Group and Bank	
	2002	2001
	RM'000	RM'000
Foreign exchange related contracts		
- Forward contracts	511,927	485,604
- Swaps	1,783,256	1,854,679
Interest rate contracts		
- Swaps	10,000	10,000

28 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	
	2002	2001	2002	2001
Year	RM'000	RM'000	RM'000	RM'000
2003 / 2002	5,738	5,593	5,738	5,593
2004 / 2003	2,082	3,350	2,082	3,350
2005 / 2004	1,181	1,169	1,181	1,169
	9,001	10,112	9,001	10,112

29 CAPITAL COMMITMENTS

	Group		Bank	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Capital expenditure in respect of property, plant and equipment:-				
- authorised and contracted for	63,955	79,554	63,955	79,554
- authorised but not contracted for	2,368	2,406	2,368	2,406
Balance at 31 December	66,323	81,960	66,323	81,960

30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Credit Risk Management

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

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

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

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

Market Risk Management

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

The framework for the management of market risk comprises infrastructure, policies and procedures, and measurements and monitoring practices, which the Bank believes incorporate best practice risk management standards in line with practices as adopted by Parent Bank.

Market risk management functions separately and independently of the Bank’s business lines via the Asset-Liability and Market Risk Department (“ALMR”) reporting to the CEO, Assets and Liability Management Committee (ALCO), as well as Parent Bank’s Market Risk Management Department.

Control of market risk of trading activities is through the various treasury policies and procedures where we have a structure of risk limits which include net open position limits, sensitivity limits, tenure limits and stop loss limits. In addition we also run periodic stress test on selected portfolios to give us a better understanding of the risks the Bank is undertaking. These risk limits and control processes are addressed and reviewed annually or as and when need arises.

Going forward, in conjunction with the Parent Bank, we are also implementing a Market Risk Engine, which will enable us to calculate Value at Risk (VaR) numbers for these trading portfolios and eventually enable us to move towards a VaR based limits structure.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

30 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Asset and Liability Management

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

Interest Rate Risk

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

Liquidity Risk

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

Cashflow management is primarily based on BNM Liquidity Framework, which is a compliance framework that model our cashflows to reflect the Bank's potential inflows and outflows. In addition to BNM requirements the Bank also does periodic stress tests to gauge the Bank's ability to weather liquidity shocks as well as impose internal buffers over and above pure compliance requirements to ensure prudent liquidity management.

Other liquidity risk management tools include funding diversifications strategies, managing market access in relation to interbank and wholesale counterparties, as well as targeted Loans/Deposits ratios.

The Liquidity Risk Contingency Plan is already in place which seeks to provide a structured and organized approach to identifying and managing liquidity stress scenarios. The plan will only be activated if and when the Bank suffers from a "liquidity crisis".

Currency Risk

In the course of providing services to corporate and retail customers, the Bank actively exposes itself to foreign exchange risk. Foreign exchange risk is primarily transactional, arising from FX spot, FX swaps 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 undertaken by the Bank are off-balance financial instruments which include forward contracts for the purchase and sale of foreign currencies, interest rate swaps (IRS), and financial futures. These instruments allow the Bank and it's customers to hedge their underlying interest rate and foreign exchange exposure.

Foreign exchange derivatives are exchange rate related contracts, mainly forward foreign exchange contracts and currency options. Forward foreign exchange contracts are agreements to exchange a specified amount of one currency for another on a future date at an agreed rate. Currency options are contracts that give the purchaser the right, but not the obligation, to buy or sell an underlying currency at a certain price on or before an agreed future date.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

30 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, forward rate agreement and futures.

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

A futures contract is an agreement to buy or sell a standard quantity of a specific financial instrument at a pre-determined future date and at a price quoted through Malaysian Derivatives Clearing House (MDCH).

31 INTEREST RATE RISK

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

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

31 INTEREST RATE RISK (continued)

Group

As at 31 December 2002

	Up to 1 month	>1-3 months	>3-6 months	>6-12 months	>1-5 years	Over 5 years	Non- interest sensitive	Islamic Banking	Total	Average interest rate
Assets	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
Cash and short term funds	1,924,145	0	0	0	0	0	118,863	1,053	2,044,061	2.85
Deposits and placements with financial institutions	0	624,611	168,910	0	0	0	0	61,000	854,521	2.85
Dealing securities	0	0	0	58,512	9,987	22,007	0	410,402	500,908	3.26
Investment securities	165,000	190,094	245,090	324,954	1,269,748	17,296	(83,356)^	913,546	3,042,372	4.32
Loans, advances and financing	12,297,568	531,286	967,518	398,667	113,672	53,362	495,172*	216,906	15,074,151	6.67
Other assets	0	0	0	0	0	0	52,513	32,202	84,715	0
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	0	471,280	39,206	510,486	0
Property, plant and equipment	0	0	0	0	0	0	204,477	0	204,477	0
Total assets	14,386,713	1,345,991	1,381,518	782,133	1,393,407	92,665	1,258,949	1,674,315	22,315,691	
Liabilities										
Deposits from customers	6,738,317	1,970,591	1,269,623	1,929,927	111,686	0	1,378,446	962,586	14,361,176	2.98
Deposits and placements of banks and other financial institutions	1,728,106	167,441	263,916	0	0	0	0	74,729	2,234,192	2.36
Obligations on securities sold under repurchase agreements	907,241	0	0	0	0	0	0	0	907,241	2.74
Bills and acceptances payable	0	0	0	0	0	0	1,212,504	619	1,213,123	0
Amount due to Cagamas	54,788	16,718	60,273	251,819	473,344	582,874	0	0	1,439,816	4.68
Other liabilities	5	0	0	0	0	0	179,025	10,121	189,151	0
Taxation and zakat	0	0	0	0	0	0	33,564	3,125	36,689	0
Deferred taxation	0	0	0	0	0	0	4,306	0	4,306	0
Total liabilities	9,428,457	2,154,750	1,593,812	2,181,746	585,030	582,874	2,807,845	1,051,180	20,385,694	
On-balance sheet interest sensitivity gap	4,958,256	(808,759)	(212,294)	(1,399,613)	808,377	(490,209)	(1,548,896)	623,135	1,929,997	
Off-balance sheet interest sensitivity gap	0	0	0	0	0	0	0	0	0	
Total interest sensitivity gap	4,958,256	(808,759)	(212,294)	(1,399,613)	808,377	(490,209)	(1,548,896)	623,135	1,929,997	

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

31 INTEREST RATE RISK (continued)

Bank

As at 31 December 2002

	Up to 1 month	>1-3 months	>3-6 months	>6-12 months	>1-5 years	Over 5 years	Non- interest sensitive	Islamic Banking	Total	Average interest rate %
Assets	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Cash and short term funds	1,924,200	0	0	0	0	0	118,863	1,053	2,044,116	2.85
Deposits and placements with financial institutions	0	624,611	168,910	0	0	0	0	61,000	854,521	2.85
Dealing securities	0	0	0	58,512	9,987	22,007	0	410,402	500,908	3.26
Investment securities	165,000	190,094	245,090	324,954	1,269,748	17,296	(83,356)^	913,546	3,042,372	4.32
Loans, advances and financing	12,296,017	531,286	967,505	398,667	112,279	53,362	497,030*	216,906	15,073,052	6.67
Other assets	0	0	0	0	0	0	49,424	32,202	81,626	0
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	0	471,280	39,206	510,486	0
Investment in subsidiary companies	0	0	0	0	0	0	1,611	0	1,611	0
Property, plant and equipment	0	0	0	0	0	0	204,460	0	204,460	0
Total assets	14,385,217	1,345,991	1,381,505	782,133	1,392,014	92,665	1,259,312	1,674,315	22,313,152	
Liabilities										
Deposits from customers	6,762,785	1,970,591	1,269,623	1,929,927	111,686	0	1,378,447	962,586	14,385,645	2.98
Deposits and placements of banks and other financial institutions	1,728,106	167,441	263,916	0	0	0	0	74,729	2,234,192	2.36
Obligations on securities sold under repurchase agreements	907,241	0	0	0	0	0	0	0	907,241	2.74
Bills and acceptances payable	0	0	0	0	0	0	1,212,504	619	1,213,123	0
Amount due to Cagamas	54,788	16,718	60,273	251,819	473,344	582,874	0	0	1,439,816	4.68
Other liabilities	5	0	0	0	0	0	177,723	10,121	187,849	0
Taxation and zakat	0	0	0	0	0	0	26,345	3,125	29,470	0
Deferred taxation	0	0	0	0	0	0	4,306	0	4,306	0
Total liabilities	9,452,925	2,154,750	1,593,812	2,181,746	585,030	582,874	2,799,325	1,051,180	20,401,642	
On-balance sheet interest sensitivity gap	4,932,292	(808,759)	(212,307)	(1,399,613)	806,984	(490,209)	(1,540,013)	623,135	1,911,510	
Off-balance sheet interest sensitivity gap	0	0	0	0	0	0	0	0	0	
Total interest sensitivity gap	4,932,292	(808,759)	(212,307)	(1,399,613)	806,984	(490,209)	(1,540,013)	623,135	1,911,510	

^ The negative amount includes allowance for diminution in value of investment securities in accordance with the Company's accounting policy amounting to (RM105,160,000) for Group and Bank.

* The amount includes specific allowance, interest-in-suspense and general allowance for loan, advances and financing in accordance with the Company's accounting policy amounting to (RM829,711,000) for Group and (RM827,030,000) for Bank.

Pursuant to the transitional provision of MASB 24, the information on interest rate risk of each class of financial asset and liability as at 31 December 2001 is not presented.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

32 LIQUIDITY RISK

The maturities of assets and liabilities are important factors in assessing the liquidity of the Group. The table below provides analysis of assets and liabilities of the Group and the Bank into relevant maturity tenures based on their contractual profile:

Group								
As at 31 Dec 2002	Up to 3	> 3 Months	>6-12	>1-3	>3-5	Over 5	Total	
	Months	to 6 Months	Months	Years	Years	Years		
Assets	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short term funds	2,044,061	0	0	0	0	0	0	2,044,061
Deposits and placements with financial institutions	685,610	168,911	0	0	0	0	0	854,521
Dealing securities	229,545	58,543	68,222	51,077	71,513	22,008		500,908
Investment securities	407,206	340,108	366,269	1,583,725	292,593	52,471		3,042,372
Loans, advances and financing	7,097,576	703,056	1,236,439	1,491,451	750,287	3,795,342		15,074,151
Other assets	50,336	2,606	3,104	26,695	0	1,974		84,715
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	510,486		510,486
Property, plant & equipment	0	0	0	0	0	204,477		204,477
Total assets	10,514,334	1,273,224	1,674,034	3,152,948	1,114,393	4,586,758		22,315,691
Liabilities								
Deposits from customers	10,912,573	1,323,975	1,978,684	144,711	1,233	0		14,361,176
Deposits and placements of banks and other financial institutions	1,887,270	9,535	274,890	44,453	12,600	5,444		2,234,192
Obligations on securities sold under repurchase agreements	907,241	0	0	0	0	0		907,241
Bills and acceptances payable	1,083,895	128,228	1,000	0	0	0		1,213,123
Amount due to Cagamas	71,507	60,273	251,818	164,112	309,232	582,874		1,439,816
Other liabilities	129,566	24,961	17,276	17,348	0	0		189,151
Taxation and zakat	0	0	11,208	25,481	0	0		36,689
Deferred taxation liability	0	0	0	4,306	0	0		4,306
Total liabilities	14,992,052	1,546,972	2,534,876	400,411	323,065	588,318		20,385,694
Net Liquidity gap	(4,477,718)	(273,748)	(860,842)	2,752,537	791,328	3,998,440		1,929,997

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

32 LIQUIDITY RISK (continued)

Bank								
As at 31 Dec 2002	Up to 3	>3 Months	>6-12	>1-3	>3-5	Over 5	Total	
	Months	to 6 Months	Months	Years	Years	Years		
Assets	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cash and short term funds	2,044,116	0	0	0	0	0	2,044,116	
Deposits and placements with financial institutions	685,610	168,911	0	0	0	0	854,521	
Dealing securities	229,545	58,543	68,222	51,077	71,513	22,008	500,908	
Investment securities	407,206	340,108	366,269	1,583,725	292,593	52,471	3,042,372	
Loans, advances and financing	7,097,574	703,055	1,236,426	1,491,437	749,218	3,795,342	15,073,052	
Other assets	47,256	2,606	3,104	26,686	0	1,974	81,626	
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	510,486	510,486	
Investment in subsidiary companies	0	0	0	0	0	1,611	1,611	
Property, plant & equipment	0	0	0	0	0	204,460	204,460	
Total assets	10,511,307	1,273,223	1,674,021	3,152,925	1,113,324	4,588,352	22,313,152	
Liabilities								
Deposits from customers	10,937,042	1,323,975	1,978,684	144,711	1,233	0	14,385,645	
Deposits and placements of Banks and other financial institutions	1,887,270	9,535	274,890	44,453	12,600	5,444	2,234,192	
Obligations on securities sold under repurchase agreements	907,241	0	0	0	0	0	907,241	
Bills and acceptances Payable	1,083,895	128,228	1,000	0	0	0	1,213,123	
Amount due to Cagamas	71,507	60,273	251,818	164,112	309,232	582,874	1,439,816	
Other liabilities	126,482	24,961	17,208	19,198	0	0	187,849	
Taxation and zakat	0	0	3,989	25,481	0	0	29,470	
Deferred taxation liability	0	0	0	4,306	0	0	4,306	
Total liabilities	15,013,437	1,546,972	2,527,589	402,261	323,065	588,318	20,401,642	
Net Liquidity gap	(4,502,130)	(273,749)	(853,568)	2,750,664	790,259	4,000,034	1,911,510	

The contractual maturity analysis often does not reflect the actual behavioural patterns. In particular, the Group and Bank have a 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 2002 (continued)

33 CREDIT RISKS

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

Group	Short	Deposits			Loans,	Interest	Commitments
	term	and	Dealing	Investment	advances	receivable	and
	Funds	placements	securities	Securities^	and		contingencies
		with			financing*		
	RM'000	financial	RM'000	RM'000	RM'000	RM'000	RM'000
		institutions	RM'000	RM'000	RM'000	RM'000	RM'000
Agriculture	0	0	0	0	749,685	0	81,048
Mining and quarrying	0	0	0	0	30,870	0	5,835
Manufacturing	0	0	0	1,738	2,776,156	0	410,073
Electricity, gas and water	0	0	0	58,384	120,823	0	2,297
Construction	0	0	0	220,436	731,757	0	168,643
Real estate	0	0	0	0	1,251,142	0	135,168
Purchase of landed property (of which :							
i Residential	0	0	0	0	3,777,717	0	325,781
ii Non residential)	0	0	0	0	740,989	0	31,247
General commerce	0	0	0	29,593	2,317,805	0	252,119
Transport, storage and communication	0	0	0	128,265	267,262	0	60,733
Finance, insurance and business services	129,376	566,821	248,421	988,427	384,393	13,518	106,102
Purchase of securities	0	0	0	0	535,685	0	22,724
Purchase of transport vehicles	0	0	0	0	13,150	0	159
Consumption credit	0	0	0	0	817,679	0	228,193
Government	1,817,546	287,700	235,457	1,640,502	871,905	11,544	0
Others	0	0	17,030	80,187	522,070	3,927	62,983
	1,946,922	854,521	500,908	3,147,532	15,909,088	28,989	1,893,105

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

33 CREDIT RISKS (continued)

Bank	Short term Funds	Deposits and placements with financial institutions	Dealing securities	Investment 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	0	0	749,685	0	81,048
Mining and quarrying	0	0	0	0	30,870	0	5,835
Manufacturing	0	0	0	1,738	2,775,665	0	410,073
Electricity, gas and water	0	0	0	58,384	120,823	0	2,297
Construction	0	0	0	220,436	731,241	0	168,643
Real estate	0	0	0	0	1,251,142	0	135,168
Purchase of landed property (of which :							
i Residential	0	0	0	0	3,777,717	0	325,781
ii non residential)	0	0	0	0	740,989	0	31,247
General commerce	0	0	0	29,593	2,317,715	0	252,119
Transport, storage and Communication	0	0	0	128,265	267,262	0	60,733
Finance, insurance and business services	129,431	566,821	248,421	988,427	384,392	13,518	106,102
Purchase of securities	0	0	0	0	535,654	0	22,724
Purchase of transport Vehicles	0	0	0	0	13,150	0	159
Consumption credit	0	0	0	0	816,310	0	228,193
Government	1,817,546	287,700	235,457	1,640,502	871,905	11,544	0
Others	0	0	17,030	80,187	521,620	3,927	62,983
	1,946,977	854,521	500,908	3,147,532	15,906,130	28,989	1,893,105

[^] Excludes allowance for diminution in value of investment securities amounting to RM105,160,000 (Group and Bank).

*Excludes allowances for bad and doubtful debts and financing amounting to RM834,937,000 (Group) and RM833,078,000 (Bank).

Risk concentrations for commitments and contingencies are based on the credit equivalent balances in Note 27.

Pursuant to the transitional provision of MASB 24, the information on the credit risk concentrations as at 31 December 2001 is not presented.

34 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 2002 (continued)

34 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

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

<u>Group</u>	Fair value	Carrying value	
	2002	2002	
	RM'000	RM'000	
Financial Assets			
Assets for which fair value approximates carrying value	2,094,310	2,094,310	
Deposits and placements with financial institutions	793,521	793,521	
Dealing securities	90,864	90,506	
Investment securities	2,198,953	2,128,826	
Loans, advance and financing	14,857,245	14,857,245	
Financial Liabilities			
Deposits from customers	13,398,590	13,398,590	
Deposits and placements of banks and other financial institutions	2,159,463	2,159,463	
Obligations on securities sold under repurchase agreements	907,241	907,241	
Liabilities for which fair value approximates carrying value	1,391,534	1,391,536	
Amount due to Cagamas	1,668,282	1,439,816	
	Contract or	Fair value	
	underlying	Assets Liabilities	
As at 31 December 2002	principal amount	RM'000	RM'000
	RM'000		
Financial derivatives			
Foreign exchange derivatives			
-forward	530,830	321	4,156
-swaps	1,806,729	5,802	2,342
	<u>2,337,559</u>	<u>6,123</u>	<u>6,498</u>
Interest rate derivatives			
-swaps	<u>10,000</u>	<u>0</u>	<u>123</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

34 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bank	Fair value	Carrying value	
	2002	2002	
Financial Assets	RM'000	RM'000	
Assets for which fair value approximates carrying value	2,091,276	2,091,276	
Deposits and placements with financial institutions	793,521	793,521	
Dealing securities	90,864	90,506	
Investment securities	2,198,953	2,128,826	
Loans, advance and financing	14,856,146	14,856,146	
Financial Liabilities			
Deposits from customers	13,423,059	13,423,059	
Deposits and placements of banks and other financial institutions	2,159,463	2,159,463	
Obligations on securities sold under repurchase agreements	907,241	907,241	
Liabilities for which fair value approximates carrying value	1,390,232	1,390,232	
Amount due to Cagamas	1,668,282	1,439,816	
	Contract or underlying principal amount	Fair value	
	RM'000	Assets	Liabilities
As at 31 December 2002		RM'000	RM'000
Financial derivatives			
Foreign exchange derivatives			
-forward	530,830	321	4,156
-swaps	1,806,729	5,802	2,342
	<u>2,337,559</u>	<u>6,123</u>	<u>6,498</u>
Interest rate derivatives			
-swaps	10,000	0	123

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:

	<u>Group</u>	<u>Bank</u>
	<u>2002</u>	<u>2002</u>
	<u>RM'000</u>	<u>RM'000</u>
<u>Financial Assets</u>		
Cash and short term funds	2,043,008	2,043,063
Other assets	51,302	48,213
	<u>2,094,310</u>	<u>2,091,276</u>
<u>Financial liabilities</u>		
Bills and acceptances payable	1,212,504	1,212,504
Other liabilities	179,030	177,728
	<u>1,391,534</u>	<u>1,390,232</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

34 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Deposits and placements with / from financial institutions

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

Dealing and investment securities

Fair value of securities that are actively traded is determined by quoted bid prices. For non-actively traded securities, independent broker quotations are obtained. Fair value of equity securities is estimated using a number of methods, including earnings multiples and discounted cash flow analysis. These securities may be subjected to restrictions, for example, consent of other investors, that may limit the Group's ability to realise the estimated fair value. Accordingly, current estimates of fair value and the ultimate realisation of these instruments may differ.

Loans and advances

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

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

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

Deposits from customers

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

Obligations on securities sold under repurchase agreements

The estimated fair values of obligations on securities sold under repurchase agreements with maturity of less than six months approximate the carrying values. 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.

Financial derivatives

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

Pursuant to the transitional provision of MASB 24, the information on fair value of each class of financial assets and liability as at 31 December 2001 is not presented.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

35 CAPITAL ADEQUACY

	Bank	
	2002	2001
	RM'000	RM'000
The capital adequacy ratios of the Bank are as follows:-		
Tier-1 capital	1,911,510	1,796,077
Eligible Tier-2 capital	304,846	289,432
Total capital	<u>2,216,356</u>	<u>2,085,509</u>
Less : Investment in subsidiaries and holding of other financial institution's capital	(1,611)	(1,611)
Total capital base	<u>2,214,745</u>	<u>2,083,898</u>
<u>Capital Ratios</u>		
Core-capital ratio	12.48%	11.31%
Risk-weighted capital ratio	14.46%	13.12%

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
Share premium	462,500	462,500
Other reserves	1,161,510	1,046,077
Total Tier-1 capital	<u>1,911,510</u>	<u>1,796,077</u>
<u>Tier-2 capital</u>		
General allowance for bad and doubtful debts and financing	304,846	289,432
Total Tier-2 capital	<u>304,846</u>	<u>289,432</u>
Total capital	2,216,356	2,085,509
Less :		
Investment in subsidiaries	(1,611)	(1,611)
Capital base	<u>2,214,745</u>	<u>2,083,898</u>

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

	Bank	
	2002	2001
	RM'000	RM'000
0 %	5,688,402	4,194,870
10%	797,662	981,586
20%	1,198,362	1,844,222
50%	3,723,546	3,200,199
100%	<u>13,125,854</u>	<u>13,804,287</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

36 CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR

	Group		Bank	
	2002	2001	2002	2001
	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	2,044,116	1,135,079	2,044,116	1,135,273
Deposits and placements with financial Institutions	854,521	897,300	854,521	897,300
	<u>2,898,637</u>	<u>2,032,379</u>	<u>2,898,637</u>	<u>2,032,573</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

37 THE OPERATION OF ISLAMIC BANKING (IB)

BALANCE SHEETS AS AT 31 DECEMBER 2002

	Note	Group and Bank	
		2002 RM'000	2001 RM'000
ASSETS			
Cash and short-term funds	(1)	1,053	188,221
Deposits and placements with financial institutions	(2)	61,000	3,672
Dealing securities	(3)	288,090	566,243
Investment securities	(4)	456,664	371,066
Loans, advances and financing	(5)	216,906	169,856
Other assets	(6)	33,413	8,390
Statutory deposits with Bank Negara Malaysia		39,206	0
TOTAL ASSETS		1,096,332	1,307,448
LIABILITIES AND ISLAMIC BANKING FUNDS			
Deposits from customers	(7)	962,586	447,195
Deposits and placements of banks and other financial institutions	(8)	74,729	23,106
Obligations on securities sold under repurchase agreements		0	743,207
Bills and acceptances payable		619	700
Other liabilities	(9)	10,121	55,229
Tax & Zakat		3,125	29
Total Liabilities		1,051,180	1,269,466
Islamic Banking Funds	(10)	45,152	37,982
		45,152	37,982
TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS		1,096,332	1,307,448

The accompanying notes on pages 60 to 66 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

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

INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

	Note	Group and Bank	
		2002 RM'000	2001 RM'000
Net income from IB operations	(11)	13,875	12,185
Overhead expenses	(12)	(1,482)	(1,550)
Operating profits before allowances		12,393	10,635
Allowance for losses on loans and financing	(13)	(941)	(1,495)
Transfer to profit equalisation reserve	(9)	(1,168)	0
Profit before zakat		10,284	9,140
Taxation		(3,093)	0
Zakat		(21)	(29)
Net profit for the financial year		7,170	9,111
Retained profits brought forward		17,982	8,871
Retained profits carried forward		25,152	17,982

The accompanying notes on pages 60 to 66 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

37 THE OPERATION OF ISLAMIC BANKING (continued)

	Group and Bank	
	2002	2001
	RM'000	RM'000
(1) CASH AND SHORT-TERM FUNDS		
Cash and balances with banks and other financial institutions	1,053	1
Money at call and deposit placements maturing within one month	0	188,220
	<u>1,053</u>	<u>188,221</u>
(2) DEPOSIT AND PLACEMENT WITH FINANCIAL INSTITUTIONS		
Licensed banks	<u>61,000</u>	<u>3,672</u>
(3) DEALING SECURITIES		
Money market instruments :-		
Quoted :		
Bank Negara Negotiable Notes	49,656	67,857
Unquoted :		
Bankers' acceptances and Islamic accepted bills	238,434	498,386
	<u>288,090</u>	<u>566,243</u>
Market value:-		
Bank Negara Negotiable Notes	<u>49,774</u>	<u>68,205</u>
(4) INVESTMENT SECURITIES		
Money market instruments:-		
Quoted :		
Malaysian Government investment issues	141,091	64,509
Bank Negara Negotiable Notes	49,657	49,655
Sanadat Mudharabah Cagamas	20,000	20,000
Private debt securities	233,714	233,713
	<u>444,462</u>	<u>367,877</u>
Unamortised premium	12,202	3,189
Total investment securities	<u>456,664</u>	<u>371,066</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

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

	Group and Bank	
	2002	2001
	RM'000	RM'000
(4) INVESTMENT SECURITIES (continued)		
i) Market value of quoted money market instruments :-		
Malaysian Government investment issues	144,187	89,453
Bank Negara Negotiable Notes	49,774	49,778
Sanadat Mudharabah Cagamas	21,946	21,048
Private debt securities	245,047	239,656
	<u>460,954</u>	<u>399,935</u>
ii) The maturity structure of money market instruments held for investment are as follows:-		
Maturing within one year	141,301	63,695
One year to three years	298,161	294,182
Three to five years	5,000	10,000
	<u>444,462</u>	<u>367,877</u>
(5) LOANS, ADVANCES AND FINANCING		
Term financing		
- fixed rate	311,029	267,166
Unearned income	(88,898)	(92,999)
Gross financing	<u>222,131</u>	<u>174,167</u>
Allowance for bad and doubtful debts and financing		
- Specific	(258)	(299)
- General	(4,601)	(3,624)
Income-in-suspense	(366)	(388)
Net financing	<u>216,906</u>	<u>169,856</u>
i) Financing analysed by concepts is as follows:-		
Al-Bai' Bithaman Ajil	234,737	216,759
Al-Qardhul-Hassan	85	193
Al-Ijarah	20,660	14,681
Other financing	55,547	35,533
	<u>311,029</u>	<u>267,166</u>
ii) The maturity structure of financing is as follow:-		
Maturity within the year	15,745	959
One to three years	25,649	18,960
Three years to five years	54,588	21,313
Over five years	126,149	132,935
	<u>222,131</u>	<u>174,167</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

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

(5) LOANS, ADVANCES AND FINANCING (continued)

	Group and Bank	
	2002 RM'000	2001 RM'000
iii) Financing according to economic sector is as follows:-		
Agriculture	51,041	36,058
Mining & quarrying	2,174	444
Manufacturing	38,630	24,746
Construction	1,730	1,239
Real estate	1,558	3,095
Purchase of landed property		
(of which : i. Residential	80,839	86,153
ii. Non-residential)	3,639	4,317
General Commerce	12,890	10,581
Transport, storage and communication	1,711	1,529
Purchase of securities	20,007	0
Consumption credit	552	463
Finance, insurance and business services	2,328	2,097
Others	5,032	3,445
	222,131	174,167

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

General allowance

Balance at 1 January	3,624	2,244
Allowance made during the year	977	1,380
Balance at 31 December	4,601	3,624

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

2.1%	2.1%
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Specific allowance

Balance at 1 January	299	184
Allowance made during the year	148	115
Amount recovered	(184)	0
Amount written off	(5)	0
Balance at 31 December	258	299

Income-in-suspense

Balance at 1 January	388	337
Allowance made during the year	397	431
Amount written back in respect of recoveries	(419)	(225)
Amount written off	0	(155)
Balance at 31 December	366	388

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

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

	Group and Bank	
	2002	2001
	RM'000	RM'000
(6) OTHER ASSETS		
Income receivable	1,929	2,167
Other debtors, deposits and prepayments	31,484	6,223
	<u>33,413</u>	<u>8,390</u>
(7) DEPOSITS FROM CUSTOMERS		
Demand deposits	43,915	29,348
Savings deposits	180,617	155,120
General investment deposits	225,696	259,395
Islamic short term Mudharabah Investment	510,510	0
Others	1,848	3,332
	<u>962,586</u>	<u>447,195</u>
i) Maturity structure of general investment deposits are as follows:-		
Due within six months	142,683	171,233
Six months to one year	48,757	79,346
One year to three years	33,330	7,765
Three years to five years	926	1,051
	<u>225,696</u>	<u>259,395</u>
ii) The deposits are sourced from the following customers:-		
Business enterprises	416,699	111,275
Individuals	270,208	267,404
Others	275,679	68,516
	<u>962,586</u>	<u>447,195</u>
(8) DEPOSITS AND PLACEMENTS OF BANKS AND OTHER FINANCIAL INSTITUTIONS		
Licensed banks	49,729	23,106
Licensed finance companies	25,000	0
	<u>74,729</u>	<u>23,106</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

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

	Group and Bank	
	2002	2001
	RM'000	RM'000
(9) OTHER LIABILITIES		
Other accruals and charges	8,953	55,229
Profit equalisation reserve	1,168	0
	<u>10,121</u>	<u>55,229</u>
<u>Profit equalisation reserve (PER)</u>		
Balance at 1 January	0	0
Amount provided during the year	1,738	0
Amount written back during the year	(570)	0
Balance at 31 December	<u>1,168</u>	<u>0</u>

Profit equalisation reserves (PER) refers to the amount appropriated out of the total gross income in order to maintain a certain level of return for depositors. PER is deducted from the total gross income in deriving at the net gross income. It is therefore, a provision shared by both the depositors and the Bank.

(10) ISLAMIC BANKING FUND (IBF)

Funds allocated from Head Office	20,000	20,000
Retained profits	25,152	17,982
	<u>45,152</u>	<u>37,982</u>

(11) INCOME FROM IB OPERATION

Income derived from investment of depositors' fund	46,388	38,925
Income attributable to depositors		
- Other customers	(29,919)	(24,954)
- Banks and financial institutions	(2,979)	(1,814)
Income attributable to bank	<u>13,490</u>	<u>12,157</u>
Other IB Income	604	254
	<u>14,094</u>	<u>12,411</u>
Amortisation of premium less accretion of discounts	(241)	(175)
Net income suspended	22	(51)
Net income	<u>13,875</u>	<u>12,185</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

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

(11) INCOME FROM IB OPERATION (continued)

Details of the income derived from investment of depositors' funds and funds allocated from Head Office are as follows :-

<u>2002</u>	Depositors'	
	funds	IBF
	RM'000	RM'000
Income from financing	3,900	11,018
Income from deposits and placements with financial institutions	1,833	0
Investment income:-		
Gains from sale of investment securities	16,920	737
Net profit from dealing securities	11,364	495
	<u>34,017</u>	<u>12,250</u>
Allowance for diminution in value of investment securities	0	121
	<u>34,017</u>	<u>12,371</u>
Fee income:-		
Commission	0	23
Service charges and fees	0	581
	<u>34,017</u>	<u>12,975</u>
<u>2001</u>		
Income from financing	1,597	9,940
Income from deposits and placements with financial institutions	1,814	413
Investment income:-		
Gains from sale of investment securities	15,739	1,271
Net profit from dealing securities	7,618	615
	<u>26,768</u>	<u>12,239</u>
Allowance for diminution in value in investment securities	0	(82)
	<u>26,768</u>	<u>12,157</u>
Fee income:-		
Commission	0	22
Service charges and fees	0	232
	<u>26,768</u>	<u>12,411</u>

(12) OVERHEAD EXPENSES

	Group and Bank	
	2002	2001
	RM'000	RM'000
Personnel costs	884	820
Establishment costs	135	125
Marketing expenses	211	292
Administration and general expenses	252	313
	<u>1,482</u>	<u>1,550</u>

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2002 (continued)

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

	Group and Bank	
	2002	2001
	RM'000	RM'000
(13) ALLOWANCE FOR LOSSES ON LOANS AND FINANCING		
Allowance for bad and doubtful debts and financing:-		
- specific allowance (net)	(36)	115
- general allowance	977	1,380
	941	1,495

(14) CAPITAL ADEQUACY

The capital adequacy ratios of the Bank are as follows:-

Tier 1 capital	45,152	37,982
Eligible tier 2 capital	4,601	3,624
Total capital base	49,753	41,606

Capital Ratios

Core-capital ratio	14.74%	11.09%
Risk-weighted capital ratio	16.25%	12.15%

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

Tier-1 capital

Islamic Banking Fund	20,000	20,000
Retained profits	25,152	17,982
Total Tier-1 capital	45,152	37,982

Tier-2 capital

General allowance for bad and doubtful debts and financing	4,601	3,624
Total Tier-2 capital	4,601	3,624

Total capital base	49,753	41,606
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ii) Breakdown of the risk-weighted assets in the various categories of risk-weights are as follows:

0 %	480,492	376,577
10%	20,134	27,358
20%	299,796	679,401
50%	80,132	85,563
100%	204,097	160,839

Pursuant to BNM circular dated 19 November 2001 on "Pematuhan Nisbah Modal Berwajaran Risiko bagi Portfolio Perbankan Islam", the Skim Perbankan Islam of the Bank is required to comply with minimum core capital ratio and risk-weighted capital ratio effective from 2 January 2002.

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

We, Tan Sri Dato' Nasruddin Bin Bahari and Dato' Yeoh Beow Tit, two of the directors of OCBC Bank (Malaysia) Berhad, state that, in the opinion of the directors, the financial statements set out on pages 12 to 66 are drawn up so as to give a true and fair view of the state of affairs of the Group and the Bank as at 31 December 2002 and of the results and cash flows of the Group and the Bank for the financial year then ended, in accordance with the provisions of the Companies Act, 1965, the applicable approved accounting standards in Malaysia and Bank Negara Malaysia Guidelines.

In accordance with a resolution of the Board of Directors dated

TAN SRI DATO' NASRUDDIN BIN BAHARI
DIRECTOR

DATO' YEOH BEOW TIT
DIRECTOR

Kuala Lumpur

6 February 2003

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

I, Tan Fong Sang, being the officer primarily responsible for the financial management of OCBC Bank (Malaysia) Berhad, do solemnly, and sincerely declare that the accompanying balance sheets of the Group and the Bank as at 31 December 2002 and the related income statements and cash flow statements of the Group and the Bank for the financial year then ended, together with the notes thereto as set out on pages 12 to 66 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared at)
Kuala Lumpur in Wilayah Persekutuan)
on 6 February 2003) 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 12 to 66. These financial statements are the responsibility of the Bank's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion:

- a) the financial statements have been prepared in accordance with the applicable approved accounting standards in Malaysia, Bank Negara Malaysia Guidelines and the provisions of the Companies Act, 1965 so as to give a true and fair view of :
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
 - (ii) the state of affairs of the Group and the Bank as at 31 December 2002 and of the results and cash flows of the Group and the Bank for the financial year ended on that date;

and

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

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

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

PRICEWATERHOUSECOOPERS
(No.AF:1146)
Chartered Accountants

DATO' AHMAD JOHAN BIN MOHAMMAD RASLAN
(No.1867/09/04 (J))
Partner of the firm

Kuala Lumpur

6 February 2003