

Company No. 295400 W

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

**REPORTS AND FINANCIAL STATEMENTS**

**31 DECEMBER 2003**

## REPORTS AND FINANCIAL STATEMENTS – 31 DECEMBER 2003

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## DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

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 2003.

### PRINCIPAL ACTIVITIES

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

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

<b>FINANCIAL RESULTS</b>	<b>GROUP</b>	<b>BANK</b>
	2003	2003
	RM'000	RM'000
Profit before taxation and zakat	283,914	290,107
Taxation	(78,675)	(80,573)
Zakat	(23)	(23)
Net profit attributable to shareholders	<u>205,216</u>	<u>209,511</u>
Retained profits brought forward	472,583	547,297
Dividends paid of 230 sen per share less tax at 28%	(476,100)	(476,100)
Retained profits carried forward	<u>201,699</u>	<u>280,708</u>

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (continued)**

### **DIVIDENDS**

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

- i. a final gross dividend of 85 sen per share less tax on 13 May 2003 in respect of the previous financial year amounting to RM175.95 million;
- ii. A special gross dividend of 145 sen per share less tax on 29 August 2003 in respect of the current financial year amounting to RM300.15 million

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

The directors now recommend a final gross dividend of 170 sen per share less tax in respect of the current financial year amounting to RM351.9 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 2003 (continued)**

### **CONTINGENT AND OTHER LIABILITIES**

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

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

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

### **CHANGE OF CIRCUMSTANCES**

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

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

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

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

### **FINANCIAL PERFORMANCE**

The Bank and its subsidiaries recorded a stronger pretax profit of RM283.9million for the financial year 2003 amid challenging economic conditions caused by the Iraq war and SARS. The increase in pre-tax profit of 2.4% or RM6.8m over last year of RM277.1 million was due to higher recoveries that resulted in the lower loan loss provisions.

The Group's operating profit declined marginally by 2.0% or RM9.3m to RM461.8 million as higher expenditure had offset the increase in total income. Net interest income (NII) declined 3% or RM17.1 million due to 33 bps contraction in net interest margin (NIM), despite increase of RM2.2 billion of average interest earning assets. NIM was impacted by narrower customer spreads as a result of greater competition for targeted loan segments and the cut of 40 bps in base lending rate in May 03. The lower NII was compensated by strong non-interest income growth of 18.1% (RM19.9 million), mainly in fees and commissions as we succeeded in cross-selling several products, particularly bancassurance, unit trusts and capital market related products to our customer base. Overhead expenses increased by 5.5% or RM12.0 million mainly due to higher valuation cost incurred to update value of collaterals and accelerated depreciation on selected computers. Consequently, expense to income ratio had increased to 33.5% (2002 : 31.9%).

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (continued)**

### **FINANCIAL PERFORMANCE (continued)**

Loans growth was a commendable 10.7% where the Bank's loan base expanded from RM15.9 billion to RM17.6 billion. Consumer loans contributed RM1.2 billion of the growth, of which RM0.9 billion was from housing loans. Total assets base expanded accordingly by 13.6% to RM25.5 billion.

Gross non-performing loans (NPL) increased by RM182.3 million to RM1.9 billion, primarily due to the realignment of the classification of loan accounts with OCBC Singapore's classification policy that is more stringent. Nonetheless, the net NPL ratio dropped to 7.40% from 7.79% last year due to the strong loan growth. The Bank's cushion against possible loan losses, as reflected by loan loss reserve coverage increased from 48.2% in December 2002 to 50.2% in December 2003.

In year 2003, BNM's approval was obtained for Oversea-Chinese Banking Corporation Limited, Labuan branch to invest USD100 million of Tier 2 capital in OCBC Malaysia by way of 10-year subordinated term loan. The loan was drawdown on 28 May 2003. The investment was followed by the payment of a special dividend amounting to RM300.15 million so as to lower the overall cost and increase the efficiency of the capital of the Bank. Shareholders funds stood at RM1.77 billion after the inclusion of the 2003 profits and deferred tax adjustment of RM107.8million. The Risk Weighted Capital Ratio (RWCR) remained healthy at 13.61% as at 31 December 2003. The adjusted RWCR after the proposed final dividend of RM351.9 million will be 11.55%.

### **ACTIVITIES & ACHIEVEMENTS**

OCBC Bank (Malaysia) Berhad with more than 7 decades of presence in Malaysia is Banker to some 400,000 individual and 40,000 corporate customers. It has an extensive network comprising of 25 branches located in major cities throughout the Peninsular, Sabah & Sarawak. With assets and loans size exceeding RM24 billion and RM17 billion respectively, OCBC Bank is the third largest foreign bank operating in the country.

In mid-2003, a new global organisation structure was rolled out with the Bank being aligned along four groupings covering customers, products, support functions and geography. This matrix structure enhanced customer focus and product innovation by clarifying roles and responsibilities. It streamlined reporting, eliminated duplication across the international network and ensured that the entire Bank as a group operated as one team.

For consumer banking, housing loan and wealth management products remained key growth areas. Housing loan performed well as the Bank commanded a good 4% of market share with volumes close to RM4.5 billion. New housing loan approvals recorded more than RM2 billion. As an Institutional Unit Trust Agent (IUTA), the Bank sold RM848 million worth of unit trust funds. This was a most commendable achievement compared to the previous year sales of only RM178 million.

OCBC Bank also launched a dedicated fund for its customers with Pacific Mutual Berhad (Pacific) on 11 August 2003 and became the exclusive distributor for both its tailor-made Pacific *Select Balance* Fund and Pacific *Select Income* Fund. Sales of these funds exceeded RM200 million, and total sales of unit trust funds managed by Pacific stood at close to RM300 million. Currently, the Bank offers a total of 51 approved funds from 8 Unit Trust Management companies.

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (continued)**

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

In February 2003, Bank Negara Malaysia gave its approval for OCBC Bank to distribute life insurance products underwritten by Malaysia National Insurance Berhad. Three new, market-leading Bancassurance products were launched namely, MaxLife, MaxSave Plus and Capital Plus.

The Bank also tied up strategically with Great Eastern Life Assurance (Malaysia) Berhad [GELA] in the offering of mortgage reducing term assurance and the Premier Savings Plan, a single premium endowment product for its customers.

On the corporate scene, the Bank launched its online electronic banking solution known as [velocity@ocbc](mailto:velocity@ocbc) on 18 July 2003. With this state-of-the-art service, customers could gain access to a host of trade and cash management services through reliable and efficient online banking to enable effective fund management anywhere in the world, at any time.

OCBC Bank also sponsored and contributed articles to the SME Book Series on Financial Management. In the first book out of a series of 8 books strongly supported by The SMI Association, 5,000 copies were printed with 4,000 copies being made available to the public / SMI entrepreneurs.

New credit programmes were also put in place to meet customer needs. Simultaneously, the Bank stepped up comprehensive training on credit risk process management for all Business Banking Relationship Managers, credit officers and credit audit staff to improve problem recognition and remedial action capabilities.

Investment Banking on the other hand, lead arranged major deals worth a total of RM5.3 million of revenue with Bandar Setia Alam, Panglima Sdn Bhd, Malayan Cement Bhd, Tenaga Nasional Bhd, Mid Valley City Sdn Bhd & Bandar Eco-Setia Sdn Bhd.

To support Bank Negara Malaysia's efforts to educate the public about Islamic Banking (IB), OCBC Bank sponsored and actively participated in an IB documentary entitled *Kewangan Islam* produced by TV3 to provide an overview of the IB industry in the country and showcased various IB products and services. It also played an active part in the Islamic Banking & Takaful Week Expo organised by The Association of Islamic Banking Institutions Malaysia and Bank Negara Malaysia's to create awareness about IB in the country.

And in conjunction with the 10<sup>th</sup> Organisation for Islamic Conference (OIC) Summit held at Putrajaya in October 2003, the Bank was invited to participate in an international editorial survey on 'Islamic Banking & Finance Report' conducted by The Times London. This augured well for the Bank's IB as it meant that OCBC was now recognised internationally to be an active player within the IB fraternity in Malaysia. Before the year closed, IB introduced Cash Financing-i, an unsecured term financing facility, which makes it the Bank's 15<sup>th</sup> IB product offering.

### **MAJOR BUSINESS PLANS & ACTIVITIES FOR YEAR 2004**

The Malaysia GDP is estimated to grow by 5.4% in 2004 (MIER) with potential of hitting 6.0% (Ministry of Finance). As the economy is gearing for stronger growth in 2004 and with the ongoing liberalisation of the financial markets, the banking sector will be facing another year of challenges. Competition is rife with banks and non-bank financial institutions gearing up possibly for another round of consolidation. Further compounding this are the low interest rates, which have forced many to seek ways of creating synergy amongst one another to gain market share.

The reorganisation completed last year will place the Bank on an even stronger growth platform towards achieving the goals set under the New Horizon strategy. With a more focused approach we will aggressively expand our customer base in our target markets and develop innovative, best-in-class products while at the same time improving efficiency and customer service by streamlining and standardising production processes.

## **DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (continued)**

### **MAJOR BUSINESS PLANS & ACTIVITIES FOR YEAR 2004 (continued)**

Business Banking Division will focus on deepening its selective top tier corporate relationships and build a strong sales culture to acquire new relationships in the large corporate as well as in the SME segments. Ongoing efforts will be directed at building a framework to support growth, which will include the strengthening of capabilities in new product development (predominantly to the SME segment), risk management and sales & marketing processes to compliment the solid service culture of branch organisation. The division will embark on a renewed push to further increase non-interest income generation capabilities based on X-Sell, the group's new cross-sales centric marketing philosophy. Emphasis will be placed on developing non-interest income capabilities through collaborative efforts with Treasury, Transaction Banking and Investment Banking.

In 2004, one of the key objectives for Consumer Financial Services (CFS) is to improve profitability via market segmentation and to focus on higher yield assets. The division will be expanding the existing selection of products such as developing product programmes and the bundling of personal and business products & solutions. To combat the low interest rates prevailing in the market proactive steps will be taken to market fee-based products via cross-selling efforts and strategic tie-ups. Furthermore, efforts will also be taken to streamline processes and improve customer services and productivity.

### **SUBORDINATED TERM LOAN**

The Bank propose to issue a subordinated term loan which represents a USD50 million 10-year unsecured term loan at fixed rate of 5.55% per annum to be obtained from Oversea-Chinese Banking Corporation Limited, Labuan Branch. The subordinated term loan is repayable in full by 5 equal and consecutive annual instalments commencing from the 6<sup>th</sup> anniversary year from the date of disbursement.

### **RATINGS BY EXTERNAL AGENCIES**

The Bank is rated by an external agency, Rating Agency Malaysia Berhad. The Bank received AA1 for long term rating and P1 for short term rating which was reaffirmed in September 2003 and is still in use at the reporting date. This is reflective of OCBC Malaysia's resilient asset quality, sound credit risk management, sustainable financial performance and sturdy capitalisation.

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

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

Tan Sri Dato' Nasruddin Bin Bahari (Chairman)

David Conner

Helen Lim Lean See

Lai Teck Poh

Ooi Sin Teik (resigned on 1/11/2003)

Soon Tit Koon (appointed on 19/6/2003)

Tan Siok Choo

Dato' Yeoh Beow Tit

Datuk Yong Poh Kon

## DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (continued)

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

In accordance with articles 106 & 107 of the Bank's Articles of Association, Tan Sri Dato' Nasruddin bin Bahari, Dato' Yeoh Beow Tit and Ms Tan Siok Choo 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 Soon Tit Koon 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

	<u>As at 1.1.2003</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2003</u>
Helen Lim Lean See	835	5,736	5,000	1,571
Lai Teck Poh	22,274	62,074	-	84,348
David Conner	-	121,000	-	121,000
Soon Tit Koon	10,000	-	-	10,000

##### Number of ordinary shares of S\$ 1.00 each

Shareholdings in which directors have deemed interest \*

	<u>As at 1.1.2003</u>	<u>Acquired</u>	<u>Disposed</u>	<u>As at 31.12.2003</u>
Tan Siok Choo	15,000	-	15,000	-
Lai Teck Poh	-	5,673	-	5,673
Helen Lim Lean See	-	1,238	-	1,238
Soon Tit Koon	4,006	-	-	4,006
Dato' Yeoh Beow Tit	-	3,303	-	3,303
David Conner	363,000	328,526	21,000	670,526

#### Class G Preference Shares

Lai Teck Poh	-	42,000	-	42,000
David Conner	-	50,000	-	50,000

\*Deemed interest includes shares granted under the OCBC Deferred Share Plan which will vest three years from the grant date and will lapse when the director ceases employment during the vesting period.

## DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (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 1.1.2003</u>	<u>Offered</u>	<u>Exercised</u>	<u>Lapsed</u>	<u>As at 31.12.2003</u>	<u>Dates options expire</u>
David Conner	300,000	300,000	-	-	600,000	8/4/2012-29/3/2013
Helen Lim Lean See	202,886	40,000	5,736	-	237,150	29/1/2007-29/3/2013
Lai Teck Poh	450,969	60,000	62,074	-	448,895	29/1/2006-29/3/2013
Dato' Yeoh Beow Tit	270,400	90,000	-	-	360,400	9/12/2008-26/3/2012
Soon Tit Koon	100,000	75,000	-	-	175,000	8/4/2012-26/3/2013

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

### DIRECTORS' BENEFITS

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

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

### ULTIMATE HOLDING COMPANY

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

**DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (continued)**

**AUDITORS**

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

In accordance with a resolution of the Board of Directors dated 31 January 2004.

TAN SRI DATO' NASRUDDIN BIN BAHARI  
DIRECTOR

DATO' YEOH BEOW TIT  
DIRECTOR

Kuala Lumpur

## BALANCE SHEETS AS AT 31 DECEMBER 2003

	Note	Group		Bank	
		2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
<b>ASSETS</b>					
Cash and short-term funds	2	3,089,323	2,044,061	3,089,323	2,044,116
Deposits and placements with financial institutions	3	35,402	854,521	35,402	854,521
Dealing securities	4	792,658	500,908	792,658	500,908
Investment securities	5	3,931,919	3,042,372	3,931,919	3,042,372
Loans, advances and financing	6	16,658,288	15,074,151	16,657,273	15,073,052
Other assets	7	94,120	84,715	91,121	81,626
Statutory deposits with Bank Negara Malaysia	8	582,086	510,486	582,086	510,486
Investment in subsidiary companies	9	0	0	1,611	1,611
Property, plant and equipment	10	183,302	204,477	183,302	204,460
Deferred taxation asset	11	109,112	103,649	108,977	103,481
<b>TOTAL ASSETS</b>		<b>25,476,210</b>	<b>22,419,340</b>	<b>25,473,672</b>	<b>22,416,633</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Deposits from customers	12	15,744,231	14,361,176	15,764,528	14,385,645
Deposits and placements of banks and other financial institutions	13	3,563,907	2,234,192	3,563,907	2,234,192
Obligations on securities sold under repurchase agreements		1,409,451	907,241	1,409,451	907,241
Bills and acceptances payable		1,267,140	1,213,123	1,267,140	1,213,123
Amount due to Cagamas		1,098,152	1,439,816	1,098,152	1,439,816
Subordinated term loan	14	380,027	0	380,027	0
Other liabilities	15	227,558	189,151	226,302	187,849
Taxation and zakat		18,676	36,689	11,457	29,470
<b>Total Liabilities</b>		<b>23,709,142</b>	<b>20,381,388</b>	<b>23,720,964</b>	<b>20,397,336</b>
Financed by :					
Share capital	16	287,500	287,500	287,500	287,500
Reserves	17	1,479,568	1,750,452	1,465,208	1,731,797
<b>Shareholders' Equity</b>		<b>1,767,068</b>	<b>2,037,952</b>	<b>1,752,708</b>	<b>2,019,297</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>25,476,210</b>	<b>22,419,340</b>	<b>25,473,672</b>	<b>22,416,633</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	29	<b>12,618,566</b>	<b>10,662,451</b>	<b>12,587,411</b>	<b>10,631,296</b>

The accounting policies on pages 18 to 23 and notes on pages 24 to 91 form an integral part of the financial statements.

## INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

	Note	Group		Bank	
		2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Interest income	18	1,106,820	1,092,254	1,106,713	1,092,001
Interest expense	19	(555,188)	(523,568)	(555,874)	(524,279)
Net interest income		551,632	568,686	550,839	567,722
Islamic Banking income	41(23)	12,612	12,707	12,612	12,707
		564,244	581,393	563,451	580,429
Non-interest income	20	130,051	110,138	136,951	110,135
Net income		694,295	691,531	700,402	690,564
Staff cost and overhead expenses	21	(232,500)	(220,480)	(232,280)	(220,287)
Operating profits before allowances		461,795	471,051	468,122	470,277
Allowance for losses on loans and financing	23	(167,227)	(192,765)	(167,361)	(193,631)
Provision for commitment and contingencies		(3,192)	0	(3,192)	0
Allowance for / write back of diminution in value of investment securities (net)		(7,462)	9,860	(7,462)	9,860
Impairment losses on property, plant and equipment		0	(10,995)	0	(10,995)
Profit before taxation and zakat		283,914	277,151	290,107	275,511
Taxation	26	(78,675)	(84,585)	(80,573)	(84,203)
Zakat		(23)	(21)	(23)	(21)
Net profit attributable to shareholders		205,216	192,545	209,511	191,287
Basic earnings per share (sen)	27	71.4	67.0	72.9	66.5
Dividend per ordinary share - 315 sen gross (2002 : 85 sen) less income tax (sen)	28	226.8	61.2	226.8	61.2

The accounting policies on pages 18 to 23 and notes on pages 24 to 91 form an integral part of the financial statements.

## STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

	Note	Non-distributable				Distributable		Total
		Share capital	Share premium	Statutory reserve	Capital reserve	General reserve	Retained profits	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>Group</b>								
Balance at 1 January 2003								
-as previously reported		287,500	462,500	322,000	56,619	436,750	364,628	1,929,997
-prior year adjustment on deferred taxation	11,39	0	0	0	0	0	107,955	107,955
As restated		287,500	462,500	322,000	56,619	436,750	472,583	2,037,952
Net profit attributable to shareholders		0	0	0	0	0	205,216	205,216
Dividends paid in respect of:								
-year ended 31 December 2002	28	0	0	0	0	0	(175,950)	(175,950)
-year ended 31 December 2003		0	0	0	0	0	(300,150)	(300,150)
Balance at 31 December 2003		287,500	462,500	322,000	56,619	436,750	201,699	1,767,068
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 on:								
dividend proposed		0	0	0	0	0	62,100	62,100
deferred taxation	11,39	0	0	0	0	0	94,583	94,583
As restated		287,500	462,500	322,000	56,619	436,750	342,138	1,907,507
Net profit attributable to shareholders		0	0	0	0	0	192,545	192,545
Dividends paid in respect of year ended 31 December 2001	28	0	0	0	0	0	(62,100)	(62,100)
Balance at 31 December 2002		287,500	462,500	322,000	56,619	436,750	472,583	2,037,952
<b>Bank</b>								
Balance at 1 January 2003 :								
-as previously reported		287,500	462,500	322,000	0	400,000	439,510	1,911,510
-prior year adjustment on deferred taxation	11,39	0	0	0	0	0	107,787	107,787
As restated		287,500	462,500	322,000	0	400,000	547,297	2,019,297
Net profit attributable to shareholders		0	0	0	0	0	209,511	209,511
Dividends paid in respect of:								
-year ended 31 December 2002	28	0	0	0	0	0	(175,950)	(175,950)
-year ended 31 December 2003		0	0	0	0	0	(300,150)	(300,150)
Balance at 31 December 2003		287,500	462,500	322,000	0	400,000	280,708	1,752,708

**STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003  
(CONTINUED)**

	Note	Non-distributable				Distributable		Total
		Share capital	Share premium	Statutory reserve	Capital reserve	General reserve	Retained profits	
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
<b>Bank (continued)</b>								
Balance at 1 January 2002:								
-as previously reported		287,500	462,500	322,000	0	400,000	261,977	1,733,977
-prior year adjustment on:								
dividend proposed		0	0	0	0	0	62,100	62,100
deferred taxation	11,39	0	0	0	0	0	94,033	94,033
As restated		287,500	462,500	322,000	0	400,000	418,110	1,890,110
Net profit attributable to								
shareholders		0	0	0	0	0	191,287	191,287
Dividends paid in respect of								
year ended 31 December 2001	28	0	0	0	0	0	(62,100)	(62,100)
Balance at 31 December 2002		287,500	462,500	322,000	0	400,000	547,297	2,019,297

The accounting policies on pages 18 to 23 and notes on pages 24 to 91 form an integral part of the financial statements.

**CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003**

	Note	Group		Bank	
		2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit before taxation and zakat		283,914	277,151	290,107	275,511
Adjustments for:-					
Net profit from dealing securities		(4,495)	(12,529)	(4,495)	(12,529)
Gain from sale of investment securities		(1,167)	(3,735)	(1,167)	(3,735)
Dividends received		(3,623)	(767)	(10,523)	(767)
Depreciation of property, plant and equipment		28,727	26,225	28,710	26,208
Impairment losses on property, plant and equipment		0	10,995	0	10,995
Gain on disposal of property, plant and equipment (net)		(688)	(509)	(688)	(509)
Allowance for bad and doubtful debts and financing		188,543	203,122	188,677	203,989
Profit equalisation reserve		3,311	1,168	3,311	1,168
Allowance for interest / income-in-suspense		65,594	56,370	65,583	56,445
Allowance for / (write back of) diminution in value of investment securities (net)		7,462	(9,981)	7,462	(9,981)
Amortisation of premium less accretion of discount		26,268	9,812	26,268	9,812
Provision for commitment and contingencies		3,192	0	3,192	0
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>		<b>597,038</b>	<b>557,322</b>	<b>596,437</b>	<b>556,607</b>
<b>(Increase)/Decrease in Operating Assets :</b>					
Loans, advances and financing		(1,838,274)	(1,102,906)	(1,838,481)	(1,103,084)
Other assets and statutory deposits					
with Bank Negara Malaysia		(81,004)	62,163	(81,095)	61,898
Dealing securities (net)		(287,255)	441,136	(287,255)	441,136
<b>Increase/(Decrease) in Operating Liabilities :</b>					
Deposits from customers		1,383,055	1,596,349	1,378,883	1,596,965
Bills and acceptances payable		54,017	89,808	54,017	89,808
Loans sold to Cagamas		(341,664)	(150,904)	(341,664)	(150,904)
Other liabilities		31,904	10,277	31,950	10,680
Obligations sold under Repurchase agreement		502,210	(311,656)	502,210	(311,656)
Deposits of banks and other financial institutions		1,329,715	(193,165)	1,329,715	(193,165)
Subordinated term loan		380,027	0	380,027	0
Cash generated from operations		1,729,769	998,424	1,724,744	998,285
Income tax and zakat paid		(102,175)	(166,432)	(104,105)	(166,432)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>1,627,594</b>	<b>831,992</b>	<b>1,620,639</b>	<b>831,853</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of investment securities (net)		(922,110)	121,674	(922,110)	121,674
Purchase of property, plant and equipment		(7,564)	(26,649)	(7,564)	(26,649)
Proceeds from sale of property, plant and equipment		700	519	700	519
Dividends received		3,623	767	10,523	767
<b>NET CASH (UTILISED IN) / GENERATED FROM INVESTING ACTIVITIES</b>		<b>(925,351)</b>	<b>96,311</b>	<b>(918,451)</b>	<b>96,311</b>

**CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (continued)**

	Note	Group		Bank	
		2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid		(476,100)	(62,100)	(476,100)	(62,100)
NET CASH UTILISED IN FINANCING ACTIVITIES		<u>(476,100)</u>	<u>(62,100)</u>	<u>(476,100)</u>	<u>(62,100)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS					
		226,143	866,203	226,088	866,064
CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR					
		2,898,582	2,032,379	2,898,637	2,032,573
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR					
	38	<u>3,124,725</u>	<u>2,898,582</u>	<u>3,124,725</u>	<u>2,898,637</u>

The accounting policies on pages 18 to 23 and notes on pages 24 to 91 form an integral part of the financial statements.

## **SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003**

### **A. Basis of preparation of the financial statements**

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

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

### **B. Basis of Consolidation**

The Group financial statements include the audited financial statements of the Bank and all its subsidiary companies made up to the financial year ended 31 December 2003. Subsidiary companies are those companies in which the Group has power to exercise control over the financials and operating policies so as to benefit from their activities.

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

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

### **C. Recognition of Interest Income / Financing Income**

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

Where an account is classified as non-performing, recognition of interest income / financing income is suspended until it is realised on a cash basis. 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, trust receipts and other instruments of similar nature.

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

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

### **D. Recognition of Fees and Other Income**

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

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

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

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (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 2003 (continued)**

I. Amounts Recoverable from Danaharta

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

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

J. Investment in Subsidiary Companies

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

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

K. Property, Plant and Equipment and Depreciation

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

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

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

L. Assets Under Lease

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

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

M. Bills and Acceptances Payable

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

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (continued)**

N. Amount Due To Cagamas

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

O. Forward Exchange Contracts

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

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

P. Currency Translations and Conversion

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

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

	<u>2003</u>	<u>2002</u>
	RM	RM
Foreign currency		
1 US Dollar	3.80	3.80
1 Australian Dollar	2.85	2.15
100 Japanese Yen	3.55	3.20

Q. Taxation

i) Current tax

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

ii) Deferred tax

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

In previous years, deferred taxation is provided using the 'liability' method for significant 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 there was a reasonable expectation of its realisation. The change in accounting policy has been accounted for retrospectively and the impact of the prior year adjustments are disclosed in Note 39 of the financial statements.

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (continued)**

R. Zakat Obligations

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

S. Interest Rate Swaps and Futures Contracts

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

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

T. Provisions

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

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

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

U. Employee Benefits

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

**SUMMARY OF SIGNIFICANT GROUP ACCOUNTING POLICIES  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003 (continued)**

U. Employee Benefits (continued)

iii) Termination benefits

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

iv) Equity compensation benefits

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

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

V. Cash and Cash Equivalents

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

W. Profit Equalisation Reserve (PER)

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

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003

### 1 GENERAL INFORMATION

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

The number of employees at the end of the financial year amounted to 1,902 (2002 : 1,846) employees in the Group and 1,900 (2002 : 1,844) employees in the Bank.

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

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

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

### 2 CASH AND SHORT-TERM FUNDS

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Cash and balances with banks and other financial institutions	102,324	119,916	102,324	119,916
Money at call and deposit placements maturing within one month	2,986,999	1,924,145	2,986,999	1,924,200
	<u>3,089,323</u>	<u>2,044,061</u>	<u>3,089,323</u>	<u>2,044,116</u>

### 3 DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

Licensed banks	30,402	854,521	30,402	854,521
Other financial institutions	5,000	0	5,000	0
	<u>35,402</u>	<u>854,521</u>	<u>35,402</u>	<u>854,521</u>

### 4 DEALING SECURITIES

Money market instruments:-

Quoted:

Malaysian Government Treasury bills	2,982	0	2,982	0
Malaysian Government securities	0	4,977	0	4,977
Government Investment Certificate	49,358	27,413	49,358	27,413
Bank Negara Negotiable notes	49,684	49,656	49,684	49,656
Cagamas bonds / notes	0	9,987	0	9,987
Danamodal bonds	0	58,512	0	58,512
Private debt securities	247,187	111,929	247,187	111,929
	<u>349,211</u>	<u>262,474</u>	<u>349,211</u>	<u>262,474</u>

Unquoted:

Bankers' acceptances and Islamic

Accepted bills	443,447	238,434	443,447	238,434
	<u>792,658</u>	<u>500,908</u>	<u>792,658</u>	<u>500,908</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

**4 DEALING SECURITIES (continued)**

	<b>Group</b>		<b>Bank</b>	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Market value of quoted money market instruments:-				
Malaysian Government Treasury bills	2,982	0	2,982	0
Malaysian Government securities	0	5,013	0	5,013
Government Investment Certificate	49,400	27,459	49,400	27,459
Cagamas bonds / notes	0	9,987	0	9,987
Bank Negara Negotiable notes	49,784	49,774	49,784	49,774
Danamodal bonds	0	58,596	0	58,596
Private debt securities	247,748	112,668	247,748	112,668
	<u>349,914</u>	<u>263,497</u>	<u>349,914</u>	<u>263,497</u>

**5 INVESTMENT SECURITIES**

Money market instruments:-

Quoted:

Malaysian Government securities	1,003,043	654,537	1,003,043	654,537
Government Investment Certificate	209,328	209,328	209,328	209,328
Bank Negara Negotiable notes	74,490	49,657	74,490	49,657
Cagamas bonds / notes	1,039,870	784,093	1,039,870	784,093
Danamodal bonds	0	122,222	0	122,222
Danaharta bonds	210,303	210,303	210,303	210,303
Private debt securities	952,886	827,496	952,886	827,496
	<u>3,489,920</u>	<u>2,857,636</u>	<u>3,489,920</u>	<u>2,857,636</u>

Unquoted:

Negotiable instruments of deposit	515,000	195,000	515,000	195,000
	<u>4,004,920</u>	<u>3,052,636</u>	<u>4,004,920</u>	<u>3,052,636</u>

Unquoted securities in Malaysia :-

Shares	15,650	15,650	15,650	15,650
Debentures	186	186	186	186
	<u>4,020,756</u>	<u>3,068,472</u>	<u>4,020,756</u>	<u>3,068,472</u>

Amortisation of premium less

accretion of discounts	22,898	79,060	22,898	79,060
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Allowance for diminution in value of investment securities :

-Unquoted shares in Malaysia	(121)	(114)	(121)	(114)
-Private debt securities	(111,614)	(105,046)	(111,614)	(105,046)
	<u>3,931,919</u>	<u>3,042,372</u>	<u>3,931,919</u>	<u>3,042,372</u>

Included in investment securities is an amount of RM1,518,963,000 (2002: RM952,896,000) being pledged to third parties in sale and repurchase agreements.

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2003 (continued)**

**5 INVESTMENT SECURITIES (continued)**

i) Market value of quoted money market instruments:-

	<b>Group</b>		<b>Bank</b>	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Malaysian Government securities	971,681	670,023	971,681	670,023
Government Investment Certificate	219,620	213,887	219,620	213,887
Bank Negara Negotiable Notes	74,518	49,774	74,518	49,774
Cagamas bonds / notes	1,018,972	782,917	1,018,972	782,917
Danamodal bonds	0	170,417	0	170,417
Danaharta bonds	267,974	260,131	267,974	260,131
Private debt securities	839,774	673,417	839,774	673,417
	<u>3,392,539</u>	<u>2,820,566</u>	<u>3,392,539</u>	<u>2,820,566</u>

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

	<b>Group</b>		<b>Bank</b>	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Maturity within one year	1,781,102	1,070,205	1,781,102	1,070,205
One year to three years	1,296,864	1,641,780	1,296,864	1,641,780
Three years to five years	875,997	300,786	875,997	300,786
Over five years	50,957	39,865	50,957	39,865
	<u>4,004,920</u>	<u>3,052,636</u>	<u>4,004,920</u>	<u>3,052,636</u>

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

	<b>Group</b>		<b>Bank</b>	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Balance at 1 January	105,160	86,648	105,160	86,648
Allowance made during the year	13,890	48,482	13,890	48,482
Amount transferred from specific allowance	830	19,874	830	19,874
Amount transferred from interest-in-suspense	0	1,789	0	1,789
Amount recognised from conversion of debts securities	0	14,179	0	14,179
Amount written back in respect of recoveries	(6,428)	(58,463)	(6,428)	(58,463)
Amount written off	(1,717)	(7,349)	(1,717)	(7,349)
Balance at 31 December	<u>111,735</u>	<u>105,160</u>	<u>111,735</u>	<u>105,160</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

6 LOANS, ADVANCES AND FINANCING

	Group		Bank	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Overdrafts	3,695,545	4,069,348	3,695,545	4,069,348
Term loans :				
-fixed rate	288,197	245,766	288,197	245,766
-floating rate	10,174,911	8,317,665	10,174,911	8,317,665
Credit/charge cards receivables	181,623	166,528	181,623	166,528
Bills receivable	21,401	20,599	21,401	20,599
Trust receipts	77,310	73,708	77,310	73,708
Claims on customers under acceptance credits	1,313,041	1,324,883	1,313,041	1,324,883
Hire purchase	145,672	79,731	145,672	79,731
Lease receivables	26,315	23,879	23,455	20,659
Block discounting	384	423	384	423
Other loans	1,680,129	1,585,141	1,680,129	1,585,141
Staff loans (of which RM 22,933 [2002 : RM206,000] to directors )	100,640	94,752	100,640	94,752
	<u>17,705,168</u>	<u>16,002,423</u>	<u>17,702,308</u>	<u>15,999,203</u>
Unearned interest and income	(87,096)	(93,335)	(86,914)	(93,073)
Gross loans, advances and financing	<u>17,618,072</u>	<u>15,909,088</u>	<u>17,615,394</u>	<u>15,906,130</u>
Allowance for bad and doubtful debts and financing :				
- Specific	(448,813)	(354,558)	(447,853)	(353,443)
- General	(305,758)	(304,861)	(305,743)	(304,846)
Interest-in-suspense / income-in-suspense	(205,213)	(175,518)	(204,525)	(174,789)
Net loans, advances and financing	<u>16,658,288</u>	<u>15,074,151</u>	<u>16,657,273</u>	<u>15,073,052</u>

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

	Group		Bank	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Maturity within one year	7,767,919	8,112,618	7,766,262	8,111,054
One year to three years	1,899,453	885,073	1,899,370	884,764
Three years to five years	1,565,774	1,182,670	1,564,836	1,181,586
Over five years	6,384,926	5,728,727	6,384,926	5,728,726
	<u>17,618,072</u>	<u>15,909,088</u>	<u>17,615,394</u>	<u>15,906,130</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

**6 LOANS, ADVANCES AND FINANCING**

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

	<b>Group</b>		<b>Bank</b>	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Agriculture	914,674	749,685	914,674	749,685
Mining and quarrying	21,487	30,870	21,487	30,870
Manufacturing	2,814,369	2,776,156	2,813,852	2,775,655
Electricity, gas and water	214,305	120,823	214,305	120,823
Construction	732,368	731,757	731,896	731,241
Real estate	1,303,937	1,251,142	1,303,937	1,251,142
Purchase of landed property				
of which : i. Residential	4,667,016	3,777,717	4,667,016	3,777,717
ii. Non-residential	723,739	740,989	723,739	740,989
General commerce	2,272,034	2,317,805	2,271,956	2,317,715
Transport, storage and communication	571,901	267,262	571,901	267,262
Finance, insurance and business services	478,049	384,393	478,049	384,392
Purchase of securities	454,753	535,685	454,753	535,654
Purchase of transport vehicles	11,522	13,150	11,520	13,150
Consumption credit	820,883	817,679	819,693	816,310
Others	1,617,035	1,393,975	1,616,616	1,393,525
	<u>17,618,072</u>	<u>15,909,088</u>	<u>17,615,394</u>	<u>15,906,130</u>

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

	<b>Group</b>		<b>Bank</b>	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Balance at 1 January	1,727,658	1,556,326	1,725,902	1,553,410
Non-performing during the year (gross)	1,335,480	713,283	1,335,312	713,070
Amount converted to investment securities	(3,977)	(63,367)	(3,977)	(63,367)
Amount recovered	(1,012,304)	(294,480)	(1,012,075)	(293,272)
Amount written off	(136,864)	(184,104)	(136,793)	(183,939)
Balance at 31 December	<u>1,909,993</u>	<u>1,727,658</u>	<u>1,908,369</u>	<u>1,725,902</u>
Net non-performing loans and financing (as % of total loans less specific allowance and interest/income-in-suspense)	<u>7.40%</u>	<u>7.79%</u>	<u>7.40%</u>	<u>7.79%</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (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	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
<u>General allowance</u>				
Balance at 1 January	304,861	289,447	304,846	289,432
Allowance made during the year	897	15,414	897	15,414
Balance at 31 December	<u>305,758</u>	<u>304,861</u>	<u>305,743</u>	<u>304,846</u>
(as % of total loans less specific allowance and interest/income-in-suspense)	<u>2.0%</u>	<u>2.1%</u>	<u>2.0%</u>	<u>2.1%</u>
<u>Specific allowance</u>				
Balance at 1 January	354,558	335,607	353,443	333,590
Allowance made during the year	363,683	261,179	363,637	261,098
Amount transferred to allowance for diminution in value of investment securities	(830)	(19,874)	(830)	(19,874)
Amount written back in respect of recoveries	(177,584)	(74,981)	(177,404)	(74,033)
Amount written off	(91,014)	(147,373)	(90,993)	(147,338)
Balance at 31 December	<u>448,813</u>	<u>354,558</u>	<u>447,853</u>	<u>353,443</u>
<u>Interest/income-in-suspense</u>				
Balance at 1 January	175,518	154,086	174,789	153,153
Allowance made during the year	141,584	120,296	141,466	120,114
Amount transferred to allowance for diminution in value of investment securities	0	(1,789)	0	(1,789)
Amount written back in respect of recoveries	(65,712)	(60,268)	(65,605)	(60,011)
Amount written off arising from :				
-current year	(10,278)	(3,659)	(10,278)	(3,659)
-prior year	(35,899)	(33,148)	(35,847)	(33,019)
Balance at 31 December	<u>205,213</u>	<u>175,518</u>	<u>204,525</u>	<u>174,789</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

7 OTHER ASSETS	Group		Bank	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Interest receivable	37,153	28,989	37,153	28,989
Other debtors, deposits and prepayments	56,967	55,726	53,968	52,637
	<u>94,120</u>	<u>84,715</u>	<u>91,121</u>	<u>81,626</u>
<u>Amount recoverable from Danaharta</u>				
Balance at 1 January	0	0	0	0
Amount arising during the year 1/	7,456	13,296	7,456	13,296
Allowance made during the year	(7,456)	(13,296)	(7,456)	(13,296)
Balance at 31 December	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

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

**8 STATUTORY DEPOSITS WITH BANK NEGARA MALAYSIA**

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

**9 INVESTMENT IN SUBSIDIARY COMPANIES**

	Bank	
	2003	2002
	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	
			2003	2002
		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 2003 (continued)

10 PROPERTY, PLANT AND EQUIPMENT

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

<b>Bank</b>	Balance at				Balance at
2003	1 January	Additions	Disposal	Reclassification	31 December
<u>Cost</u>	RM'000	RM'000	RM'000	RM'000	RM'000
Freehold land and buildings	93,686	5	(5)	5,912	99,598
Building-in-progress	50,853	572	0	0	51,425
Leasehold land and buildings :					
- less than 50 years	8,412	0	0	17	8,429
- 50 years or more	14,411	0	0	(5,929)	8,482
Office equipment and furniture	57,592	1,047	(19)	0	58,620
Computer equipment	147,215	4,873	(36)	0	152,052
Motor vehicles	7,786	931	0	0	8,717
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	1,487	137	0	0	1,624
	<u>381,442</u>	<u>7,565</u>	<u>(60)</u>	<u>0</u>	<u>388,947</u>
	Balance at 1 January	Charge for the year	Reversed on disposal	Reclassification	Balance at 31 December
<u>Accumulated depreciation</u>	RM'000	RM'000	RM'000	RM'000	RM'000
Freehold land and buildings	11,184	1,392	0	546	13,122
Leasehold land and buildings :					
- less than 50 years	659	434	0	0	1,093
- 50 years or more	920	169	0	(546)	543
Office equipment and furniture	38,911	3,866	(11)	0	42,766
Computer equipment	108,881	21,099	(36)	0	129,944
Motor vehicles	5,036	1,321	0	0	6,357
<u>Assets under lease:-</u>					
Computer/office equipment and furniture	396	429	0	0	825
	<u>165,987</u>	<u>28,710</u>	<u>(47)</u>	<u>0</u>	<u>194,650</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

10 PROPERTY, PLANT AND EQUIPMENT (Continued)

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

During the year, the Bank has changed the estimate of useful life from 5 to 3 years for certain computer equipment such as personal computer and printers resulting in change in depreciation rate from 20% to 33.33% per annum. This change resulted in approximately RM4,304,000 in additional depreciation charges for the financial year.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (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 2003 (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	0	659
- 50 years or more	746	174	0	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 2003 (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
	<u>0</u>	<u>10,995</u>	<u>0</u>	<u>10,995</u>
				Balance at
				31 December
				<u>RM'000</u>
<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				<u>204,460</u>
<u>Assets under lease:-</u>				
Computer/office equipment and furniture				

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

**11 DEFERRED TAXATION**

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

	<b>Group</b>		<b>Bank</b>	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Deferred tax assets	123,744	119,405	123,608	119,232
Deferred tax liabilities	(14,632)	(15,756)	(14,631)	(15,751)
	<u>109,112</u>	<u>103,649</u>	<u>108,977</u>	<u>103,481</u>

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

	Allowance for diminution in value of investment securities	Temporary differences arising from leasing business	Excess of capital allowances over depreciation	General allowance on loans, advances and financing	Other temporary differences	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Group</b>						
2003						
Balance at 1 January						
- as previously reported	0	0	(3,174)	0	(1,132)	(4,306)
- prior year adjustment	29,445	116	(5,173)	85,361	(1,794)	107,955
As restated	29,445	116	(8,347)	85,361	(2,926)	103,649
Credited/(charged) to income statement (Note 26)	1,841	(1,494)	3,754	251	1,111	5,463
Balance at 31 December	<u>31,286</u>	<u>(1,378)</u>	<u>(4,593)</u>	<u>85,612</u>	<u>(1,815)</u>	<u>109,112</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

11 DEFERRED TAXATION (continued)

	Allowance for diminution in value of investment securities	Temporary differences arising from leasing business	Excess of capital allowances over depreciation	General allowance on loans, advances and financing	Other temporary differences	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Bank</b>						
2003						
Balance at 1 January						
- as previously reported	0	0	(3,174)	0	(1,132)	(4,306)
- prior year adjustment	29,445	(53)	(5,168)	85,357	(1,794)	107,787
As restated	29,445	(53)	(8,342)	85,357	(2,926)	103,481
Credited/(charged) to income statement (Note 26)	1,841	(1,456)	3,749	251	1,111	5,496
Balance at 31 December	31,286	(1,509)	(4,593)	85,608	(1,815)	108,977
<b>Group</b>						
2002						
Balance at 1 January						
- as previously reported	0	0	(3,580)	0	(5,571)	(9,151)
- prior year adjustment	24,262	535	(8,114)	81,045	(3,145)	94,583
As restated	24,262	535	(11,694)	81,045	(8,716)	85,432
Credited/(charged) to income statement (Note 26)	5,183	(419)	3,347	4,316	5,790	18,217
Balance at 31 December	29,445	116	(8,347)	85,361	(2,926)	103,649
<b>Bank</b>						
2002						
Balance at 1 January						
- as previously reported	0	0	(3,580)	0	(5,571)	(9,151)
- prior year adjustment	24,262	(20)	(8,105)	81,041	(3,145)	94,033
As restated	24,262	(20)	(11,685)	81,041	(8,716)	84,882
Credited/(charged) to income statement (Note 26)	5,183	(33)	3,343	4,316	5,790	18,599
Balance at 31 December	29,445	(53)	(8,342)	85,357	(2,926)	103,481

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

**12 DEPOSITS FROM CUSTOMERS**

	<b>Group</b>		<b>Bank</b>	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Demand deposits	2,004,972	1,527,845	2,005,364	1,528,048
Savings deposits	1,469,159	1,285,030	1,469,159	1,285,030
Fixed deposits	11,281,661	10,991,058	11,301,566	11,015,324
Negotiable instruments of deposits	30,500	41,950	30,500	41,950
Islamic short term Mudharabah investment	954,338	510,510	954,338	510,510
Others	3,601	4,783	3,601	4,783
	<u>15,744,231</u>	<u>14,361,176</u>	<u>15,764,528</u>	<u>14,385,645</u>

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

	<b>Group</b>		<b>Bank</b>	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Due within six months	9,845,557	9,418,890	9,845,557	9,443,156
Six months to one year	2,102,881	1,978,684	2,122,786	1,978,684
One year to three years	266,996	144,711	266,996	144,711
Three years to five years	51,065	1,233	51,065	1,233
	<u>12,266,499</u>	<u>11,543,518</u>	<u>12,286,404</u>	<u>11,567,784</u>

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

Business enterprises	4,927,616	4,819,071	4,927,616	4,819,071
Individuals	9,402,154	8,897,605	9,402,154	8,897,605
Others	1,414,461	644,500	1,434,758	668,969
	<u>15,744,231</u>	<u>14,361,176</u>	<u>15,764,528</u>	<u>14,385,645</u>

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

	<b>Group</b>		<b>Bank</b>	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Licensed banks	3,501,878	2,116,354	3,501,878	2,116,354
Licensed finance companies	0	25,000	0	25,000
Other financial institutions	62,029	92,838	62,029	92,838
	<u>3,563,907</u>	<u>2,234,192</u>	<u>3,563,907</u>	<u>2,234,192</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

**14 SUBORDINATED TERM LOAN**

The subordinated term loan represents a USD100 million 10-year unsecured term loan at fixed rate of 5.55% per annum obtained from Oversea-Chinese Banking Corporation Limited, Labuan Branch on 28 May 2003. The subordinated term loan is repayable in full by 5 equal and consecutive annual instalments commencing from the 6<sup>th</sup> anniversary year from the date of disbursement. Prepayment of the subordinated term loan in whole or in part is allowed but is subject to the mutual agreement of the Bank and the lender as well as prior consent of Bank Negara Malaysia has been obtained.

The Bank has obtained approval from Bank Negara Malaysia for inclusion of the subordinated term loan as Tier 2 capital for the purpose of determining the capital adequacy ratio of the Bank.

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

	<b>Group</b>		<b>Bank</b>	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
More than five years	380,027	0	380,027	0

**15 OTHER LIABILITIES**

Equity compensation benefits (a)	200	0	200	0
Accruals for personnel costs *	18,495	12,774	18,492	12,774
Obligations under finance lease	1,028	1,098	1,028	1,098
Provision for commitment and contingencies (b)	3,192	0	3,192	0
Interest payable	114,353	103,912	114,353	103,938
Other accruals and charges	85,811	70,199	82,709	67,022
Amount due to a subsidiary company	0	0	1,849	1,849
Profit equalisation reserve [Note 41 (10)]	4,479	1,168	4,479	1,168
	<u>227,558</u>	<u>189,151</u>	<u>226,302</u>	<u>187,849</u>

\*Includes accrual for salary, employee benefits and EPF

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

**15 OTHER LIABILITIES (continued)**

a) Movements in equity compensation benefits are as follows:

	<b>Group</b>		<b>Bank</b>	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Balance at 1 January	0	0	0	0
Provision made during the year (net)	195	0	195	0
Adjustment on foreign currency revaluation	5	0	5	0
Balance at 31 December	<u>200</u>	<u>0</u>	<u>200</u>	<u>0</u>

Equity compensation benefits

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

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

	<b>Group</b>		<b>Bank</b>	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Balance at 1 January	0	0	0	0
Provision made during the year (net)	3,192	0	3,192	0
Balance at 31 December	<u>3,192</u>	<u>0</u>	<u>3,192</u>	<u>0</u>

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

**16 SHARE CAPITAL**

	<b>Group</b>		<b>Bank</b>	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Authorised:-				
Ordinary shares of RM 1.00 each	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Issued and fully paid:-				
Ordinary shares of RM 1.00 each	<u>287,500</u>	<u>287,500</u>	<u>287,500</u>	<u>287,500</u>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

### 17 RESERVES

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

The Bank has sufficient tax credits under Section 108 of the Income Tax Act, 1967 to frank the payment of dividends out of its entire retained profits as at 31 December 2003.

### 18 INTEREST INCOME

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Loans and advances	946,099	947,490	945,981	947,312
Money at call and deposit placements				
with financial institutions	74,780	71,746	74,780	71,746
Dealing securities	20,006	3,036	20,006	3,036
Investment securities	152,178	135,382	152,178	135,382
Others	5,465	804	5,465	804
	<u>1,198,528</u>	<u>1,158,458</u>	<u>1,198,410</u>	<u>1,158,280</u>
Amortisation of premium less				
accretion of discount	(26,225)	(9,812)	(26,225)	(9,812)
Net interest suspended	(65,483)	(56,392)	(65,472)	(56,467)
	<u>1,106,820</u>	<u>1,092,254</u>	<u>1,106,713</u>	<u>1,092,001</u>

### 19 INTEREST EXPENSE

Deposits and placements of banks				
and other financial institutions	49,528	49,249	49,528	49,919
Deposits from other customers	392,155	380,603	392,742	380,603
Loans sold to Cagamas	55,145	70,311	55,145	70,311
Subordinated term loan	12,771	0	12,771	0
Others	45,589	23,405	45,688	23,446
	<u>555,188</u>	<u>523,568</u>	<u>555,874</u>	<u>524,279</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

**20 NON-INTEREST INCOME**

	<b>Group</b>		<b>Bank</b>	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Fee income:-				
Commission	44,128	33,671	44,128	33,671
Service charges and fees	41,157	33,552	41,157	33,552
Guarantee fees	2,561	474	2,561	474
Other fee income	8,120	6,531	8,120	6,531
	<u>95,966</u>	<u>74,228</u>	<u>95,966</u>	<u>74,228</u>
Investment income:-				
Net profit from dealing securities	4,475	12,529	4,475	12,529
Gain from sale of investment securities	1,167	3,735	1,167	3,735
Gross dividends from Malaysia :-				
Investment securities	3,623	767	3,623	767
Subsidiary companies	0	0	6,900	0
	<u>105,231</u>	<u>91,259</u>	<u>112,131</u>	<u>91,259</u>
Other income:-				
Foreign exchange profit				
- realised	22,812	15,404	22,812	15,404
- unrealised	772	2,876	772	2,876
Rental income	456	65	456	65
Gain on disposal of property, plant and equipment	695	519	695	519
Others	85	15	85	12
	<u>24,820</u>	<u>18,879</u>	<u>24,820</u>	<u>18,876</u>
	<u>130,051</u>	<u>110,138</u>	<u>136,951</u>	<u>110,135</u>

**21 STAFF COST AND OVERHEAD EXPENSES**

Personnel costs (Note 22)	132,177	132,734	132,033	132,605
Establishment costs	56,667	55,603	56,650	55,586
Marketing expenses	10,343	5,537	10,340	5,532
Administration and general expenses	33,313	26,606	33,257	26,564
	<u>232,500</u>	<u>220,480</u>	<u>232,280</u>	<u>220,287</u>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

### 21 STAFF COST AND OVERHEAD EXPENSES (continued)

The above expenditure includes the following statutory disclosures:-

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Directors' remuneration (Note 25)	2,120	1,885	2,088	1,853
Rental of premises	7,477	7,326	7,477	7,326
Auditors' remuneration	202	248	183	230
Depreciation of property, plant and equipment	28,727	26,225	28,710	26,208
Loss on disposal of property, plant and equipment	7	10	7	10

### 22 PERSONNEL COSTS

Wages, salaries and bonus	100,270	89,326	100,179	89,248
Defined contribution plan (EPF)	15,367	13,909	15,352	13,897
Termination benefits	0	18,542	0	18,542
Equity compensation benefit (deferred share plan) (note 15)	195	0	195	0
Employee benefits (note 15)	1,724	522	1,721	522
Other personnel costs	14,621	10,435	14,586	10,396
	<u>132,177</u>	<u>132,734</u>	<u>132,033</u>	<u>132,605</u>

#### Termination benefits

In 2002, the Bank launched a one-time Voluntary Separation Scheme (VSS) to help attain the goal of having a proper staff mix to better position itself to face an increasingly competitive operating environment.

#### Defined contribution plan

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

### 23 ALLOWANCE FOR LOSSES ON LOANS AND FINANCING

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Allowance for bad and doubtful debts and financing:-				
-Specific allowance (net)	186,099	186,198	186,233	187,065
-General allowance	897	15,414	897	15,414
-Other allowance	1,411	1,404	1,411	1,404
Bad debts and financing :-				
- written off	136	106	136	105
- recovered	(21,316)	(10,357)	(21,316)	(10,357)
	<u>167,227</u>	<u>192,765</u>	<u>167,361</u>	<u>193,631</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

**24 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES**

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

	Holding Company RM '000	Subsidiary Companies RM '000	Other Related Companies RM '000
<b>2003</b>			
Income :			
Interest on advances	2,875	0	0
Expenditure :			
Interest on fixed deposit	0	587	108
Interest on advances	12,771	0	0
Interest on lease financing	0	99	0
	<u>12,771</u>	<u>686</u>	<u>108</u>
Amount due from :			
Current account and fixed deposit	120,886	0	0
Advances	0	20	0
	<u>120,886</u>	<u>20</u>	<u>0</u>
Amount due to :			
Current account and fixed deposit	2,357,426	20,267	6,900
Advances	382,019	1,849	0
Lease financing	0	1,028	0
Interest payable	0	25	0
	<u>2,739,445</u>	<u>23,169</u>	<u>6,900</u>
Commitments:			
Foreign exchange related contracts	59,890	0	2,400
Interest rate contracts	380,027	0	0
	<u>439,917</u>	<u>0</u>	<u>2,400</u>
<b>2002</b>			
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	24,383	9,542
Advances	0	1,849	0
Lease financing	0	1,098	0
Interest payable	0	26	0
	<u>1,109,739</u>	<u>27,356</u>	<u>9,542</u>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

### 24 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES (continued)

2002	Holding Company RM '000	Subsidiary Companies RM '000	Other Related Companies RM '000
Commitments:			
Foreign exchange related contracts	6,780	0	0

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

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

### 25 DIRECTORS' REMUNERATION

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

#### Executive Directors

Dato' Yeoh Beow Tit

Helen Lim Lean See

#### Non-executive Directors

Tan Sri Dato' Nasruddin Bin Bahari

David Conner

Ooi Sin Teik (resigned 1/11/03)

Datuk Yong Poh Kon

Lai Teck Poh

Tan Siok Choo

Soon Tit Koon (appointed 19/6/03)

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

	<b>Group</b>		<b>Bank</b>	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
Executive Directors :				
- Salary	1,519	1,222	1,519	1,222
- Bonuses	275	415	275	415
- Benefits-in-kind (BIK)	38	75	38	75
- Defined contribution retirement plan (EPF)	287	262	287	262
- Equity compensation benefits	23	0	23	0
- Other employee benefits	86	79	86	79
Non-Executive Directors :				
- Fees	218	140	186	108
- Other remuneration	108	108	108	108
- Benefits-in-kind	25	25	25	25
Total	<u>2,579</u>	<u>2,326</u>	<u>2,547</u>	<u>2,294</u>
Total (excluding BIK, EPF, equity compensation and other employee benefits)	<u>2,120</u>	<u>1,885</u>	<u>2,088</u>	<u>1,853</u>

The remuneration attributable to the Chief Executive Officer of the Bank, including benefits-in-kind during the financial year amounted to RM1,318,000 (2002 : RM1,192,000).

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

### 26 TAXATION (continued)

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

	Group		Bank	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Malaysian income tax – current year	84,138	97,179	86,069	97,179
Deferred taxation :				
- relating to originating and reversal of temporary differences (Note 11)	(5,463)	(18,217)	(5,496)	(18,599)
Under-provision in previous years	0	5,623	0	5,623
	<u>78,675</u>	<u>84,585</u>	<u>80,573</u>	<u>84,203</u>
	Group		Bank	
	2003	2002	2003	2002
	%	%	%	%
Malaysian tax rate of 28% (2002 : 28%)	28.0	28.0	28.0	28.0
Tax effects of:				
Expenses not deductible for tax purposes	1.4	2.2	1.4	2.3
Income not subject to tax	(1.6)	(1.7)	(1.6)	(1.7)
Under-provision in prior years	0	2.0	0	2.0
	<u>27.8</u>	<u>30.5</u>	<u>27.8</u>	<u>30.6</u>

### 27 BASIC EARNINGS PER SHARE

The earnings per ordinary share of the Group and the Bank have been calculated based on the net profit attributable to shareholders of RM205,216,000 and RM209,511,000 respectively (2002: RM192,545,000 and RM191,287,000) and on the 287,500,000 (2002 : 287,500,000) ordinary shares of RM1.00 each in issue during the financial year.

### 28 DIVIDENDS

	Group		Bank	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
In respect of previous financial year:				
Final dividend of 85 sen (2002: 30 sen)				
less income tax at 28%	175,950	62,100	175,950	62,100
In respect of current financial year:				
Special dividend of 145 sen (2002: Nil)				
less income tax at 28%	300,150	0	300,150	0

The directors have proposed a final dividend 170 sen per share less tax amounting to RM351.9 million on the fully issued and paid up ordinary shares of the Bank in respect of the financial year ended 31 December 2003. These financial statements do not reflect this final proposed dividend which will be accrued as a liability in the financial year ending 31 December 2004 when approved by the shareholder.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

### 29 COMMITMENTS AND CONTINGENCIES

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

	2003		2002	
	Principal Amount RM'000	Credit Equivalent Amount* RM'000	Principal Amount RM'000	Credit Equivalent Amount* RM'000
<b>Group</b>				
Direct credit substitutes	550,949	550,949	210,635	210,635
Transaction-related contingent items	223,636	111,818	279,774	139,887
Short-term self-liquidating trade-related contingencies	156,052	31,210	152,171	30,434
Obligations under underwriting agreement	175,000	87,500	40,000	20,000
Irrevocable commitments to extend credit:-				
- maturity exceeding one year	3,296,689	1,648,345	2,922,334	1,461,167
- maturity not exceeding one year	5,406,822	0	4,678,823	0
Foreign exchange related contracts				
-less than one year	2,391,986	40,812	2,337,559	30,682
Interest rate contracts				
-one year to less than five years	6,250	62	10,000	300
-five years and above	380,027	34,202	0	0
Miscellaneous	31,155	0	31,155	0
<b>Total</b>	<b>12,618,566</b>	<b>2,504,898</b>	<b>10,662,451</b>	<b>1,893,105</b>
<b>Bank</b>				
Direct credit substitutes	550,949	550,949	210,635	210,635
Transaction-related contingent items	223,636	111,818	279,774	139,887
Short-term self-liquidating trade-related contingencies	156,052	31,210	152,171	30,434
Obligations under underwriting agreement	175,000	87,500	40,000	20,000
Irrevocable commitments to extend credit:-				
- maturity exceeding one year	3,296,689	1,648,345	2,922,334	1,461,167
- maturity not exceeding one year	5,406,822	0	4,678,823	0
Foreign exchange related contracts				
-less than one year	2,391,986	40,812	2,337,559	30,682
Interest rate contracts				
-one year to less than five years	6,250	62	10,000	300
-five years and above	380,027	34,202	0	0
<b>Total</b>	<b>12,587,411</b>	<b>2,504,898</b>	<b>10,631,296</b>	<b>1,893,105</b>

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

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

### 29 COMMITMENTS AND CONTINGENCIES (continued)

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

Details of the foreign exchange related contracts and interest rate contracts at 31 December 2003 are as follows:

	<b>Group and Bank</b>	
	2003	2002
	RM'000	RM'000
Foreign exchange related contracts		
- Forward contracts	326,526	511,927
- Swaps	<u>2,023,801</u>	<u>1,783,256</u>
Interest rate contracts		
- Swaps	<u>386,277</u>	<u>10,000</u>

#### 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 2003, the amount of contracts which were not hedged and hence, exposed to market risk was RM15,959,110 (2002 : RM2,876,041).

#### 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 2003, the amounts of credit risk, measured in term of the cost to replace the profitable contracts was RM7,192,642 (2002 : RM6,122,825). This amount will increase or decrease over the life of the contracts, mainly as a function of maturity dates and market rates or prices.

#### Contingent liability

Miscellaneous commitments and contingencies include a contingent liability of approximately RM31.16 million (2002 : RM31.16 million) which represents the potential additional tax payable by OCBC Credit Berhad for years of assessment 1994 to 1999 arising from a decision of the Special Commissioners on the apportionment of expenses between leasing and non-leasing transactions. This decision has since been reversed by the High Court. The Inland Revenue Board is appealing to the Court of Appeal on the High Court's decision.

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.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

### 30 LEASE COMMITMENTS

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

Year	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
2004 / 2003	5,245	5,738	5,245	5,738
2005 / 2004	1,451	2,082	1,451	2,082
2006 / 2005	234	1,181	234	1,181
	<u>6,930</u>	<u>9,001</u>	<u>6,930</u>	<u>9,001</u>

### 31 CAPITAL COMMITMENTS

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

- authorised and contracted for	70,018	63,955	70,018	63,955
- authorised but not contracted for	1,781	2,368	1,781	2,368
	<u>71,799</u>	<u>66,323</u>	<u>71,799</u>	<u>66,323</u>

### 32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

#### Credit Risk Management

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

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

#### **Market Risk Management**

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

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

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

The market risk for trading activities is managed through treasury policies and procedures. This is supplemented by a set of risk limits which includes net open position limits, sensitivity limits, tenure limits and stop loss limits. In addition the Bank runs periodic stress tests on selected portfolios to determine its vulnerability in extreme market conditions. All risk limits and control processes are addressed and reviewed annually, or as and when need arises.

In conjunction with the Parent Bank, the Bank has implemented a Market Risk Engine, which enables the calculation of Value at Risk (VaR) numbers for trading portfolio as well as banking portfolio. VaR is computed using a historical simulation approach and assuming a 99% confidence level over a holding period of 10 days. Eventually, the Bank plans to move towards a VaR based limits structure to manage market risks more effectively.

#### **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.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

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

#### *Liquidity Risk (continued)*

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 its customers to hedge their underlying interest rate and foreign exchange exposure.

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

Interest rate derivatives are interest rate related contracts undertaken by the Bank, which include interest rate swaps, 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).

### 33 INTEREST RATE RISK

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

33 INTEREST RATE RISK (continued)

Group

As at 31 December 2003

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

33 INTEREST RATE RISK (continued)

**Bank**

As at 31 December 2003

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

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

\* The amount includes specific allowance, interest-in-suspense and general allowance for loan, advances and financing in accordance with the Company's accounting policy amounting to (RM953,976,000) for Group and (RM952,313,000) for Bank.

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

33 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	51,302	33,413	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
Deferred taxation asset	0	0	0	0	0	0	102,087	1,562	103,649	
<b>Total assets</b>	<b>14,386,713</b>	<b>1,345,991</b>	<b>1,381,518</b>	<b>782,133</b>	<b>1,393,407</b>	<b>92,665</b>	<b>1,359,825</b>	<b>1,677,088</b>	<b>22,419,340</b>	
<b>Liabilities</b>										
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
<b>Total liabilities</b>	<b>9,428,457</b>	<b>2,154,750</b>	<b>1,593,812</b>	<b>2,181,746</b>	<b>585,030</b>	<b>582,874</b>	<b>2,803,539</b>	<b>1,051,180</b>	<b>20,381,388</b>	
On-balance sheet interest sensitivity gap	4,958,256	(808,759)	(212,294)	(1,399,613)	808,377	(490,209)	(1,443,714)	625,908	2,037,952	
Off-balance sheet interest sensitivity gap	0	0	10,000	0	(10,000)	0	0	0	0	
<b>Total interest sensitivity gap</b>	<b>4,958,256</b>	<b>(808,759)</b>	<b>(202,294)</b>	<b>(1,399,613)</b>	<b>798,377</b>	<b>(490,209)</b>	<b>(1,443,714)</b>	<b>625,908</b>	<b>2,037,952</b>	

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

33 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
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	%
<b>Assets</b>										
Cash and short term funds	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	48,213	33,413	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
Deferred taxation asset	0	0	0	0	0	0	101,919	1,562	103,481	
<b>Total assets</b>	<b>14,385,217</b>	<b>1,345,991</b>	<b>1,381,505</b>	<b>782,133</b>	<b>1,392,014</b>	<b>92,665</b>	<b>1,360,020</b>	<b>1,677,088</b>	<b>22,416,633</b>	
<b>Liabilities</b>										
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
<b>Total liabilities</b>	<b>9,452,925</b>	<b>2,154,750</b>	<b>1,593,812</b>	<b>2,181,746</b>	<b>585,030</b>	<b>582,874</b>	<b>2,795,019</b>	<b>1,051,180</b>	<b>20,397,336</b>	
On-balance sheet interest sensitivity gap	4,932,292	(808,759)	(212,307)	(1,399,613)	806,984	(490,209)	(1,434,999)	625,908	2,019,297	
Off-balance sheet interest sensitivity gap	0	0	10,000	0	(10,000)	0	0	0	0	
<b>Total interest sensitivity gap</b>	<b>4,932,292</b>	<b>(808,759)</b>	<b>(202,307)</b>	<b>(1,399,613)</b>	<b>796,984</b>	<b>(490,209)</b>	<b>(1,434,999)</b>	<b>625,908</b>	<b>2,019,297</b>	

^ 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 (RM829,712,000) for Group and (RM827,853,000) for Bank.

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

### 33 INTEREST RATE RISK

#### Derivative financial instruments

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

The interest rate swap contract with notional principal amount of RM380.0 million is used to swap the fixed interest rate payments on the fixed rate borrowings to floating interest rate payments. The weighted average interest rate of the Bank's fixed rate borrowings at balance sheet date was 5.5% (31.12.2002: NIL) per annum. After the interest rate swap, the Bank's weighted average interest rate at balance sheet date was 3.2% (31.12.2002: NIL) per annum.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

**34 LIQUIDITY RISK**

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

**Group**

**As at 31 December 2003**

	<b>Up to 3 Months</b>	<b>&gt; 3 Months to 6 Months</b>	<b>&gt;6-12 Months</b>	<b>&gt;1-3 Years</b>	<b>&gt;3-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
<b>Assets</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
Cash and short term funds	3,089,323	0	0	0	0	0	3,089,323
Deposits and placements with financial institutions	35,402	0	0	0	0	0	35,402
Dealing securities	522,741	235,630	34,287	0	0	0	792,658
Investment securities	734,515	549,414	419,071	1,282,360	865,278	81,281	3,931,919
Loans, advances and financing	6,816,649	752,991	1,132,508	2,508,860	1,118,680	4,328,600	16,658,288
Other assets	52,757	2,911	4,756	32,571	0	1,125	94,120
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	582,086	582,086
Property, plant & equipment	0	0	0	0	0	183,302	183,302
Deferred taxation asset	0	0	0	109,112	0	0	109,112
<b>Total assets</b>	<b>11,251,387</b>	<b>1,540,946</b>	<b>1,590,622</b>	<b>3,932,903</b>	<b>1,983,958</b>	<b>5,176,394</b>	<b>25,476,210</b>
<b>Liabilities</b>							
Deposits from customers	11,881,338	1,422,046	2,122,786	316,996	1,065	0	15,744,231
Deposits and placements of banks and other financial institutions	2,936,619	503,681	84,130	27,446	11,750	281	3,563,907
Obligations on securities sold under repurchase agreements	1,409,451	0	0	0	0	0	1,409,451
Bills and acceptances payable	1,130,184	136,956	0	0	0	0	1,267,140
Amount due to Cagamas	19,660	19,873	40,393	324,361	274,561	419,304	1,098,152
Subordinated term loan	0	0	0	0	0	380,027	380,027
Other liabilities	152,441	32,090	21,022	22,005	0	0	227,558
Taxation and zakat	0	0	0	18,676	0	0	18,676
<b>Total liabilities</b>	<b>17,529,693</b>	<b>2,114,646</b>	<b>2,268,331</b>	<b>709,484</b>	<b>287,376</b>	<b>799,612</b>	<b>23,709,142</b>
<b>Net Liquidity gap</b>	<b>(6,278,306)</b>	<b>(573,700)</b>	<b>(677,709)</b>	<b>3,223,419</b>	<b>1,696,582</b>	<b>4,376,782</b>	<b>1,767,068</b>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

34 LIQUIDITY RISK (continued)

**Bank**

<b>As at 31 December 2003</b>	<b>Up to 3 Months</b>	<b>&gt;3 Months to 6 Months</b>	<b>&gt;6-12 Months</b>	<b>&gt;1-3 Years</b>	<b>&gt;3-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>							
Cash and short term funds	3,089,323	0	0	0	0	0	3,089,323
Deposits and placements with financial institutions	35,402	0	0	0	0	0	35,402
Dealing securities	522,741	235,630	34,287	0	0	0	792,658
Investment securities	734,515	549,414	419,071	1,282,360	865,278	81,281	3,931,919
Loans, advances and financing	6,816,647	752,991	1,132,501	2,508,777	1,117,757	4,328,600	16,657,273
Other assets	49,758	2,911	4,756	32,571	0	1,125	91,121
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	582,086	582,086
Investment in subsidiary companies	0	0	0	0	0	1,611	1,611
Property, plant & equipment	0	0	0	0	0	183,302	183,302
Deferred taxation asset	0	0	0	108,977	0	0	108,977
<b>Total assets</b>	<b>11,248,386</b>	<b>1,540,946</b>	<b>1,590,615</b>	<b>3,932,685</b>	<b>1,983,035</b>	<b>5,178,005</b>	<b>25,473,672</b>
<b>Liabilities</b>							
Deposits from customers	11,901,615	1,422,066	2,122,786	316,996	1,065	0	15,764,528
Deposits and placements of Banks and other financial institutions	2,936,619	503,681	84,130	27,446	11,750	281	3,563,907
Obligations on securities sold under repurchase agreements	1,409,451	0	0	0	0	0	1,409,451
Bills and acceptances payable	1,130,184	136,956	0	0	0	0	1,267,140
Amount due to Cagamas	19,660	19,873	40,393	324,361	274,561	419,304	1,098,152
Subordinated term loan	0	0	0	0	0	380,027	380,027
Other liabilities	149,419	32,090	20,939	23,854	0	0	226,302
Taxation and zakat	0	0	0	11,457	0	0	11,457
<b>Total liabilities</b>	<b>17,546,948</b>	<b>2,114,666</b>	<b>2,268,248</b>	<b>704,114</b>	<b>287,376</b>	<b>799,612</b>	<b>23,720,964</b>
<b>Net Liquidity gap</b>	<b>(6,298,562)</b>	<b>(573,720)</b>	<b>(677,633)</b>	<b>3,228,571</b>	<b>1,695,659</b>	<b>4,378,393</b>	<b>1,752,708</b>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

34 LIQUIDITY RISK (continued)

**Group**

<b>As at 31 December 2002</b>	<b>Up to 3 Months</b>	<b>&gt; 3 Months</b>	<b>&gt;6-12</b>	<b>&gt;1-3</b>	<b>&gt;3-5</b>	<b>Over 5</b>	<b>Total</b>
	<b>Months</b>	<b>to 6 Months</b>	<b>Months</b>	<b>Years</b>	<b>Years</b>	<b>Years</b>	
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>							
Cash and short term fund	2,044,061	0	0	0	0	0	2,044,061
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	7,097,576	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
Deferred tax asset	0	0	0	103,649	0	0	103,649
<b>Total assets</b>	<b>10,514,334</b>	<b>1,273,224</b>	<b>1,674,034</b>	<b>3,256,597</b>	<b>1,114,393</b>	<b>4,586,758</b>	<b>22,419,340</b>
<b>Liabilities</b>							
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
Subordinated term loan	0	0	0	0	0	0	0
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
<b>Total liabilities</b>	<b>14,992,052</b>	<b>1,546,972</b>	<b>2,534,876</b>	<b>396,105</b>	<b>323,065</b>	<b>588,318</b>	<b>20,381,388</b>
<b>Net Liquidity gap</b>	<b>(4,477,718)</b>	<b>(273,748)</b>	<b>(860,842)</b>	<b>2,860,492</b>	<b>791,328</b>	<b>3,998,440</b>	<b>2,037,952</b>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

34 LIQUIDITY RISK (continued)

**Bank**

<b>As at 31 December 2002</b>	<b>Up to 3 Months</b>	<b>&gt;3 Months to 6 Months</b>	<b>&gt;6-12 Months</b>	<b>&gt;1-3 Years</b>	<b>&gt;3-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Assets</b>							
Cash and short term funds	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
Deferred tax asset	0	0	0	103,481	0	0	103,481
<b>Total assets</b>	<b>10,511,307</b>	<b>1,273,223</b>	<b>1,674,021</b>	<b>3,256,406</b>	<b>1,113,324</b>	<b>4,588,352</b>	<b>22,416,633</b>
<b>Liabilities</b>							
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
Subordinated term loan	0	0	0	0	0	0	0
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
<b>Total liabilities</b>	<b>15,013,437</b>	<b>1,546,972</b>	<b>2,527,589</b>	<b>397,955</b>	<b>323,065</b>	<b>588,318</b>	<b>20,397,336</b>
<b>Net Liquidity gap</b>	<b>(4,502,130)</b>	<b>(273,749)</b>	<b>(853,568)</b>	<b>2,858,451</b>	<b>790,259</b>	<b>4,000,034</b>	<b>2,019,297</b>

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

**35 CREDIT RISKS**

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

35 CREDIT RISKS (continued)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

35 CREDIT RISKS (continued)

<u>Group</u>	Short term Funds	Deposits and placements with financial institutions	Dealing securities	Investment Securities <sup>^</sup>	Loans, advances and financing*	Interest receivable	Commitments and contingencies
<b>As at 31 December 2002</b>	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	2,776,156	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
	<b>1,946,922</b>	<b>854,521</b>	<b>500,908</b>	<b>3,147,532</b>	<b>15,909,088</b>	<b>28,989</b>	<b>1,893,105</b>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

### 35 CREDIT RISKS (continued)

<b>Bank</b>	Short term Funds	Deposits and placements with financial institutions	Dealing securities	Investment Securities <sup>^</sup>	Loans, advances and financing <sup>*</sup>	Interest receivable	Commitments and contingencies
<b>As at 31 December 2002</b>	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
	<b>1,946,977</b>	<b>854,521</b>	<b>500,908</b>	<b>3,147,532</b>	<b>15,906,140</b>	<b>28,989</b>	<b>1,893,105</b>

<sup>^</sup>Excludes allowance for diminution in value of investment securities amounting to RM105,160,000 (Group and Bank).

<sup>\*</sup>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 29.

### 36 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

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

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

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

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

<b>Group</b>	<b>2003</b>		<b>2002</b>	
	<b>Fair value RM'000</b>	<b>Carrying value RM'000</b>	<b>Fair value RM'000</b>	<b>Carrying value RM'000</b>
<b>Financial Assets</b>				
Assets for which fair value approximates carrying value	2,804,674	2,804,673	2,094,310	2,094,310
Deposits and placements with financial institutions	35,402	35,402	793,521	793,521
Dealing securities	178,638	178,584	90,864	90,506
Investment securities	2,851,761	2,817,234	2,198,953	2,128,826
Loans, advance and financing	16,311,996	16,311,996	14,857,245	14,857,245
<b>Financial Liabilities</b>				
Deposits from customers	14,179,358	14,179,358	13,398,590	13,398,590
Deposits and placements of banks and other financial institutions	3,562,839	3,562,839	2,159,463	2,159,463
Obligations on securities sold under repurchase agreements	1,409,451	1,409,451	907,241	907,241
Liabilities for which fair value approximates carrying value	1,477,475	1,477,475	1,391,534	1,391,534
Amount due to Cagamas	1,062,711	1,098,152	1,668,282	1,439,816
Subordinated term loan	355,713	380,027	0	0

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

36 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2003		2002	
	Fair value RM'000	Carrying value RM'000	Fair value RM'000	Carrying value RM'000
<b>Bank</b>				
<b>Financial Assets</b>				
Assets for which fair value approximates carrying value				
Deposits and placements with financial institutions	2,801,675	2,801,675	2,091,276	2,091,276
Dealing securities	35,402	35,402	793,521	793,521
Investment securities	178,638	178,584	90,864	90,506
Loans, advance and financing	2,851,761	2,817,234	2,198,953	2,128,826
	16,310,981	16,310,981	14,856,146	14,856,146
<b>Financial Liabilities</b>				
Deposits from customers	14,199,655	14,199,655	13,423,059	13,423,059
Deposits and placements of banks and other financial institutions	3,562,839	3,562,839	2,159,463	2,159,463
Obligations on securities sold under repurchase agreements	1,409,451	1,409,451	907,241	907,241
Liabilities for which fair value approximates carrying value				
Amount due to Cagamas	1,476,219	1,476,219	1,390,232	1,390,232
Subordinated term loan	1,062,711	1,098,152	1,668,282	1,439,816
	355,713	380,027	0	0

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

36 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

<u>Group and Bank</u>	2003			2002		
	Contract or underlying principal amount RM'000	Fair value		Contract or underlying principal amount RM'000	Fair value	
		Assets RM'000	Liabilities RM'000		Assets RM'000	Liabilities RM'000
<b>Financial derivatives</b>						
Foreign exchange derivatives						
-forward	506,414	875	5,302	530,830	321	4,156
-swaps	1,885,572	6,318	1,119	1,806,729	5,802	2,342
	<u>2,391,986</u>	<u>7,193</u>	<u>6,421</u>	<u>2,337,559</u>	<u>6,123</u>	<u>6,498</u>
Interest rate derivatives						
-swaps	386,277	0	3,243	10,000	0	123
	<u>386,277</u>	<u>0</u>	<u>3,243</u>	<u>10,000</u>	<u>0</u>	<u>123</u>

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

**Short term financial instruments**

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

	Group		Bank	
	2003 RM'000	2002 RM'000	2003 RM'000	2002 RM'000
<u>Financial Assets</u>				
Cash and short term funds	2,784,391	2,043,008	2,784,391	2,043,063
Other assets	20,283	51,302	17,284	48,213
	<u>2,804,674</u>	<u>2,094,310</u>	<u>2,801,675</u>	<u>2,091,276</u>
<u>Financial liabilities</u>				
Bills and acceptances payable	1,266,411	1,212,504	1,266,411	1,212,504
Other liabilities	211,064	179,030	209,808	177,728
	<u>1,477,475</u>	<u>1,391,534</u>	<u>1,476,219</u>	<u>1,390,232</u>

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

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

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

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

#### **Dealing and investment securities**

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

#### **Loans and advances**

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

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

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

#### **Deposits from customers**

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

#### **Obligations on securities sold under repurchase agreements**

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

#### **Amount due to Cagamas**

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

#### **Subordinated Term Loan**

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

#### **Financial derivatives**

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

**37 CAPITAL ADEQUACY**

	<b>Bank</b>	
	2003 RM'000	2002 RM'000
The capital adequacy ratios of the Bank are as follows:-		
Tier-1 capital	1,643,731	1,915,816
Eligible Tier-2 capital	685,770	304,846
Total capital	<u>2,329,501</u>	<u>2,220,662</u>
Less : Investment in subsidiaries and holding of other financial institution's capital	(1,611)	(1,611)
Total capital base	<u>2,327,890</u>	<u>2,219,051</u>

Capital Ratios

Excluding proposed final dividend :

Core-capital ratio	9.60%	12.51%
Risk-weighted capital ratio	13.60%	14.49%

Including proposed final dividend :

Core-capital ratio	7.55%	11.36%
Risk-weighted capital ratio	11.55%	13.34%

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

Tier-1 capital

Paid-up share capital	287,500	287,500
Share premium	462,500	462,500
Other reserves	893,731	1,165,816
Total Tier-1 capital	<u>1,643,731</u>	<u>1,915,816</u>

Tier-2 capital

General allowance for bad and doubtful debts and financing	305,743	304,846
Subordinated term loan	380,027	0
Total Tier-2 capital	<u>685,770</u>	<u>304,846</u>

Total capital	2,329,501	2,220,662
Less :		
Investment in subsidiaries	(1,611)	(1,611)
Capital base	<u>2,327,890</u>	<u>2,219,051</u>

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

	<b>Bank</b>	
	2003 RM'000	2002 RM'000
0 %	6,406,933	5,688,402
10%	1,061,993	797,662
20%	1,766,714	1,198,362
50%	4,628,886	3,723,546
100%	<u>14,333,364</u>	<u>13,124,426</u>

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

### 37 CAPITAL ADEQUACY (continued)

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

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

	Group		Bank	
	2003	2002	2003	2002
	RM'000	RM'000	RM'000	RM'000
Cash and short-term funds	3,089,323	2,044,061	3,089,323	2,044,116
Deposits and placements with financial institutions	35,402	854,521	35,402	854,521
	<u>3,124,725</u>	<u>2,898,582</u>	<u>3,124,725</u>	<u>2,898,637</u>

### 39 CHANGES IN ACCOUNTING POLICIES

During the financial year, the Group has changed its accounting policy with respect to the recognition of deferred taxation in compliance with the new MASB Standard 25 "Income Taxes". Under MASB 25, deferred tax liabilities are recognised for all taxable temporary differences. In addition, deferred tax assets should be recognised for all deductible temporary differences to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilised. In previous years, provision was made using the 'liability' method for significant 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 there was a reasonable expectation of its realisation.

This change in accounting policy has been accounted for retrospectively and comparative figures have been restated as follows :

	As reported previously RM'000	Effect of change in policy RM'000	As restated RM'000
<b>Group</b>			
Balance Sheet :			
<u>As at 1 January 2002</u>			
Deferred tax (liability)/assets	(9,151)	94,583	85,432
Retained profits	247,555	94,583	342,138
<u>As at 31 December 2002</u>			
Deferred tax (liability)/assets	(4,306)	107,955	103,649
Retained profits	364,628	107,955	472,583
Income Statement :			
<u>For the year ended 31 December 2002</u>			
Taxation	97,957	(13,372)	84,585
Net profit attributable to shareholders	179,173	13,372	192,545

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

### 39 CHANGES IN ACCOUNTING POLICIES (continued)

	As reported previously RM'000	Effect of change in policy RM'000	As restated RM'000
<b>Bank</b>			
Balance Sheet :			
<u>As at 1 January 2002</u>			
Deferred tax (liability)/assets	(9,151)	94,033	84,882
Retained profits	324,077	94,033	418,110
 <u>As at 31 December 2002</u>			
Deferred tax (liability)/assets	(4,306)	107,787	103,481
Retained profits	439,510	107,787	547,297
 Income Statement :			
<u>For the year ended 31 December 2002</u>			
Taxation	97,957	(13,754)	84,203
Net profit attributable to shareholders	177,533	13,754	191,287

### 40 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 31 January 2004.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

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

BALANCE SHEETS AS AT 31 DECEMBER 2003

	Note	Group and Bank	
		2003 RM'000	2002 RM'000
<b>ASSETS</b>			
Cash and short-term funds	(2)	304,932	1,053
Deposits and placements with financial institutions	(3)	0	61,000
Dealing securities	(4)	485,485	288,090
Investment securities	(5)	395,429	456,664
Financing and other advances	(6)	346,292	216,906
Other assets	(7)	73,837	33,413
Statutory deposits with Bank Negara Malaysia		36,061	39,206
Deferred taxation assets	(19)	1,717	1,562
<b>TOTAL ASSETS</b>		<b>1,643,753</b>	<b>1,097,894</b>
<b>LIABILITIES AND ISLAMIC BANKING FUNDS</b>			
Deposits from customers	(8)	1,564,873	962,586
Deposits and placements of banks and other financial institutions	(9)	1,068	74,729
Bills and acceptances payable		729	619
Other liabilities	(10)	16,494	10,121
Tax and Zakat		6,676	3,125
<b>Total Liabilities</b>		<b>1,589,840</b>	<b>1,051,180</b>
Islamic Banking Funds		20,000	20,000
Retained profits		33,913	26,714
		<b>53,913</b>	<b>46,714</b>
<b>TOTAL LIABILITIES AND ISLAMIC BANKING FUNDS</b>		<b>1,643,753</b>	<b>1,097,894</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	(20)	<b>393,574</b>	<b>62,485</b>

The accompanying notes on pages 77 to 91 form an integral part of the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

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

INCOME STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

	Note	<b>Group and Bank</b>	
		2003	2002
		RM'000	RM'000
Income derived from investment of depositors' funds	(11)	28,042	33,792
Allowance for losses on financing and other loans	(12)	(479)	(941)
Transfer to profit equalisation reserve		(3,311)	(1,168)
Total attributable income		24,252	31,683
Income attributable to depositors	(13)	(23,859)	(32,898)
Income attributable to shareholders		393	(1,215)
Income derived from the investment of Islamic banking funds	(14)	11,740	12,981
Total net income		12,133	11,766
Personnel expenses	(15)	(994)	(884)
Other overhead expenses	(16)	(523)	(598)
Profit before zakat and taxation		10,616	10,284
Zakat	(17)	(23)	(21)
Taxation	(18)	(3,394)	(2,526)
Net profit for the financial year		7,199	7,737

The accompanying notes on pages 77 to 91 form an integral part of the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

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

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003

	Islamic Banking fund	Retained profits	Total
	RM'000	RM'000	RM'000
<b>Group and Bank</b>			
Balance at 1 January 2003			
-as previously reported	20,000	25,152	45,152
-prior year adjustment on deferred taxation	0	1,562	1,562
As restated	20,000	26,714	46,714
Net profit attributable to shareholders	0	7,199	7,199
Balance at 31 December 2003	20,000	33,913	53,913
Balance at 1 January 2002:			
-as previously reported	20,000	17,982	37,982
-prior year adjustment on deferred taxation	0	995	995
As restated	20,000	18,977	38,977
Net profit attributable to shareholders	0	7,737	7,737
Balance at 31 December 2002	20,000	26,714	46,714

The accompanying notes on pages 77 to 91 form an integral part of the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

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

**CASH FLOW STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2003**

	Note	<b>Group and Bank</b>	
		2003 RM'000	2002 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation and zakat		10,616	10,284
Adjustments for:-			
Net profit from dealing securities		(620)	(40)
Allowance for bad and doubtful debts and financing		479	941
Profit Equalisation Reserve		3,311	1,168
Allowance for income-in-suspense		111	(22)
Allowance for diminution in value of investment securities written back (net)		0	(121)
Amortisation of premium less accretion of discount		151	241
<b>OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES</b>		<b>14,048</b>	<b>12,451</b>
<b>(Increase)/Decrease in Operating Assets :</b>			
Loans, advances and financing		(129,976)	(47,969)
Other assets and statutory deposits with Bank Negara Malaysia		(37,279)	(64,229)
Dealing securities (net)		(196,775)	278,193
<b>Increase/(Decrease) in Operating Liabilities :</b>			
Deposits from customers		602,287	515,391
Bills and acceptances payable		110	(81)
Other liabilities		3,062	(46,276)
Obligations sold under Repurchase agreement		0	(743,207)
Deposits of banks and other financial institutions		(73,661)	51,623
Cash generated from/(utilised in) operations		181,816	(44,104)
Income tax and zakat paid		(21)	(18)
<b>NET CASH GENERATED FROM/(UTILISED IN) OPERATING ACTIVITIES</b>		<b>181,795</b>	<b>(44,122)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investment securities (net)		61,084	(85,718)
<b>NET CASH GENERATED FROM/ (UTILISED IN) INVESTING ACTIVITIES</b>		<b>61,084</b>	<b>(85,718)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>242,879</b>	<b>(129,840)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FINANCIAL YEAR</b>		<b>62,053</b>	<b>191,893</b>
<b>CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR</b>	(24)	<b>304,932</b>	<b>62,053</b>

The accompanying notes on pages 77 to 91 form an integral part of the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

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

(1) DISCLOSURE OF SYARIAH ADVISOR

In according with the Service Agreement, the Islamic Banking and Finance Institute Malaysia Sdn Bhd (IBFIM) shall provide the following services to the Bank,

- a) Advising on matters relating to existing Islamic banking products, operation, accounting system and marketing to ensure that the product is in conformity with Syariah principles,
- b) Vetting and advising on the promotional materials of the Islamic banking products,
- c) Providing a statement to be included on the Bank's annual report, as and when requested by the Bank or required by law or regulatory authorities as advised by IBFIM, that in its opinion the operations and accounting principles relating to the Bank's Islamic Banking product are in compliance with Syariah principles,
- d) Providing support by attending regular meetings with the Bank.

**Group and Bank**

	2003	2002
	RM'000	RM'000

(2) CASH AND SHORT-TERM FUNDS

Cash and balances with banks and other financial institutions	62	1,053
Money at call and deposit placements maturing within one month	304,870	0
	304,932	1,053

(3) DEPOSIT AND PLACEMENT WITH FINANCIAL INSTITUTIONS

Licensed banks	0	61,000
	0	61,000

(4) DEALING SECURITIES

Money market instruments :-

Quoted :

Malaysian Government investment issues	49,358	0
Bank Negara Negotiable Notes	49,684	49,656
Private debt securities	98,728	0

Unquoted :

Bankers' acceptances and Islamic accepted bills	287,715	238,434
	485,485	288,090

Market value of quoted money market instruments:-

Malaysian Government investment issues	49,400	0
Bank Negara Negotiable Notes	49,784	49,774
Private debt securities	98,872	0
	198,056	49,774

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

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

	<b>Group and Bank</b>	
	2003	2002
	RM'000	RM'000
(5) INVESTMENT SECURITIES		
Money market instruments:-		
Quoted :		
Malaysian Government investment issues	141,091	141,091
Bank Negara Negotiable Notes	74,490	49,657
Sanadat Mudharabah Cagamas	20,000	20,000
Private debt securities	142,577	234,624
	<u>378,158</u>	<u>445,372</u>
Amortisation of premium less accretion of discounts	17,271	11,292
Total investment securities	<u>395,429</u>	<u>456,664</u>
i) Market value of quoted money market instruments :-		
Malaysian Government investment issues	148,060	144,187
Bank Negara Negotiable Notes	74,518	49,774
Sanadat Mudharabah Cagamas	22,832	21,946
Private debt securities	152,918	245,047
	<u>398,328</u>	<u>460,954</u>
ii) The maturity structure of money market instruments held for investment are as follows:-		
Maturing within one year	276,184	141,704
One year to three years	101,974	298,379
Three to five years	0	5,289
	<u>378,158</u>	<u>445,372</u>
(6) FINANCING AND OTHER ADVANCES		
Term financing		
- Housing financing	131,668	151,763
- Syndicated term financing	95,587	55,547
- Hire purchase receivables	87,106	0
- Leasing receivables	23,455	20,660
- Other term financing	57,813	70,438
Revolving Credits	41,300	12,621
Unearned income	(84,829)	(88,898)
Gross financing	<u>352,100</u>	<u>222,131</u>
Allowance for bad and doubtful debts and financing		
- Specific	(696)	(258)
- General	(4,635)	(4,601)
Income-in-suspense	(477)	(366)
Net financing	<u>346,292</u>	<u>216,906</u>



**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

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

(6) FINANCING AND OTHER ADVANCES (continued)

iv) Movements in non-performing financing

	<b>Group and Bank</b>	
	2003	2002
	RM'000	RM'000
Balance at 1 January	3,750	4,326
Non-performing during the year	5,049	1,412
Amount recovered	(4,245)	(1,983)
Amount written off	(1)	(5)
Balance at 31 December	<u>4,553</u>	<u>3,750</u>
Net non-performing financing (as % of total financing less specific allowance and income-in-suspense)	<u>1.0%</u>	<u>1.4%</u>

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

General allowance

Balance at 1 January	4,601	3,624
Transfer to conventional banking	(7)	0
Allowance made during the year	41	977
Balance at 31 December	<u>4,635</u>	<u>4,601</u>
(as % of total financing less specific allowance and income-in-suspense)	<u>1.3%</u>	<u>2.1%</u>

Specific allowance

Balance at 1 January	258	299
Allowance made during year	1,424	148
Amount recovered	(986)	(184)
Amount written off	0	(5)
Balance at 31 December	<u>696</u>	<u>258</u>

Income-in-suspense

Balance at 1 January	366	388
Allowance made during the year	388	397
Amount written back in respect of recoveries	(277)	(419)
Balance at 31 December	<u>477</u>	<u>366</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

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

	Group and Bank	
	2003	2002
	RM'000	RM'000
(7) OTHER ASSETS		
Income receivable	672	1,929
Other debtors, deposits and prepayments	73,165	31,484
	<u>73,837</u>	<u>33,413</u>
(8) DEPOSITS FROM CUSTOMERS		
i) By type of deposits		
<b>Non-Mudharabah Fund:</b>		
Demand deposits	59,757	43,915
Savings deposits	219,399	180,617
Others	831	1,848
	<u>279,987</u>	<u>226,380</u>
<b>Mudharabah Fund:</b>		
General investment deposits	330,548	225,696
Islamic short term Mudharabah Investment	954,338	510,510
	<u>1,284,886</u>	<u>736,206</u>
Total deposits from customers	<u>1,564,873</u>	<u>962,586</u>
ii) Maturity structure of general investment deposits and Islamic short term Mudharabah investment are as follows:-		
Due within six months	1,074,072	653,193
Six months to one year	17,696	48,757
One year to three years	192,579	33,330
Three years to five years	539	926
	<u>1,284,886</u>	<u>736,206</u>
iii) The deposits are sourced from the following customers:-		
Government and statutory bodies	28	13
Business enterprises	665,234	416,699
Individuals	384,696	270,208
Others	514,915	275,666
	<u>1,564,873</u>	<u>962,586</u>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

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

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

	Group and Bank	
	2003 RM'000	2002 RM'000
<b>Non-Mudharabah Fund:</b>		
Licensed banks	1,068	0
	<u>1,068</u>	<u>0</u>
<b>Mudharabah Fund:</b>		
Licensed banks	0	49,729
Licensed finance companies	0	25,000
	<u>0</u>	<u>74,729</u>
Total deposits and placements of banks and other financial institutions	<u>1,068</u>	<u>74,729</u>

(10) OTHER LIABILITIES

Other accruals and charges	12,015	8,953
Profit equalisation reserve	4,479	1,168
	<u>16,494</u>	<u>10,121</u>
<u>Profit equalisation reserve (PER)</u>		
Balance at 1 January	1,168	0
Amount provided during the year	3,424	1,738
Amount written back during the year	(113)	(570)
Balance at 31 December	<u>4,479</u>	<u>1,168</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

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

	Group and Bank	
	General Investment Deposits RM'000	Investment of other funds RM'000
2002		
<u>Finance income and hibah:</u>		
Financing, advances and other loans	850	3,056
Dealing securities	2,464	8,862
Investment securities	3,681	13,239
Money at call and deposit with financial institutions	399	1,434
	<u>7,394</u>	<u>26,591</u>
Amortisation of premium less accretion of discounts	(50)	(181)
	<u>7,344</u>	<u>26,410</u>
<u>Other dealing income:</u>		
Net gain/(loss) from sale of dealing securities	8	30
	<u>7,352</u>	<u>26,440</u>
	Group and Bank	
	2003	2002
(12) ALLOWANCE FOR LOSSES ON LOANS AND FINANCING	RM'000	RM'000
Allowance for bad and doubtful debts and financing:-		
- specific allowance (net)	438	(36)
- general allowance	41	977
	<u>479</u>	<u>941</u>
(13) INCOME ATTRIBUTABLE TO DEPOSITORS		
Deposits from customers		
- Mudharabah Fund	18,258	26,072
- Non-Mudharabah Fund	4,642	3,847
Deposits and placements of banks and other financial institutions		
- Mudharabah Fund	954	2,975
- Non-Mudharabah Fund	5	4
	<u>23,859</u>	<u>32,898</u>

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

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

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

(14) INCOME DERIVED FROM INVESTMENT OF ISLAMIC BANKING FUNDS (IBF)

	<b>Group and Bank</b>	
	2003	2002
	RM'000	RM'000
<u>Finance income and hibah:</u>		
Financing, advances and other loans	10,679	11,034
Dealing securities	246	493
Investment securities	406	737
	<u>11,331</u>	<u>12,264</u>
Amortisation of premium less accretion of discounts	(43)	(10)
	<u>11,288</u>	<u>12,254</u>
Write back of diminution in value of investment securities	0	121
	<u>11,288</u>	<u>12,375</u>
<u>Other dealing income:</u>		
Net gain/(loss) from sale of dealing securities	20	2
<u>Fee and commission income:</u>		
Commission	36	23
Service charges and fees	396	581
	<u>11,740</u>	<u>12,981</u>

(15) PERSONNEL EXPENSES

Salaries and wages	602	523
Allowance and bonuses	152	200
Equity compensation benefit (deferred share plan)	1	0
Defined contribution plan (EPF)	120	115
Others	119	46
Total	<u>994</u>	<u>884</u>

The number of employees at the financial year amounted to 13 (2002: 13).

(16) OTHER OVERHEAD EXPENSES

Establishment costs	145	135
Marketing expenses	166	211
Administration and general expenses	212	252
	<u>523</u>	<u>598</u>

(17) ZAKAT OBLIGATION

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

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

	<b>Group and Bank</b>	
	2003	2002
	RM'000	RM'000
<b>(18) TAXATION</b>		
Malaysian income tax – current year	3,549	3,093
Deferred taxation :		
- relating to originating and reversal of temporary differences (Note 19)	(155)	(567)
	<u>3,394</u>	<u>2,526</u>

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

	<b>Group and Bank</b>	
	2003	2002
	%	%
Malaysian tax rate of 28% (2002 : 28%)	28.0	28.0
Tax effects of:		
Expenses not deductible for tax purposes	4.0	(3.4)
	<u>32.0</u>	<u>24.6</u>

(19) DEFERRED TAXATION

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

	<b>Group and Bank</b>	
	2003	2002
	RM'000	RM'000
Deferred tax assets	2,552	1,615
Deferred tax liabilities	(835)	(53)
	<u>1,717</u>	<u>1,562</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

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

(19) DEFERRED TAXATION (continued)

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

	Temporary differences arising from leasing business	General allowance on financing and other advances	Other temporary differences	Total
	RM'000	RM'000	RM'000	RM'000
<b>Group and Bank</b>				
2003				
Balance at 1 January				
- as previously reported	0	0	0	0
- prior year adjustment	(53)	1,288	327	1,562
As restated	(53)	1,288	327	1,562
Credited/(charged) to income statement (Note (18))	(782)	10	927	155
Balance at 31 December	(835)	1,298	1,254	1,717
<b>Group and Bank</b>				
2002				
Balance at 1 January				
- as previously reported	0	0	0	0
- prior year adjustment	(20)	1,015	0	995
As restated	(20)	1,015	0	995
Credited/(charged) to income statement (Note 18)	(33)	273	327	567
Balance at 31 December	(53)	1,288	327	1,562

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

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

(20) COMMITMENTS AND CONTINGENCIES

	2003		2002	
	Principal Amount RM'000	Credit Equivalent Amount* RM'000	Principal Amount RM'000	Credit Equivalent Amount* RM'000
<b>Group and Bank</b>				
Irrevocable commitments to extend credit:				
- maturity exceeding one year	200,774	100,387	20,674	10,337
- maturity not exceeding one year	192,800	0	41,811	0
	<u>393,574</u>	<u>100,387</u>	<u>62,485</u>	<u>10,337</u>

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

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

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

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

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

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

As at 31 December 2002	Up to 3 month RM'000	>3 month to 6 month RM'000	>6-12 month RM'000	>1-3 year RM'000	>3-5 year RM'000	Over 5 year RM'000	Total RM'000
<b>Assets</b>							
Cash and short term funds	1,053	0	0	0	0	0	1,053
Deposits and placements with banks & other financial institutions	61,000	0	0	0	0	0	61,000
Dealing securities	229,546	58,544	0	0	0	0	288,090
Investment securities	51,662	90,859	4,918	304,021	5,204	0	456,664
Financing and other advances	12,229	205	2,849	25,649	54,588	121,386	216,906
Other assets	28,307	173	44	4,889	0	0	33,413
Statutory deposits with Bank Negara Malaysia	0	0	0	0	0	39,206	39,206
Deferred tax assets	0	0	0	1,562	0	0	1,562
<b>Total assets</b>	<b>383,797</b>	<b>149,781</b>	<b>7,811</b>	<b>336,121</b>	<b>59,792</b>	<b>160,592</b>	<b>1,097,894</b>
<b>Liabilities</b>							
Deposits from customer	825,220	54,353	48,757	33,330	926	0	962,586
Deposits and placements of banks and other financial institutions	74,729	0	0	0	0	0	74,729
Bills and acceptances payable	619	0	0	0	0	0	619
Other liabilities	3,057	1,273	319	5,472	0	0	10,121
Taxation and zakat	0	0	3,125	0	0	0	3,125
<b>Total liabilities</b>	<b>903,625</b>	<b>55,626</b>	<b>52,201</b>	<b>38,802</b>	<b>926</b>	<b>0</b>	<b>1,051,180</b>
<b>Net liquidity gap</b>	<b>(519,828)</b>	<b>94,155</b>	<b>(44,390)</b>	<b>297,319</b>	<b>58,866</b>	<b>160,592</b>	<b>46,714</b>

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)

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

	<b>Group and Bank</b>	
	2003 RM'000	2002 RM'000
<b>(22) CAPITAL ADEQUACY</b>		
The capital adequacy ratios of the Bank are as follows:-		
Tier 1 capital	52,196	45,152
Eligible tier 2 capital	4,635	4,601
Total capital base	<u>56,831</u>	<u>49,753</u>
<u>Capital Ratios</u>		
Core-capital ratio	8.81%	14.74%
Risk-weighted capital ratio	9.60%	16.25%
i) Components of Tier-1 and Tier-2 capital are as follows:		
<u>Tier-1 capital</u>		
Islamic Banking Fund	20,000	20,000
Retained profits	32,196	25,152
Total Tier-1 capital	<u>52,196</u>	<u>45,152</u>
<u>Tier-2 capital</u>		
General allowance for bad and doubtful debts and financing	4,635	4,601
Total Tier-2 capital	<u>4,635</u>	<u>4,601</u>
Total capital base	<u>56,831</u>	<u>49,753</u>
ii) Breakdown of the risk-weighted assets in the various categories of risk-weights are as follows:		
0 %	550,391	480,492
10%	20,132	20,134
20%	591,809	299,796
50%	71,922	80,132
100%	<u>435,599</u>	<u>204,097</u>

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

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

**(23) NET INCOME FROM ISLAMIC BANKING OPERATIONS**

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

	Group and Bank	
	2003	2002
	RM'000	RM'000
Income derived from investment of depositors' funds	28,042	33,792
Transfer to profit equalisation reserve	(3,311)	(1,168)
Total attributable income	<u>24,731</u>	<u>32,624</u>
Income attributable to the depositors	(23,859)	(32,898)
Income attributable to the Reporting institution	<u>872</u>	<u>(274)</u>
Income derived from the investment of Islamic banking funds	11,740	12,981
Net income from Islamic banking operations	<u>12,612</u>	<u>12,707</u>

**(24) CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR**

Cash and short term funds	304,932	1,053
Deposits and placements with financial institutions	0	61,000
	<u>304,932</u>	<u>62,053</u>

**(25) CHANGES IN ACCOUNTING POLICIES**

During the financial year, the Group has changed its accounting policy with respect to the recognition of deferred taxation in compliance with the new MASB Standard 25 "Income Taxes". Under MASB 25, deferred tax liabilities are recognised for all taxable temporary differences. In addition, deferred tax assets should be recognised for all deductible temporary differences to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilized. In previous years, provision was made using the 'liability' method for significant 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 there was a reasonable expectation of its realisation.

**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2003 (continued)**

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

(25) CHANGES IN ACCOUNTING POLICIES (continued)

This change in accounting policy has been accounted for retrospectively and comparative figures have been restated as follows :

	As reported previously RM'000	Effect of change in policy RM'000	As restated RM'000
<b>Group and Bank</b>			
Balance Sheet :			
<u>As at 1 January 2002</u>			
Deferred tax (liability)/assets	0	995	995
Retained profits	17,982	995	18,977
 <u>As at 31 December 2002</u>			
Deferred tax (liability)/assets	0	1,562	1,562
Retained profits	25,152	1,562	26,714
 Income Statement :			
<u>For the year ended 31 December 2002</u>			
Taxation	3,093	(567)	2,526
Net profit attributable to shareholders	7,170	567	7,737

**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 91 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 2003 and of the results and cash flows of the Group and the Bank for the financial year then ended, in accordance with the provisions of the Companies Act, 1965, the applicable approved accounting standards in Malaysia and Bank Negara Malaysia Guidelines.

In accordance with a resolution of the Board of Directors dated 31 January 2004.

TAN SRI DATO' NASRUDDIN BIN BAHARI  
DIRECTOR

DATO' YEOH BEOW TIT  
DIRECTOR

Kuala Lumpur

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

I, Tan Fong Sang, being the officer primarily responsible for the financial management of OCBC Bank (Malaysia) Berhad, do solemnly, and sincerely declare that the accompanying balance sheets of the Group and the Bank as at 31 December 2003 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 91 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared at     )  
Kuala Lumpur in Wilayah Persekutuan    )  
on 31 January 2004.                             )     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 91. 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 2003 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

31 January 2004